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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 8-K
CURRENT REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

JANUARY 29, 1998 (JANUARY 29, 1998)
(Date of Report (date of earliest event reported))

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

DELAWARE	1-10308	06-0918165
(State or other jurisdiction of incorporation or organization)	(Commission File No.)	(I.R.S. Employer Identification Number)

6 SYLVAN WAY PARSIPPANY, NEW JERSEY	07054
(Address of principal executive office)	(Zip Code)

(973) 428-9700
(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if applicable)

ITEM 5. OTHER EVENTS

This Current Report on Form 8-K includes the supplemental consolidated financial statements and management's discussion and analysis of financial condition and results of operations of Cendant Corporation, formerly CUC International Inc. (the "Company"), and gives retroactive effect to the merger with HFS Incorporated, which has been accounted for as a pooling of interests.

ITEM 7. EXHIBITS

Exhibit No.	Description
11.1	Computation of per share earnings for year ended December 31, 1996, 1995 and 1994 (as restated to reflect the merger with HFS Incorporated).
11.2	Computation of per share earnings for three months ended March 31, 1997 and 1996 (as restated to reflect the merger with HFS Incorporated).
11.3	Computation of per share earnings for three and six months ended June 30, 1997 and 1996 (as restated to reflect the merger with HFS Incorporated).
11.4	Computation of per share earnings for three and nine months ended September 30, 1997 and 1996 (as restated to reflect the merger with HFS Incorporated).
12	Computation of ratio of earnings to fixed charges
23.1	Consent of Deloitte & Touche LLP relating to the audited financial statements of the Company.
23.2	Consent of Ernst & Young LLP relating to the audited financial statements of CUC International Inc.
23.3	Consent of KPMG Peat Marwick LLP relating to the audited financial statements of PHH Corporation.
23.4	Consent of Deloitte & Touche LLP relating to the audited financial statements of Sierra On-Line, Inc.
23.5	Consent of KPMG Peat Marwick LLP relating to the audited financial statements of Davidson & Associates, Inc.
23.6	Consent of Price Waterhouse LLP relating to the audited financial statements of Ideon Group, Inc.
27.1	Restated financial data schedule for the years ended December 31, 1996, 1995 and 1994 (as restated to reflect the merger with HFS Incorporated).
27.2	Restated financial data schedule for the three months ended March 31, 1997 and 1996 (as restated to reflect the merger with HFS Incorporated).
27.3	Restated financial data schedule for the six months ended June 30, 1997 and 1996 (as restated to reflect the merger with HFS Incorporated).
27.4	Restated financial data schedule for the nine months ended September 30, 1997 and 1996 (as restated to reflect the merger with HFS Incorporated).
99.1	Supplemental Consolidated Financial Statements of the Company for the years ended December 31, 1996, 1995 and 1994 (as restated to reflect the merger with HFS Incorporated on December 17, 1997).
99.2	Supplemental Interim Consolidated Financial Statements of the Company for the three month periods ended March 31, 1997 and 1996, three and six month periods ended June 30, 1997 and 1996 and the three and nine month periods ended September 30, 1997 and 1996 (as restated to reflect the merger with HFS Incorporated on December 17, 1997).
99.3	Supplemental Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company for the years ended December 31, 1996 and 1995. Supplemental Interim Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company for the three month periods ended March 31, 1997 and 1996, three and six month periods ended June 30, 1997 and 1996, and three and nine month periods ended September 30, 1997 and 1996. (all Supplemental Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company are restated to reflect the merger with HFS Incorporated on December 17, 1997).

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CENDANT CORPORATION

BY: /s/ Scott E. Forbes
Scott E. Forbes
Senior Vice President
and Chief Accounting Officer

Date: January 29, 1998

CENDANT CORPORATION
CURRENT REPORT ON FORM 8-K
REPORT DATED JANUARY 29, 1998 (JANUARY 29, 1998)

EXHIBIT INDEX

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EXHIBIT 11.1

CENDANT CORPORATION AND SUBSIDIARIES
COMPUTATION OF PER SHARE EARNINGS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,					
	1996		1995		1994	
	PRIMARY	FULLY DILUTED	PRIMARY	FULLY DILUTED	PRIMARY	FULLY DILUTED
Net income	$423,611	$423,611	$302,825	$302,825	$286,590	$286,590
Convertible debt interest and amortization of deferred loan costs, net of tax	4,500	5,788	4,505	6,720	--	3,141
Net income, as adjusted	$428,111	$429,399	$307,330	$309,545	$286,590	$289,731
Weighted average common shares outstanding	754,363	754,363	670,466	670,466	643,486	643,486
Incremental shares for outstanding stock options and warrants	40,099	42,096	44,294	51,193	39,549	41,788
Contingent shares	--	--	--	--	7,512	7,512
Convertible debt	19,830	24,127	19,864	27,045	--	9,423
Weighted average common equivalent shares outstanding	814,292	820,586	734,624	748,704	690,547	702,209
Net income per share	$ 0.53	$ 0.52	$ 0.42	$ 0.41	$ 0.42	$ 0.41

EXHIBIT 11.2

CENDANT CORPORATION AND SUBSIDIARIES
COMPUTATION OF PER SHARE EARNINGS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	FOR THE THREE MONTHS ENDED MARCH 31,			
	1997		1996	
	PRIMARY	FULLY DILUTED	PRIMARY	FULLY DILUTED
Net income	$165,868	$165,868	$ 95,974	$ 95,974
Convertible debt interest and amortization of deferred loan costs, net of tax	3,355	3,596	1,122	1,591
Net income, as adjusted	$169,223	$169,464	$ 97,096	$ 97,565
Weighted average common shares outstanding	799,404	799,404	705,401	705,401
Incremental shares for outstanding stock options and warrants	37,288	37,287	43,672	46,484
Convertible debt	34,796	37,882	19,845	26,394
Weighted average common and common equivalent shares outstanding	871,488	874,573	768,918	778,279
Net income per share	$ 0.19	$ 0.19	$ 0.13	$ 0.13

EXHIBIT 11.3

CENDANT CORPORATION AND SUBSIDIARIES
COMPUTATION OF PER SHARE EARNINGS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	FOR THE THREE MONTHS ENDED JUNE 30,			
	1997		1996	
	PRIMARY	FULLY DILUTED	PRIMARY	FULLY DILUTED
Net income (loss)	$ (13,437)	$ (13,437)	$ 101,064	$ 101,064
Convertible debt interest and amortization of deferred loan costs, net of tax	--	--	1,122	1,644
Net income (loss), as adjusted	$ (13,437)	$ (13,437)	$ 102,186	$ 102,708
Weighted average common shares outstanding	804,246	804,246	735,841	735,841
Incremental shares for outstanding stock options and warrants	--	--	41,995	43,457
Convertible debt	--	--	19,842	24,186
Weighted average common and common equivalent shares outstanding	804,246	804,246	797,678	803,484
Net income (loss) per share	$ (0.02)	$ (0.02)	$ 0.13	$ 0.13

	FOR THE SIX MONTHS ENDED JUNE 30,			
	1997		1996	
	PRIMARY	FULLY DILUTED	PRIMARY	FULLY DILUTED
Net income	$ 152,432	$ 152,432	$ 197,038	$ 197,038
Convertible debt interest and amortization of deferred loan costs, net of tax	7,028	7,476	2,244	3,235
Net income, as adjusted	$ 159,460	$ 159,908	$ 199,282	$ 200,273
Weighted average common shares outstanding	803,188	803,188	723,929	723,929
Incremental shares for outstanding stock options and warrants	36,016	36,034	40,335	43,476
Convertible debt	36,292	39,169	19,842	25,289
Weighted average common and common equivalent shares outstanding	875,496	878,391	784,106	792,694
Net income per share	$ 0.18	$ 0.18	$ 0.25	$ 0.25

EXHIBIT 11.4

CENDANT CORPORATION AND SUBSIDIARIES
COMPUTATION OF PER SHARE EARNINGS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED SEPTEMBER 30,			
	1997		1996	
	PRIMARY	FULLY DILUTED	PRIMARY	FULLY DILUTED
Net income	$248,264	$248,264	$ 68,466	$ 68,466
Convertible debt interest and amortization of deferred loan costs, net of tax	5,539	5,771	1,134	1,586
Net income, as adjusted	$253,803	$254,035	$ 69,600	$ 70,052
Weighted average common shares outstanding	807,447	807,447	773,519	773,519
Incremental shares for outstanding stock options and warrants	34,642	43,529	41,080	41,975
Convertible debt	45,972	48,471	19,842	22,989
Weighted average common and common equivalent shares outstanding	888,061	899,447	834,441	838,483
Net income per share	$ 0.29	$ 0.28	$ 0.08	$ 0.08

	NINE MONTHS ENDED SEPTEMBER 30,			
	1997		1996	
	PRIMARY	FULLY DILUTED	PRIMARY	FULLY DILUTED
Net income	$400,694	$400,694	$265,504	$265,504
Convertible debt interest and amortization of deferred loan costs, net of tax	10,648	11,328	3,369	4,812
Net income, as adjusted	$411,342	$412,022	$268,873	$270,316
Weighted average common shares outstanding	804,338	804,338	740,557	740,557
Incremental shares for outstanding stock options and warrants	33,677	33,966	40,317	42,528
Convertible debt	36,364	39,115	19,842	24,522
Weighted average common and common equivalent shares outstanding	874,379	877,419	800,716	807,607
Net income per share	$ 0.47	$ 0.47	$ 0.34	$ 0.33

EXHIBIT 12

CENDANT CORPORATION AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30,	YEARS ENDED DECEMBER 31,				
	1997	1996	1995	1994	1993	1992
Income before income taxes, minority interest and extraordinary loss (1)	$ 747,230	$ 713,670	$ 503,332	$ 464,332	$ 365,930	$ 236,949
Plus: Fixed charges	304,720	345,421	302,539	238,212	206,031	240,103
Less: Capitalized interest	--	(560)	--	(246)	(440)	--
Earnings available to cover fixed charges	$ 1,051,950	$ 1,058,531	$ 805,871	$ 702,298	$ 571,521	$ 477,052
Fixed charges (1, 2):						
Interest, including amortization of deferred loans costs	$ 281,207	$ 317,127	$ 280,499	$ 219,417	$ 187,447	$ 226,350
Capitalized interest	--	560	--	246	440	--
Interest portion of rental payment	23,513	27,734	22,040	18,549	18,144	13,753
Total fixed charges	$ 304,720	$ 345,421	$ 302,539	$ 238,212	$ 206,031	$ 240,103
Ratio of earnings to fixed charges	3.45	3.06	2.66	2.95	2.77	1.99

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(1) For years ended 1992 through 1995, information included for the Company and PHH Corporation is based on the fiscal years ended January 31.

(2) Fixed charges consist of interest expense on all indebtedness (including amortization of deferred financing costs) and the portion of operating lease rental expense that is representative of the interest factor (deemed to be one-third of operation lease rentals).

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-63237, 33-95126, 333-11035, 333-13537, 333-17323, 333-17411, 333-20391, 333-26927, 333-35709, 333-35707, and 333-23063 for Cendant Corporation on Forms S-3 and in Registration Statement Nos. 33-26875, 33-75682, 33-93322, 33-41823, 33-48175, 33-58896, 33-91656, 333-03241, 33-74068, 33-74066, 33-91658, 333-00475, 333-03237, 33-75684, 33-80834, 33-93372, 333-09633, 333-09637, 333-09655, 333-22003, 333-34517-2, 333-42503, 333-30649, and 333-42549 for Cendant Corporation on Form S-8 of our report dated December 17, 1997, appearing in the Current Report on Form 8-K for Cendant Corporation dated January 28, 1998.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey
January 28, 1998

Exhibit 23.2

Consent of Independent Auditors

We consent to the incorporation by reference of our report dated March 10, 1997, with respect to the consolidated financial statements and schedule of CUC International Inc. included in this Current Report on Form 8-K dated January 28, 1998, filed with the Securities and Exchange Commission, in the following Registration Statements and related Prospectuses:

Form S-3s
- ---------

33-63237, 33-95126, 333-11035, 333-13537, 333-17323, 333-17411, 333-20391, 333-23063, 333-26927, 333-35709 and 333-35707

Form S-8s
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33-26875	CUC International Inc. 1987 Stock Option Plan
33-75682	CUC International Inc. 1987 Stock Option Plan as amended
33-93322	CUC International Inc. 1987 Stock Option Plan as amended
33-41823	CUC International Inc. 1990 Directors Stock Option Plan
33-48175	Entertainment Publications Inc. 1988 Non-Qualified Stock Option Plan
33-58896	CUC International Inc. 1992 Bonus and Salary Replacement Stock Option Plan
33-91656	CUC International Inc. 1992 Bonus and Salary Replacement Stock Option Plan as amended
333-03241	CUC International Inc. 1992 Bonus and Salary Replacement Stock Option Plan as amended
33-74068	CUC International Inc. 1992 Directors Stock Option Plan
33-74066	CUC International Inc. 1992 Employee Stock Option Plan
33-91658	CUC International Inc. 1992 Employee Stock Option Plan as amended
333-00475	CUC International Inc. 1992 Employee Stock Option Plan as amended
333-03237	CUC International Inc. 1992 Employee Stock Option Plan as amended
33-75684	CUC International Inc. 1994 Employee Stock Purchase Plan
33-80834	CUC International Inc. Savings Incentive Plan
33-93372	CUC International Inc. 1994 Directors Stock Option Plan
333-09633	Sierra On-Line, Inc. 1987 Stock Option Plan
333-09637	Sierra On-Line, Inc. 1995 Stock Option and Award Plan
333-09655	Papyrus Design Group Inc. 1992 Stock Option Plan
333-22003	Knowledge Adventure 1993 Stock Option Plan
333-30649	CUC International Inc. 1997 Stock Option Plan; 1992 Employee Stock Option Plan; 1992 Bonus and Salary Replacement Stock Option Plan and Individual Option Agreements with Certain Employees
333-42503	CUC International Inc. 1997 Stock Incentive Plan
333-34517-2	HFS Incorporated 1992 Incentive Stock Option Plan; HFS Incorporated Amended and Restated 1993 Plan; and Cendant Corporation 1997 Employee Stock Option Plan
333-42549	HFS Incorporated Employee Savings Plan; PHH Corporation Amended and Restated Employee Investment Plan

/s/ Ernst & Young LLP
ERNST & YOUNG LLP

Stamford, Connecticut
January 28, 1998

The Board of Directors
PHH Corporation:

We consent to the incorporation by reference in Registration Statement Nos. 33-63237, 33-95126, 333-11035, 333-13537, 333-17323, 333-17411, 333-20391, 333-26927, 333-35709, 333-35707, and 333-23063 on Forms S-3 and in Registration Statement Nos. 33-26875, 33-75682, 33-93322, 33-41823, 33-48175, 33-58896, 33-91656, 333-03241, 33-74068, 33-74066, 33-91658, 333-00475, 333-03237, 33-75684,33-80834, 33-93372, 333-09633, 333-09637, 333-09655, 333-22003, 333-34517-2, 333-42503, 333-30649 and 333-42549 on Forms S-8 for Cendant Corporation of our report dated April 30, 1997, with respect to the consolidated balance sheets of PHH Corporation and subsidiaries (the "Company") at December 31, 1996 and January 31, 1996 and the related consolidated statements of income, stockholders' equity, and cash flows for the year ended December 31, 1996 and each of the years in the two year period ended January 31, 1996, which report appears in the Form 8-K of Cendant Corporation dated January 28, 1998, incorporated by reference in the above Registration Statements.

Our report contains an explanatory paragraph that states that the Company adopted the provisions of Statement of Financial Accounting Standards No. 122, "Accounting for Mortgage Servicing Rights," in the year ended January 31, 1996.

/s/ KPMG Peat Marwick LLP
KPMG Peat Marwick LLP

Baltimore, Maryland
January 28, 1998

EXHIBIT 23.4

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-63237, 33-95126, 333-11035, 333-13537, 333-17323, 333-17411, 333-20391, 333-26927, 333-35709, 333-35707, and 333-23063 for Cendant Corporation on Forms S-3 and in Registration Statement Nos. 33-26875, 33-75682, 33-93322, 33-41823, 33-48175, 33-58896, 33-91656, 333-03241, 33-74068, 33-74066, 33-91658, 333-00475, 333-03237, 33-75684, 33-80834, 33-93372, 333-09633, 333-09637, 333-09655, 333-22003, 333-34517-2, 333-42503, 333-30649, and 333-42549 for Cendant Corporation on Form S-8 of our report dated June 24, 1996, appearing in the Current Report on Form 8-K for Cendant Corporation dated January 28, 1998.

/s/ DELOITTE & TOUCHE LLP

Seattle, Washington
January 28, 1998

EXHIBIT 23.5

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Cendant Corporation

We consent to the incorporation by reference in the Registration Statement (Form S-8s: Numbers 33-26875, 33-75682, 33-93322, 33-41823, 33-48175, 33-58896, 33-91656, 333-03241, 33-74068, 33-74066, 33-91658, 333-00475, 333-03237, 33-75684, 33-80834, 33-93372, 333-09633, 333-09637, 333-09655, 333-22003, 333-30649, 333-42503, 333-34517 and 333-42549) pertaining to the CUC International Inc. 1987 Stock Option Plan, the CUC International Inc. 1987 Stock Option Plan as amended, the CUC International Inc. 1987 Stock Option Plan as amended, the CUC International Inc. 1990 Directors' Stock Option Plan, the Entertainment Publications, Inc. 1988 Non-Qualified Stock Option Plan, the CUC International Inc. 1992 Bonus and Salary Replacement Stock Option Plan, the CUC International Inc. 1992 Bonus and Salary Replacement Stock Option Plan as amended, the CUC International Inc. 1992 Bonus and Salary Replacement Stock Option Plan as amended, the CUC International Inc. 1992 Directors Stock Option Plan, the CUC International Inc. 1992 Employee Stock Option Plan, the CUC International Inc. 1992 Employee Stock Option Plan as amended, the CUC International Inc. 1992 Employee Stock Option Plan as amended, the CUC International Inc. 1992 Employee Stock Option Plan as amended, the CUC International Inc. 1994 Employee Stock Purchase Plan, the CUC International Inc. Savings Incentive Plan, the CUC International Inc. 1994 Directors Stock Option Plan, the Sierra On-Line, Inc. 1987 Stock Option Plan, the Sierra On-Line, Inc. 1995 Stock Option and Award Plan, the Papyrus Design Group, Inc. 1992 Stock Option Plan, the Knowledge Adventure 1993 Stock Option Plan, the 1992 Employee Stock Option Plan and 1992 Bonus and Salary Replacement Stock Option Plan and 1997 Stock Option Plan and Davidson non-plan options, the 1997 Stock Incentive Plan, the HFS 1992 Plan and HPS 1993 Plan and 1997 Employee Stock Option Plan and the HFS and PHH 401k Plans, respectively, and in the Registration Statements (Form S-3s: Numbers 33-63237, 33-95126, 333-11035, 333-13537, 333-17323, 333-17411, 333-20391, 333-23063, 333-26927, 333-35709 and 333-35707) of our report dated February 21, 1996, with respect to the consolidated balance sheet of Davidson & Associates, Inc. and subsidiaries as of December 31, 1995, and the related consolidated statements of earnings, shareholders' equity, and cash flows and related schedule for each of the years in the two-year period ended December 31, 1995.

/s/ KPMG Peat Marwick LLP

Long Beach, California
January 27, 1998

Exhibit 23.6

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We consent to the incorporation by reference of our report dated February 2, 1996, with respect to the consolidated financial statements of Ideon Group, Inc. which appears in the Current Report on Form 8-K of Cendant Corporation filed with the Securities and Exchange Commission on or about January 28, 1998 in the following registration statements.

Form S-3s
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33-63237, 33-95126, 333-11035, 333-13537, 333-17323, 333-17411, 333-20391, 333-23063, 333-26927, 333-35707 and 333-35709.

Form S-8s
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33-58896	CUC International Inc. 1992 Bonus and Salary Replacement Stock Option Plan
33-91656	CUC International Inc. 1992 Bonus and Salary Replacement Stock Option Plan as amended
333-03241	CUC International Inc. 1992 Bonus and Salary Replacement Stock Option Plan as amended
33-74068	CUC International Inc. 1992 Directors Stock Option Plan
33-74066	CUC International Inc. 1992 Employee Stock Option Plan
33-91658	CUC International Inc. 1992 Employee Stock Option Plan as amended
333-00475	CUC International Inc. 1992 Employee Stock Option Plan as amended
333-03237	CUC International Inc. 1992 Employee Stock Option Plan as amended
33-75684	CUC International Inc. 1994 Employee Stock Purchase Plan
33-80834	CUC International Inc. Savings Incentive Plan
33-93372	CUC International Inc. 1994 Directors Stock Option Plan
333-09633	Sierra On-Line, Inc. 1987 Stock Option Plan
333-09637	Sierra On-Line, Inc. 1995 Stock Option and Award Plan
333-09655	Papyrus Design Group Inc. 1992 Stock Option Plan
333-22003	Knowledge Adventure 1993 Stock Option Plan
333-30649	CUC International Inc. 1997 Stock Option Plan; CUC International Inc. 1992 Employee Stock Option Plan; CUC International Inc. 1992 Bonus and Salary Replacement Stock Option Plan and the Davidson non-plan individual option agreements
333-42503	CUC International Inc. 1997 Stock Incentive Plan
333-42549	HFS Incorporated Employee Savings Plan and PHH Corporation Amended and Restated Employee Investment Plan
333-34517-2	HFS Incorporated 1992 Incentive Stock Option Plan and HFS Incorporated Amended and Restated 1993 Stock Option Plan

/s/ PRICE WATERHOUSE LLP
PRICE WATERHOUSE LLP
Tampa, Florida
January 28, 1998

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YEAR	YEAR	YEAR
DEC-31-1996	DEC-31-1995	DEC-31-1994
JAN-01-1996	JAN-01-1995	JAN-01-1994
DEC-31-1996	DEC-31-1995	DEC-31-1994
633,903	355,959	0
94,200	97,164	0
1,376,265	1,095,035	0
85,640	66,059	0
0	0	0
2,529,593	1,804,145	0
0	0	0
0	0	0
13,588,368	8,994,384	0
1,664,946	919,057	0
1,004,584	353,977	0
0	0	0
0	0	0
8,047	7,004	0
4,314,622	2,141,642	0
13,588,368	8,994,384	0
0	0	0
3,908,780	2,992,122	2,446,731
0	0	0
2,989,720	2,378,497	1,963,946
179,945	97,029	(11,839)
0	0	0
25,445	13,264	10,553
713,670	503,332	464,332
290,059	200,507	179,742
423,611	302,825	284,590
0	0	0
0	0	0
0	0	2,000
423,611	302,825	286,590
$0.53	$0.42	$0.42
$0.52	$0.41	$0.41

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3-MOS	3-MOS
DEC-31-1997	DEC-31-1996
JAN-01-1997	JAN-01-1996
MAR-31-1997	MAR-31-1996
842,041	0
347,451	0
1,258,317	0
0	0
0	0
2,974,020	0
0	0
0	0
14,009,501	0
1,542,668	0
1,757,205	0
0	0
0	0
8,129	0
4,271,827	0
14,009,501	0
0	0
1,164,106	821,411
0	0
866,922	655,609
0	0
0	0
19,066	7,502
278,118	158,300
112,250	62,326
165,868	95,974
0	0
0	0
0	0
165,868	95,974
$0.19	$0.13
$0.19	$0.13

5

1,000

6-MOS	6-MOS
DEC-31-1997	DEC-31-1996
JAN-01-1997	JAN-01-1996
JUN-30-1997	JUN-30-1996
791,001	0
473,501	0
1,409,026	0
0	0
0	0
3,255,501	0
0	0
0	0
14,142,793	0
1,768,450	0
1,928,394	0
0	0
0	0
8,184	0
4,284,579	0
14,142,793	0
0	0
2,458,711	1,757,050
0	0
1,794,381	1,375,924
303,000	28,635
0	0
28,358	14,761
332,972	337,730
180,540	140,692
152,432	197,038
0	0
0	0
0	0
152,432	197,038
$0.18	$0.25
$0.18	$0.25

5

1,000

9-MOS	9-MOS
DEC-31-1997	DEC-31-1996
JAN-01-1997	JAN-01-1996
SEP-30-1997	SEP-30-1996
902,777	0
308,947	0
1,538,415	0
0	0
0	0
3,380,796	0
0	0
0	0
14,997,006	0
1,358,767	0
2,422,524	0
0	0
0	0
8,245	0
4,600,648	0
14,997,006	0
0	0
3,890,015	2,799,951
0	0
2,795,865	2,156,593
303,000	175,835
0	0
43,920	17,224
747,230	450,299
346,536	184,795
400,694	265,504
0	0
0	0
0	0
400,694	265,504
$0.47	$0.34
$0.47	$0.33

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Cendant Corporation

We have audited the supplemental consolidated balance sheets of Cendant Corporation and subsidiaries (the "Company") as of December 31, 1996 and 1995, and the related supplemental consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. These supplemental consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the supplemental consolidated financial statements based on our audits. The supplemental consolidated financial statements give retroactive effect to the merger of CUC International Inc. with HFS Incorporated to form Cendant Corporation, which has been accounted for as a pooling of interests as described in Note 2 to the supplemental consolidated financial statements. We did not audit the balance sheets of CUC International Inc. as of January 31, 1997 and 1996, or the related statements of income, shareholders' equity, and cash flows of CUC International Inc. for the years ended January 31, 1997, 1996 and 1995, which statements reflect total assets of approximately $2.5 billion and $2.1 billion as of January 31, 1997 and 1996, respectively, and net income of approximately $164.1 million, $145.0 million and $164.1 million for the years ended January 31, 1997, 1996 and 1995, respectively. Nor did we audit the balance sheets of PHH Corporation (a consolidated subsidiary of HFS Incorporated) as of December 31, 1996 and January 31, 1996, or the related statements of income, shareholders' equity, and cash flows of PHH Corporation for the years ended December 31, 1996, January 31, 1996 and 1995, which statements reflect total assets of approximately $6.6 billion and $5.8 billion as of December 31, 1996 and January 31, 1996, respectively, and net income of approximately $87.6 million, $78.1 million and $69.0 million for the years ended December 31, 1996, January 31, 1996 and 1995, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for CUC International Inc. and PHH Corporation for such periods, is based solely on the reports of such other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the supplemental consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cendant Corporation and subsidiaries at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

As discussed in the notes to the supplemental consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 122, "Accounting for Mortgage Servicing Rights", in the year ended December 31, 1995.

/s/ Deloitte & Touche LLP
Parsippany, New Jersey
December 17, 1997

Report of Independent Auditors

Board of Directors and Shareholders
CUC International Inc.

We have audited the accompanying consolidated balance sheets of CUC International Inc. ("CUC") as of January 31, 1997 and 1996, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended January 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the following wholly-owned subsidiaires: Davidson & Associates, Inc. ("Davidson") as of December 31, 1995 and for the years ended December 31, 1995 and 1994, Sierra On-Line, Inc. ("Sierra") as of March 31, 1996 and for the years ended March 31, 1996 and 1995 and Ideon Group, Inc. ("Ideon") as of December 31, 1995 and for the year ended December 31, 1995 and the year ended October 31, 1994. Effective January 1, 1995, Ideon changed its fiscal year end from October 31 to December 31 (the "Ideon Transition Period"). We also did not audit the statement of operations for the Ideon Transition Period which includes a loss of $49.9 million included as a charge to retained earnings in the 1996 consolidated financial statements. These financial statements reflect, as of January 31, 1996, total assets constituting 31.5% of the consolidated finanical statements total and reflect total revenues constituting 27.6% and 28.2% of the consolidated financial statements totals for the years ended January 31, 1996 and 1995, respectively, and were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to Davidson, Sierra and Ideon for the periods indicated above, is based solely on the reports of other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall finanical statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

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

/s/ Ernst & Young LLP

Stamford, Connecticut
March 10, 1997

INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors
PHH Corporation

We have audited the consolidated balance sheets of PHH Corporation and subsidiaries as of December 31, 1996 and January 31, 1996, and the related consolidated statements of income, stockholders' equity and cash flows for the year ended December 31, 1996 and each of the years in the two-year period ended January 31, 1996, not presented separately herein. These consolidated statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PHH Corporation and subsidiaries as of December 31, 1996 and January 31, 1996, and the results of their operations and their cash flows for the year ended December 31, 1996 and for each of the years in the two-year period ended January 31, 1996, in conformity with generally accepted accounting principles.

As discussed in the notes to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 122, "Accounting for Mortgage Servicing Rights", in the year ended January 31, 1996.

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

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Sierra On-Line, Inc.
Bellevue, Washington

We have audited the consolidated balance sheet of Sierra On-Line Inc. and subsidiaries (the "Company") as of March 31, 1996 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended March 31, 1996, not presented separately herein. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above fairly, in all material respects, the financial position of the Company as of March 31, 1996, and the results of their operations and their cash flows for each of the two years in the period ended March 31, 1996 in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche LLP
Seattle, Washington

June 24, 1996

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Davidson & Associates, Inc.

We have audited the consolidated balance sheet of Davidson & Associates, Inc. and subsidiaries as of December 31, 1995 and the related consolidated statements of earnings, shareholders' equity and cash flows and related financial statement schedule for each of the years in the two-year period ended December 31, 1995, not presented separately herein. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Davidson & Associates, Inc. and subsidiaries as of December 31, 1995 and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 1995 in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ KPMG Peat Marwick LLP

Long Beach, California
February 21, 1996

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

In our opinion, the consolidated financial statements of Ideon Group, Inc. (formerly known as SafeCard Services, Incorporated), and its subsidiaries (not presented separately herein), present fairly, in all material respects, the financial position of Ideon Group, Inc. and its subsidiaries at December 31, 1995, and the results of their operations and their cash flows for the year ended December 31, 1995, the two months ended December 31, 1994, and the year ended October 31, 1994, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above. We have not audited the consolidated financial statements of Ideon Group, Inc. for any period subsequent to December 31, 1995.

As discussed in Note 1, the Company changed the amortization periods for deferred subscriber acquisition costs effective December 31, 1994.

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

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

ASSETS	DECEMBER 31, 1996	DECEMBER 31, 1995
Current assets		
Cash and cash equivalents	$ 633,903	$ 355,959
Marketable securities	94,200	97,164
Receivables, net of allowance for doubtful accounts of $85,640 and $66,059	1,290,625	1,028,976
Deferred income taxes	141,251	50,563
Other current assets	369,614	271,483
Total current assets	2,529,593	1,804,145
Deferred membership acquisition costs	401,564	404,655
Franchise agreements - net	995,947	517,218
Goodwill - net	2,302,226	700,375
Other intangibles - net	636,230	38,845
Other assets	993,574	573,537
Total assets exclusive of assets under programs	7,859,134	4,038,775
Assets under management and mortgage programs		
Net investment in leases and leased vehicles	3,418,666	3,243,236
Relocation receivables	773,326	736,038
Mortgage loans held for sale	1,248,299	784,901
Mortgage servicing rights and fees	288,943	191,434
	5,729,234	4,955,609
TOTAL ASSETS	$13,588,368	$ 8,994,384

See accompanying notes to supplemental consolidated financial statements.

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

LIABILITIES AND SHAREHOLDERS' EQUITY	DECEMBER 31, 1996	DECEMBER 31, 1995
Accounts payable, accrued expenses and other current liabilities	$ 1,664,946	$ 919,057
Deferred income	1,099,393	747,414
Long-term debt	1,004,584	353,977
Deferred income taxes	46,770	59,899
Other noncurrent liabilities	78,115	102,601
Total liabilities exclusive of liabilities under programs	3,893,808	2,182,948
Liabilities under management and mortgage programs		
Debt	5,089,943	4,427,872
Deferred income taxes	281,948	234,918
	5,371,891	4,662,790
Commitments and contingencies (Note 13)		
SHAREHOLDERS' EQUITY		
Preferred stock, $1.00 par value - authorized 10 million shares; none issued and outstanding	--	--
Common stock, $.01 par value - authorized 2 billion shares; issued 804,655,850 and 700,361,629 shares	8,047	7,004
Additional paid-in capital	2,870,422	994,814
Retained earnings	1,556,300	1,202,589
Net unrealized gain on marketable securities	4,334	593
Currency translation adjustment	(12,452)	(25,356)
Restricted stock, deferred compensation	(28,212)	--
Treasury stock, at cost, 6,911,757 and 5,115,947 shares	(75,770)	(30,998)
Total shareholders' equity	4,322,669	2,148,646
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 13,588,368	$ 8,994,384

See accompanying notes to supplemental consolidated financial statements.

CENDANT CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
REVENUES			
Membership and service fees - net	$ 3,433,917	$ 2,606,196	$ 2,178,984
Fleet leasing (net of depreciation and interest costs of $1,132,408, $1,088,993 and $976,244, respectively)	56,660	52,079	47,860
Other	418,203	333,847	219,887
Net revenues	3,908,780	2,992,122	2,446,731
EXPENSES			
Operating	1,392,788	1,110,928	921,832
Marketing and reservation	1,089,482	875,155	742,933
General and administrative	339,543	279,500	221,745
Depreciation and amortization	167,907	112,914	97,175
Interest - net	25,445	13,264	10,553
Merger and related costs and other unusual charges	179,945	97,029	7,900
Gain on sale of the ImagiNation Network	--	--	(19,739)
Total expenses	3,195,110	2,488,790	1,982,399
Income before income taxes	713,670	503,332	464,332
Provision for income taxes	290,059	200,507	179,742
Net income before cumulative effect of accounting change for income taxes	423,611	302,825	284,590
Cumulative effect of accounting change for income taxes	--	--	2,000
Net income	$ 423,611	$ 302,825	$ 286,590
PER SHARE INFORMATION			
Net income per share			
Primary	$ 0.53	$ 0.42	$ 0.42
Fully diluted	$ 0.52	$ 0.41	$ 0.41
Weighted average shares			
Primary	814,292	734,624	690,547
Fully diluted	820,586	748,704	702,209

See accompanying notes to supplemental consolidated financial statements.

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

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	NET UNREALIZED GAIN (LOSS) ON MARKETABLE SECURITIES	CURRENCY TRANSLATION ADJUSTMENT	RESTRICTED STOCK, DEFERRED COMPENSATION	UNEARNED ESOP	TREASURY STOCK
Balance, January 1, 1994	643,258	$ 6,433	$ 533,807	$ 822,399	$ --	$ (26,481)	$ --	$(7,160)	$(9,745)
Issuance of common stock	10,592	106	62,043	--	--	--	--	--	--
Exercise of stock options by payment of cash and common stock	7,732	76	53,649	(10,140)	--	--	--	--	(760)
Tax benefit from exercise of stock options and vesting of restricted stock	--	--	44,151	--	--	--	--	--	--
Amortization of restricted stock	--	--	303	--	--	--	--	--	--
Amortization of ESOP obligation	--	--	--	--	--	--	--	2,331	--
Adjustment to reflect change in GETKO and NAOG fiscal years	--	--	--	(4,067)	--	--	--	3,071	--
Cash dividends declared	--	--	--	(29,199)	--	--	--	--	--
Conversion of convertible notes	4,484	45	22,650	--	--	--	--	--	--
Net unrealized loss on marketable securities	--	--	--	--	(748)	--	--	--	--
Purchase of common stock	--	--	--	--	--	--	--	--	(25,885)
Retirement of treasury stock	(2,832)	(28)	(25,873)	--	--	--	--	--	25,885
Currency translation adjustment	--	--	--	--	--	4,529	--	--	--
Distribution of Chartwell Leisure Inc.	--	--	(18,445)	(79,775)	--	--	--	--	--
Net income	--	--	--	286,590	--	--	--	--	--
Balance, December 31, 1994	663,234	6,632	672,285	985,808	(748)	(21,952)	--	(1,758)	(10,505)

See accompanying notes to supplemental consolidated financial statements.

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

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	NET UNREALIZED GAIN (LOSS) ON MARKETABLE SECURITIES	CURRENCY TRANSLATION ADJUSTMENT	RESTRICTED STOCK, DEFERRED COMPENSATION	UNEARNED ESOP	TREASURY STOCK
Balance, January 1, 1995	663,234	$6,632	$672,285	$985,808	$ (748)	$(21,952)	$ --	$(1,758)	$(10,505)
Issuance of common stock	20,810	208	183,384	--	--	--	--	--	--
Exercise of stock options by payment of cash and common stock	12,435	124	64,421	--	--	--	--	--	(20,493)
Tax benefit from exercise of stock options	--	--	54,842	--	--	--	--	--	--
Amortization of ESOP obligation	--	--	1,242	--	--	--	--	1,758	--
Exercise of stock warrants	2,381	24	14,872	--	--	--	--	--	--
Cash dividends declared and other equity distributions	--	--	175	(36,005)	--	--	--	--	--
Adjustment to reflect change in Advance Ross and Ideon fiscal years	--	--	--	(50,039)	--	--	--	--	--
Conversion of convertible notes	2,126	21	13,670	--	--	--	--	--	--
Net unrealized gain on marketable securities	--	--	--	--	1,341	--	--	--	--
Purchase of common stock	--	--	--	--	--	--	--	--	(10,083)
Retirement of treasury stock	(624)	(5)	(10,077)	--	--	--	--	--	10,083
Currency translation adjustment	--	--	--	--	--	(3,404)	--	--	--
Net income	--	--	--	302,825	--	--	--	--	--
Balance, December 31, 1995	700,362	7,004	994,814	1,202,589	593	(25,356)	--	--	(30,998)

See accompanying notes to supplemental consolidated financial statements.

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

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	NET UNREALIZED GAIN (LOSS) ON MARKETABLE SECURITIES	CURRENCY TRANSLATION ADJUSTMENT	RESTRICTED STOCK, DEFERRED COMPENSATION	UNEARNED ESOP	TREASURY STOCK
Balance, January 1, 1996	700,362	$7,004	$ 994,814	$1,202,589	$ 593	$(25,356)	$ --	$ --	$(30,998)
Hebdo Mag adjustment	14,203	142	16,705	718	--	1,612	--	--	--
Issuance of common stock	70,961	710	1,654,009	(34,137)	--	--	--	--	--
Exercise of stock options by payment of cash and common stock	14,010	140	78,161	--	--	--	--	--	(25,620)
Restricted stock issuance	1,365	13	30,472	--	--	--	(30,485)	--	--
Amortization of restricted stock	--	--	--	--	--	--	2,273	--	--
Tax benefit from exercise of stock options	--	--	78,844	--	--	--	--	--	--
Cash dividends declared	--	--	--	(29,402)	--	--	--	--	--
Adjustment to reflect change in Davidson, Sierra & Ideon fiscal years	--	--	--	(4,674)	--	--	--	--	--
Adjustment to reflect change in PHH fiscal year	(67)	(1)	(634)	(2,405)	--	2,380	--	--	--
Conversion of convertible notes	3,822	39	18,051	--	--	--	--	--	--
Net unrealized gain on marketable securities	--	--	--	--	3,741	--	--	--	--
Purchase of common stock	--	--	--	--	--	--	--	--	(19,152)
Currency translation adjustment	--	--	--	--	--	8,912	--	--	--
Net income	--	--	--	423,611	--	--	--	--	--
Balance, December 31, 1996	804,656	$8,047	$2,870,422	$1,556,300	$4,334	$(12,452)	$(28,212)	$ --	$(75,770)

See accompanying notes to supplemental consolidated financial statements.

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

	YEAR ENDED DECEMBER 31,		
OPERATING ACTIVITIES	1996	1995	1994
Net income	$ 423,611	$ 302,825	$ 286,590
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	177,725	117,031	103,667
Membership acquisition costs	(638,182)	(605,058)	(508,807)
Amortization of membership costs	641,272	556,548	467,019
Gain on sales of mortgage servicing rights	(5,194)	(17,400)	(28,076)
Deferred income taxes	56,523	22,632	58,387
Increase (decrease) from changes in:			
Receivables	(162,566)	(184,801)	(103,688)
Accounts payable, accrued expenses and other current liabilities	149,387	136,595	(33,804)
Deferred income	23,386	83,533	60,220
Other	28,127	(55,027)	(100,004)
	694,089	356,878	201,504
Increase (decrease) from changes in assets under management and mortgage programs:			
Depreciation and amortization under management and mortgage programs	1,021,761	960,913	869,807
Mortgage loans held for sale	(73,308)	(139,520)	42,562
	948,453	821,393	912,369
Net cash provided by operating activities	1,642,542	1,178,271	1,113,873
INVESTING ACTIVITIES			
Assets under management and mortgage programs:			
Investment in leases and leased vehicles	(1,738,426)	(2,008,559)	(1,703,690)
Payments received on investment in leases and leased vehicles	595,852	576,670	593,155
Proceeds from sales and transfers of leases and leased vehicles to third parties	--	109,859	105,087
Additions to originated mortgage servicing rights	(164,393)	(130,135)	(41,920)
Proceeds from sales of mortgage servicing rights	7,113	21,742	36,836
Repayment of advances on homes under management	4,348,857	6,070,490	5,059,017
Equity advances on homes under management	(4,307,978)	(6,238,538)	(4,989,953)
	(1,258,975)	(1,598,471)	(941,468)
Property and equipment additions	(140,626)	(108,702)	(73,804)
Proceeds from sales of marketable securities	137,277	255,916	136,977
Purchases of marketable securities	(125,551)	(138,198)	(161,585)
Loans and investments	(12,721)	(33,783)	(42,524)
Net assets acquired, exclusive of cash acquired	(1,688,294)	(145,789)	(63,437)
Funding of grantor trusts	(89,849)	--	--
Other	33,634	(23,821)	27,355
Net cash used in investing activities	(3,145,105)	(1,792,848)	(1,118,486)

See accompanying notes to supplemental consolidated financial statements.

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

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
FINANCING ACTIVITIES			
Proceeds from borrowings	$ 2,150,404	$ 1,858,826	$ 1,413,699
Principal payments on borrowings	(1,649,040)	(1,282,911)	(1,252,979)
Net change in short term borrowings under management and mortgage programs	231,819	17,419	27,852
Issuance of common stock	1,222,199	100,806	46,401
Purchases of common stock	(19,152)	(10,083)	(25,885)
Redemption of warrants	--	14,877	--
Payment of dividends of pooled entities	(27,782)	(30,971)	(29,199)
Other	(81,620)	--	(50,043)
Net cash provided by financing activities	1,826,828	667,963	129,846
Effect of changes in exchange rates on cash and cash equivalents	(46,321)	6,545	2,665
Net increase in cash and cash equivalents	277,944	59,931	127,898
Cash and cash equivalents, beginning of period	355,959	296,028	168,130
Cash and cash equivalents, end of period	$ 633,903	$ 355,959	$ 296,028
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$ 307,600	$ 285,400	$ 207,900
Taxes	$ 89,400	$ 90,700	$ 87,600

See accompanying notes to supplemental consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS: Cendant Corporation (formerly CUC International Inc. ("CUC")), together with its subsidiaries and its joint ventures (the "Company") is a leading global provider of services to businesses serving consumer industries. On December 17, 1997, the Company merged with HFS Incorporated ("HFS"), which has been accounted for as a pooling of interests. The Company primarily engages in three business segments: membership services, travel and real estate.

MEMBERSHIP SERVICES SEGMENT BUSINESSES:

- Membership. The Company provides individual, wholesale and discount program membership services to consumers which are distributed through various channels, including through financial institutions, credit unions, charities, other cardholder-based organizations and retail establishments. These memberships include such components as shopping, travel, auto, dining, home improvement, lifestyle, credit card and checking account enhancement packages, financial products and discount programs. The Company also administers insurance package programs which are generally combined with discount shopping and travel for credit union members, distributes welcoming packages which provide new homeowners with discounts from local merchants, and provides travelers with value-added tax refunds.

TRAVEL SEGMENT BUSINESSES:

- Lodging franchise. The Company franchises guest lodging facilities and provides operational and administrative services to its franchisees. As franchisor, the Company licenses the owners and operators of independent hotels to use the Company's brand names. Services include access to a national reservation system, national advertising and promotional campaigns, co-marketing programs and volume purchasing discounts.

- Car rental. The Company licenses the Avis trademark to Avis Rent A Car, Inc. ("ARAC"). In addition, the Company operates the telecommunications and computer processing system which services ARAC for reservations, rental agreement processing, accounting and fleet control for which the Company charges ARAC at cost. The Company also provides similar franchise services to licensees other than ARAC.

- Timeshare. The Company is a provider of timeshare exchange programs, publications and other travel related services to the timeshare industry.

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

REAL ESTATE SEGMENT BUSINESSES:

- Real estate franchise. The Company franchises residential real estate brokerage offices and provides operational and administrative services to its franchisees. As franchisor, the Company licenses the owners and operators of independent real estate brokerage offices to use the Company's brand names. The Company provides services designed to increase franchisee revenue and profitability including national advertising and promotions, referrals, training and volume purchasing discounts.

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

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

OTHER SEGMENT BUSINESSES: The Company develops, publishes and distributes educational and entertainment software for home and school use and provides marketing and other services to casino gaming facilities. Also included in other segment businesses is the equity in the earnings from its investment in ARAC.

PRINCIPLES OF CONSOLIDATION: The accompanying supplemental consolidated financial statements include the accounts and transactions of the Company together with its joint ventures and its wholly owned and majority owned subsidiaries except for the Company's ownership of ARAC, which is accounted for under the equity method. The accompanying supplemental consolidated financial statements have been restated for the business combinations accounted for as poolings of interests (as discussed in Note 2) as if such combined companies had operated as one entity since inception. All material intercompany balances and transactions have been eliminated in consolidation.

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

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

FRANCHISE AGREEMENTS: Franchise agreements are recorded at their estimated fair values upon acquisition and amortized on a straight-line basis over the estimated period to be benefited, ranging from 12 to 40 years. At December 31, 1996 and 1995, accumulated amortization amounted to $87.9 million and $65.9 million, respectively.

GOODWILL: Goodwill, which represents the excess of cost over fair value of net assets acquired is being amortized on a straight-line basis over the estimated useful lives, ranging from 5 to 40 years. At December

31, 1996 and 1995, accumulated amortization amounted to $168.6 million and $74.1 million, respectively.

IMPAIRMENT OF LONG-LIVED ASSETS: The Company periodically evaluates the recoverability of its long-lived assets, comparing the respective carrying values to the current and expected future cash flows to be generated from such assets. Property and equipment is evaluated separately within each business segment. The recoverability of franchise agreements and goodwill are evaluated on a separate basis for each acquisition and each respective franchise brand.

MEMBERSHIP ACQUISITION COSTS: Membership acquisition costs are deferred and charged to operations as membership fees are recognized. These costs, which relate directly to membership solicitations (direct response advertising costs), principally include: postage, printing, kits, mailings, publications (including coupon books) and telemarketing costs. Substantially all of these costs are incurred for services performed by outside sources. Such costs are amortized on a straight-line basis as revenues are realized over the average membership period (generally one to three years). The membership acquisition costs incurred, applicable to obtaining a new member, for memberships other than coupon book memberships, generally approximate the initial membership fee. Initial membership fees for coupon book memberships generally exceed the membership acquisition costs incurred applicable to obtaining a new member. However, if membership acquisitions costs were to exceed the membership fee, an appropriate adjustment would be made for any significant impairment.

Amortization of membership acquisition costs, including deferred renewal costs, which consist principally of charges from sponsoring institutions and publications, amounted to $641.3 million, $556.5 million and $467.0 million for the years ended December 31, 1996, 1995 and 1994, respectively. All advertising costs other than direct response advertising costs are expensed in the period incurred. Such amounts, exclusive of amounts recorded as part of marketing and reservation expense, were $273.9 million, $172.3 million and $133.8 million for the years ended December 31, 1996, 1995 and 1994, respectively.

Membership fees are generally billed through financial institutions and other cardholder based institutions and are recorded as deferred membership income upon acceptance of membership, net of estimated cancellations, and pro-rated over the membership period.

SOFTWARE RESEARCH AND DEVELOPMENT COSTS AND COSTS OF SOFTWARE REVENUE: Capitalization of software development costs begins upon the establishment of technological feasibility of the product. Costs meeting this criteria are insignificant and, therefore, most costs related to designing, development and testing new software products are charged to operating expenses as incurred. Software research and development costs aggregated $66.2 million, $52.9 million and $36.3 million for the years ended December 31, 1996, 1995 and 1994, respectively. Software net revenue included in other was $375.2 million, $291.9 million and $191.0 million for the years ended December 31, 1996, 1995 and 1994, respectively. Costs of software revenue include material costs, manufacturing labor and overhead and royalties paid to developers and affiliated label publishers. Costs of software revenue are included in operating expenses and aggregated $109.6 million, $115.3 million and $73.3 million for the years ended December 31, 1996, 1995 and 1994, respectively.

The Company has a history of working closely with all of its distributors and retailers with respect to selling consumer software. As a result, the Company monitors the sales of its consumer software at all of its significant points of sale on a regular basis. Therefore, the Company has extensive data on returns by product on an on-going basis and does not have any significant obligations for future performance. Accordingly, the Company has the ability to estimate the amount of future returns and accurately determine the amount of revenue that should be recognized in accordance with Statement of Position 91-1 "Software Revenue Recognition" at any point in time.

REVENUE RECOGNITION: Revenue primarily consists of fees for providing services to businesses in consumer industries.

Membership revenue: Membership fees are generally billed through financial institutions and other cardholder based institutions and are recorded as deferred membership income upon acceptance of membership, net of estimated cancellations. Membership fees are recognized over the average membership period, generally one to three years. Deferred membership income is classified as non-current in the supplemental consolidated balance sheet since working capital will not be required as the deferred income is recognized over future periods.

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

Relocation revenue: Relocation revenue primarily consists of the purchase, management and resale of homes and fee based home related services for transferred employees of corporate clients, members of affinity group clients and government agencies. Although the Company acquires the home of client employees, the client corporation reimburses the Company for carrying costs until the home is sold and for home sale losses. Accordingly, the Company earns a fee for services with minimal real estate risk. Revenues associated with the resale of a residence are recognized when services are performed.

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

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

Mortgage services revenue: Loan origination fees and direct loan origination costs are deferred until the loan is sold. Servicing fees are credited to income when received. Sales of mortgage loans are generally recorded on the date a loan is delivered to an investor. Sales of mortgage securities are recorded on the settlement date.

The Company records mortgage servicing rights at the time a loan is sold by allocating cost based on the relative fair value of assets acquired, as long as the recorded amount is less than the servicing rights' fair value. The carrying value of mortgage servicing rights is amortized in proportion to, and over the period of, estimated net servicing income.

Gains or losses on the sale of mortgage servicing rights are recognized when title and all risks and rewards have irrevocably passed to the buyer and there are no significant unresolved contingencies.

The Company reviews the recoverability of mortgage servicing rights based on their fair value, and records impairment to individual strata. For measuring impairment, the interest rate bands of the underlying loans are the risk characteristic used to stratify the capitalized servicing portfolio. To determine the fair value of mortgage servicing rights, the Company uses market prices for comparable mortgage servicing, when available, or alternatively uses a valuation model that calculates a present value for mortgage servicing rights with assumptions that market participants would use in estimating future net servicing income.

INCOME TAXES: The Company uses the liability method of recording deferred income taxes. Differences in financial and tax reporting result from differences in the recognition of income and expenses for financial and income tax purposes as well as differences between the fair value of assets acquired in business combinations accounted for as purchases and their respective tax bases. The Company and its subsidiaries file a consolidated federal income tax return for periods subsequent to each acquisition.

NET INCOME PER SHARE: Net income per share has been computed based upon the weighted average number of common and common equivalent shares outstanding during the respective periods after giving effect to the mergers and acquisitions accounted for in accordance with the pooling of interests method of accounting (See Note 2) and stock splits (See Note 15). The $240 million 4-3/4% Convertible Senior Notes issued in February 1996 are antidilutive for all respective periods and, accordingly, are not included in the computations of earnings per share. In addition, the $150 million 4-1/2% Convertible Senior Notes issued in October 1994 are antidilutive for the year ended December 31, 1994 and, accordingly, are not included in the computation of earnings per share for 1994.

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

STOCK-BASED COMPENSATION: The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 "Accounting for Stock-Based Compensation" and applies Accounting Principle Board Opinion ("APB") No. 25 and related interpretations in accounting for its stock option plans. Under APB No. 25, because the exercise prices of the Company's employee stock options are equal to the market prices of the underlying Company stock on the date of grant, no compensation expense is recognized (See Note 16).

DERIVATIVE FINANCIAL INSTRUMENTS: As a matter of policy, the Company does not engage in derivatives trading or market-making activities. Rather, derivative financial instruments including interest rate swaps and forward exchange contracts are used by the Company principally in the management of its interest rate exposures and foreign currency exposures on intercompany borrowings. Additionally, the Company enters into forward delivery contracts, financial futures programs and options to reduce the risks of adverse price fluctuation with respect to both mortgage loans held for sale and anticipated mortgage loan closings arising from commitments issued.

Amounts to be paid or received under interest rate swap agreements are accrued as interest rates change and are recognized over the life of the swap agreements as an adjustment to interest expense. The fair values of the swap agreements are not recognized in the consolidated financial statements since they are accounted for as hedges. Market value gains and losses on the Company's foreign currency transaction hedges are recognized in income and substantially offset by the related foreign exchange transaction gains and losses. Market value gains and losses on positions used as hedges in the mortgage banking services operations are deferred and considered in the valuation of lower of cost or market value of mortgage loans held for sale.

TRANSLATION OF FOREIGN CURRENCIES: Assets and liabilities of foreign subsidiaries are translated at the exchange rates as of the balance sheet dates, equity accounts are translated at historical exchange rates and revenues, expenses and cash flows are translated at the average exchange rates for the periods presented. Translation gains and losses are included in shareholders' equity. Gains and losses resulting from the change in exchange rates realized upon settlement of foreign currency transactions are substantially offset by gains and losses realized upon settlement of forward exchange contracts. Therefore, the resulting net income effect of transaction gains and losses in the years ended December 31, 1996, 1995 and 1994, was not significant.

RECLASSIFICATIONS: Certain reclassifications have been made to the historical financial statements of the Company and HFS to conform to the restated presentation.

2. BUSINESS COMBINATIONS

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

1997 POOLINGS

On December 17, 1997, the Company completed a merger with HFS (the "Cendant Merger") by issuing 440.0 million shares of its common stock in exchange for all of the outstanding common stock of HFS. Pursuant to the terms of the agreement and plan of merger, HFS stockholders received 2.4031 shares of Company common stock for each share of HFS common stock. Upon consummation of the Cendant Merger, the Company changed its name from CUC International Inc. to Cendant Corporation. In connection with the Cendant Merger, the Company changed its fiscal year end from January 31 to December 31. HFS had a calendar year end and, accordingly, the HFS statements of income for the years ended December 31, 1996, 1995 and 1994 have been combined with the Company's statements of income for the fiscal years ended January 31, 1997, 1996 and 1995, respectively.

On October 3, 1997, the Company, through a wholly-owned subsidiary ("Acquisition Sub"), acquired all of the outstanding capital stock of Hebdo Mag International Inc. ("Hebdo Mag") pursuant to the terms of a share purchase agreement dated August 13, 1997 among the Company, Acquisition Sub, Hebdo Mag and other parties thereto. The purchase price of approximately $440.0 million was satisfied by the issuance of 14.2 million shares of Company common stock. Hebdo Mag is a leading publisher and distributor of classified advertising information. In connection with the merger, Hebdo Mag's statement of income for the twelve month period ended December 31, 1996 has been combined with the Company's statement of income for the fiscal year ended January 31, 1997.

On April 30, 1997, prior to being merged with and into the Company, HFS acquired PHH Corporation ("PHH") by merger (the "HFS/PHH Merger") which was satisfied by the issuance of 72.8 million equivalent shares of Company common stock in exchange for all of the outstanding common stock of PHH. PHH is the world's largest provider of corporate relocation services and also provides mortgage services and fleet management services. Prior to the HFS/PHH Merger, PHH had an April 30 fiscal year end. In connection with the HFS/PHH Merger, PHH prepared financial statements for the twelve month periods ended December 31, 1996, January 31, 1996 and January 31, 1995. To conform to a calendar year end, the PHH statements of income for the aforementioned twelve month periods have been combined with the HFS statements of income for the years ended December 31, 1996, 1995 and 1994, respectively. In combining PHH's twelve month periods to the HFS calendar years, the supplemental consolidated statement of income for the year ended December 31, 1996 included one month (January 1996) of PHH's operating results which was also included in the supplemental consolidated statement of income for the year ended December 31, 1995. Accordingly, an adjustment has been made to 1996 retained earnings for the duplication of net income of $8.3 million and cash dividends declared of $5.9 million for such one month period.

During February 1997, the Company acquired substantially all of the assets and assumed specific liabilities of Numa Corporation ("Numa") for $73.5 million. The purchase price was satisfied by the issuance of 3.4 million shares of Company common stock. Numa publishes personalized heritage publications and markets and sells personalized merchandise.

1996 POOLINGS

During July 1996, the Company acquired all of the outstanding capital stock of Davidson & Associates, Inc. ("Davidson") for a purchase price of approximately $1 billion, which was satisfied by the issuance of 45.1 million shares of Company common stock. Also during July 1996, the Company acquired all of the outstanding capital stock of Sierra On-Line, Inc. ("Sierra") for a purchase price of $858.0 million, which was satisfied by the issuance of 38.4 million shares of Company common stock. Davidson and Sierra develop, publish and distribute educational and entertainment software for home and school use. During August 1996, the Company acquired all of the outstanding capital stock of Ideon Group, Inc. ("Ideon"), principally a provider of credit card enhancement services, for a purchase price of $393 million, which was satisfied by the issuance of 16.6 million shares of Company common stock.

During 1995, prior to being merged into the Company, Davidson and Sierra acquired all of the outstanding capital stock of various companies by issuing an aggregate of .8 million and 3.9 million equivalent shares of Company common stock, respectively. During 1994, Davidson acquired all of the outstanding shares of a company by issuing .8 million equivalent shares of Company common stock.

Davidson, Sierra and Ideon previously used the fiscal years ended December 31, March 31 and December 31, respectively, for their financial reporting. To conform to the Company's January 31 former fiscal year end, Davidson's and Ideon's operating results for January 1996 have been excluded from, and Sierra's operating results for February and March 1996 have been duplicated in the Company's year ended January 31, 1997 operating results. The excluded and duplicated periods have been adjusted by a net $4.7 million charge to retained earnings at December 31, 1996. Effective January 1, 1995, Ideon changed its fiscal year end from October 31 to December 31 (the "Ideon Transition Period"). The Ideon Transition Period has been excluded from the accompanying supplemental consolidated statements of income. Ideon's revenues and net loss for the Ideon Transition Period were $34.7 million and $49.9 million, respectively. This excluded period has been adjusted by a $49.9 million charge to retained earnings at December 31, 1995. The net loss for the Ideon Transition Period was principally the result of a $65.5 million one-time, non-cash, pre-tax charge recorded in connection with a change in amortization periods for deferred membership acquisition costs. Prior to the change, membership acquisition costs were generally amortized up to ten years for single year membership periods and up to twelve years for multi-year membership periods. These amortization periods represented the estimated life of the member. At December 31, 1994, the amortization periods were shortened to one year and three years for single and multi-year membership periods, respectively (initial membership period without regard for anticipated renewals).

In 1996, the Company acquired outstanding stock or substantially all of the assets and liabilities of certain other entities for an aggregate purchase price of $202.1 million, consisting of 8.3 million shares of Company common stock.

1995 POOLINGS

During June 1995, the Company acquired all of the outstanding capital stock of Getko Group, Inc. ("Getko") for a purchase price of $100.0 million, which was satisfied by the issuance of 5.6 million shares of Company common stock. Getko distributes complimentary welcoming packages to new homeowners throughout the

United States and Canada. During September 1995, the Company acquired all of the outstanding capital stock of North American Outdoor Group, Inc. ("NAOG") for a purchase price of $52.0 million, which was satisfied by the issuance of 2.3 million shares of Company common stock. NAOG owns one of the largest for-profit hunting and general interest fishing membership organizations in the United States, and also owns various other membership organizations. During January 1996, the Company acquired all of the outstanding capital stock of Advance Ross Corporation ("Advance Ross") for a purchase price of $183.0 million, which was satisfied by the issuance of 8.9 million shares of Company common stock. Advance Ross processes value-added tax refunds for travelers in over 20 European countries.

Getko, NAOG, and Advance Ross previously used the fiscal years ended November 30, December 31 and December 31, respectively for their financial reporting. To conform to the Company's January 31 former fiscal year end, Getko's operating results for December 1993 and January 1994 and NAOG's operating results for January 1994 have been excluded from the Company's year ended January 31, 1995 operating results in the supplemental consolidated financial statements. The excluded periods have been adjusted by a net $4.1 million charge to retained earnings at December 31, 1994. In addition, Advance Ross' operating results for January 1995 have been excluded from the year ended January 31, 1996 operating results in the supplemental consolidated financial statements. This excluded period has been adjusted by a $0.1 million charge to retained earnings at December 31, 1995.

The following table presents the historical results of the Company and the pooled entities for the last complete periods prior to their respective mergers ($000's):

	NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED)	YEAR ENDED DECEMBER 31, 1996	1995	1994
Net revenues				
The Company	$ 2,002,597	$ 2,347,655	$ 1,401,551	$ 1,044,669
HFS (inclusive of PHH)	1,749,477	1,436,457	1,056,890	892,120
Hebdo Mag	137,941	124,668	-	-
1996 Pooled Entities	-	-	533,681	371,715
1995 Pooled Entities	-	-	-	138,227
	$ 3,890,015	$ 3,908,780	$ 2,992,122	$ 2,446,731
Net income				
The Company	$ 252,082	$ 164,099	$ 164,669	$ 117,591
HFS (inclusive of PHH)	142,057	257,241	157,850	122,533
Hebdo Mag	6,555	2,271	-	-
1996 Pooled Entities	-	-	(19,694)	39,491
1995 Pooled Entities	-	-	-	6,975
	$ 400,694	$ 423,611	$ 302,825	$ 286,590

The following table shows the historical results of HFS and PHH for the periods prior to the HFS/PHH Merger ($000's):

	THREE MONTHS ENDED MARCH 31, 1997 (UNAUDITED)	YEAR ENDED DECEMBER 31, 1996	1995	1994
Net revenues				
HFS	$ 347,962	$ 785,980	$ 411,299	$ 312,081
PHH	178,635	650,477	645,591	580,039
Total	$ 526,597	$ 1,436,457	$ 1,056,890	$ 892,120
Net income				
HFS	$ 58,940	$ 169,584	$ 79,730	$ 53,489
PHH	32,164	87,657	78,120	69,044
Total	$ 91,104	$ 257,241	$ 157,850	$ 122,533

PURCHASE BUSINESS COMBINATIONS

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

The following tables reflect the fair values of assets acquired and liabilities assumed in connection with the acquisitions described below.

(IN MILLIONS)	ACQUIRED IN 1996			
	RCI	AVIS	COLDWELL BANKER	OTHER
Cash paid	$ 412.1	$ 367.2	$ 747.8	$ 210.4
Common stock issued	75.0	338.4	-	70.8
Notes issued	-	100.9	-	5.0
Total consideration	487.1	806.5	747.8	286.2
Assets acquired	439.1	783.9	541.7	94.8
Liabilities assumed	429.7	311.4	148.5	50.9
Fair value of net assets acquired	9.4	472.5	393.2	43.9
Goodwill	$ 477.7	$ 334.0	$ 354.6	$ 242.3
Shares issued	2.4	11.1	46.6	2.5

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

RESORT CONDOMINIUMS INTERNATIONAL, INC.: In November 1996, HFS completed the acquisition of all the outstanding capital stock of Resort Condominiums International, Inc. and its affiliates ("RCI") for $487.1 million. The purchase agreement provides for contingent payments of up to $200.0 million over the next five years which are based on components which measure RCI's future performance, including EBITDA, net revenues and number of members, as defined. Any contingent payments made will be accounted for as additional goodwill.

AVIS: In October 1996, HFS completed the acquisition of all of the outstanding capital stock of ARAC, initially including payments under certain employee stock plans of Avis and the redemption of certain series of preferred stock of Avis for an aggregate $806.5 million. Subsequently, HFS made contingent cash payments of: (a) during the first quarter of 1997, $17.6 million to General Motors Corporation ("GM"), representing the amount by which the value attributable under the stock purchase agreement to HFS common stock received by GM in the Avis acquisition exceeded the proceeds realized upon the subsequent sale of such Company common stock; and (b) during the fourth quarter of 1996, $26.0 million of credit facility termination fees which were not at HFS's discretion since the facility termination resulted from change of control provisions and the elimination of the Avis Employee Stock Ownership Plan in connection with the Avis acquisition.

In September 1997, ARAC completed an IPO resulting in a 72.5% dilution of HFS's investment in ARAC, the Company that operated the car rental operations of HFS Car Rental, Inc. Net proceeds approximating $359.3 million retained by ARAC were used to fund its August 20, 1997 acquisition of The First Gray Line Corporation and repay ARAC indebtedness. See Note 23 for a discussion of HFS's executed business plan and related accounting treatment regarding Avis.

COLDWELL BANKER CORPORATION: In May 1996, HFS acquired by merger Coldwell Banker Corporation ("Coldwell Banker"), the largest gross revenue producing residential real estate company in North America and a leading provider of corporate relocation services. HFS paid $640.0 million in cash for all of the outstanding capital stock of Coldwell Banker and repaid $105.0 million of Coldwell Banker indebtedness. The aggregate purchase price for the transaction was financed through the May 1996 sale of an aggregate 46.6 million equivalent shares of Company common stock pursuant to a public offering. Subsequent to the acquisition of Coldwell Banker, HFS acquired for $2.8 million a relocation consulting firm which was merged into the Coldwell Banker relocation business.

Immediately following the closing of the Coldwell Banker acquisition, HFS conveyed Coldwell Banker's 318 owned real estate brokerage offices (the "Owned Brokerage Business") to National Realty Trust (the "Trust"), an independent trust in which HFS has no beneficial interest. HFS recorded a $5.0 million charge ($3.1 million, net of tax) in the second quarter of 1996 representing the fair value of operations contributed to the Trust. The charge represents the fair value of the Owned Brokerage Business based upon a valuation which considered earnings, cash flow, assets and business prospects to the contributed business.

OTHER: During 1996, the Company and HFS acquired certain entities for an aggregate purchase price of $286.2 million.

CENTURY 21: In August 1995, a majority owned subsidiary of HFS, C21 Holding Corp. ("Holding"), acquired Century 21 Real Estate Corporation ("Century 21"), the world's largest residential real estate brokerage franchisor. Aggregate consideration for the acquisition consisted of $245.0 million plus expenses, including an initial cash payment of $70.2 million, 9.6 million equivalent shares of Company common stock valued at $64.8 million, the assumption of $80.0 million of Century 21 redeemable preferred stock issued prior to the acquisition (subsequently redeemed in February 1996) and a $30.0 million contingent payment made in February 1996.

HFS and certain stockholders sold approximately 15.4 million equivalent shares of Company common stock pursuant to a public offering in September 1995 (the "C21 Offering"). Included in the C21 Offering were 9.6 million equivalent Company shares issued as partial consideration for the acquisition of Century 21. In accordance with Century 21 acquisition agreements, HFS received $28.9 million representing proceeds from the sale of such shares in excess of $7.28 per equivalent Company share, net of certain expenses of the C21 Offering. In connection with the C21 Offering, HFS also received $20.1 million of proceeds, net of certain expenses from the sale of shares issued upon the exercise of an underwriter over-allotment option. Net proceeds from the C21 Offering received by HFS resulted in corresponding increases in stockholders' equity.

In connection with the acquisition, HFS executed an agreement (the "Subscription and Stockholders' Agreement"), with a management group pursuant to which the ownership of Century 21 Holding Corp. common stock would be divided 87.5% to HFS and 12.5% to the management group. In addition, the management group executives entered into renewable employment agreements with HFS with initial terms that commenced on November 1, 1995 and would expire on December 31, 1997. HFS had a call option to purchase Holding common stock owned by the management group and the management group had a put option to require HFS to purchase all their Holding common stock after January 1, 1998 at fair market value. Effective October 29, 1996 (the "Effective Date"), HFS amended the Subscription and Stockholders' Agreement to provide that HFS's call option to purchase Holding common stock at fair value from the management group would be accelerated to the Effective Date with the fair value determined as of the Effective Date. Pursuant to such amendment, the employment agreements were terminated in October 1996 and the put and call options have been exercised. The 12.5% interest was acquired by HFS for $52.8 million in the second quarter of 1997.

OTHER: During 1995, the Company and HFS collectively acquired certain entities for an aggregate purchase price of $163.3 million.

PRO FORMA INFORMATION (UNAUDITED): The following information reflects pro forma statements of income data for the years ended December 31, 1996 and 1995 assuming the aforementioned completed acquisitions were consummated on January 1, 1995.

The acquisitions have been accounted for using the purchase method of accounting. Accordingly, assets acquired and liabilities assumed have been recorded at their estimated fair values with appropriate recognition given to the effect of current interest rates and income taxes. Management does not expect that the final allocation of the purchase prices for the above acquisitions will differ materially from the preliminary allocations. The pro forma results are not necessarily indicative of the operating results that would have occurred had the transactions been consummated as indicated nor are they intended to indicate results that may occur in the future. The underlying pro forma information includes the amortization expense associated with the assets acquired, the reflection of the Company's and HFS's financing arrangements, the elimination of redundant costs and the related income tax effects.

($000's, except per share amounts)	YEAR ENDED DECEMBER 31,	
	1996	1995
Net revenue	$ 4,475,262	$ 3,809,181
Income before income taxes	797,042	634,898
Net income	473,359	378,577
Net income per share:		
Primary	$ .57	.48
Fully diluted	$ .56	.47
Weighted average shares outstanding:		
Primary	844,798	803,548
Fully diluted	851,091	817,628

3. MERGER AND RELATED COSTS AND OTHER UNUSUAL CHARGES

1997 POOLINGS (UNAUDITED)

The Company expects to incur merger and related costs and other unusual charges in connection with the fourth quarter 1997 mergers with HFS and Hebdo Mag approximating $825.0 million ($560.0 million, after tax).

HFS recorded a one-time merger and related charge (the "PHH Merger Charge") of $303.0 million ($227.0 million, after tax) during the second quarter of 1997 in connection with the HFS/PHH Merger. The PHH Merger Charge is summarized by type as follows (in millions):

Personnel related	$ 142.4
Professional fees	36.8
Business terminations	44.7
Facility related	57.1
Other costs	22.0
Total	$ 303.0

Personnel related charges are comprised of costs incurred in connection with employee reductions associated with the combination of HFS's relocation services business and the consolidation of corporate activities. Personnel related charges include termination benefits such as severance, medical and other benefits. Also included in personnel related charges are supplemental retirement benefits resulting from the change of control. Several grantor trusts were established and funded by HFS to pay such benefits in accordance with the terms of the PHH merger agreement. Full implementation of the restructuring plan will result in the termination of approximately 500 employees, substantially all of whom are located in North America, of which 369 employees were terminated as of September 30, 1997. Professional fees are primarily comprised of investment banking, accounting and legal fees incurred in connection with the HFS/PHH Merger. Business termination charges relate to the exit from certain activities associated with fleet management, mortgage services and ancillary operations in accordance with HFS's revised strategic plan. Facility related expenses include costs associated with contract and lease terminations, asset disposal and other charges incurred in connection with the consolidation and closure of excess space.

The Company anticipates that approximately $236.0 million will be paid in cash in connection with the PHH Merger Charge of which $137.0 million was paid through September 30, 1997. The remaining cash portion of the PHH Merger Charge will be financed through cash generated from operations and borrowings under the Company's revolving credit facilities. Revenue and operating results from activities that will not be continued are not material to the results of operations of the Company.

1996 POOLINGS

Principally in connection with the Davidson, Sierra and Ideon mergers, the Company recorded a charge to operations of approximately $179.9 million ($118.7 million, after-tax) for the year ended December 31, 1996. The charge is summarized by type, as follows ($000's):

Personnel related	$ 18.6
Professional fees and litigation	95.3
Facility related	66.0
	$ 179.9

Such costs in connection with the Davidson & Sierra mergers with the Company (approximately $48.6 million) are non-recurring and are comprised primarily of transaction costs, other professional fees and exit costs. Such costs associated with the Company's merger with Ideon (the "Ideon Merger") (approximately $131.3 million) are non-recurring and include transaction and exit costs as well as a provision relating to certain litigation matters giving consideration to the Company's intended approach to these matters. In determining the amount of the provision related to these outstanding litigation matters, the Company estimated the cost of settling these litigation matters. In estimating such cost, the Company considered potential liabilities related to these matters and the estimated cost of prosecuting and defending them (including out-of-pocket costs, such as attorneys' fees, and the cost to the Company of having its management involved in numerous complex litigation matters). The Company has since settled certain of these litigation matters while certain of these matters remain outstanding. Although the Company has attempted to estimate the amounts that will be required to settle remaining litigation matters, there can be no assurance that the actual aggregate amount of such settlements will not exceed the (See Note 13). As of September 30, 1997, such charges amounted to $155.7 million. The Company considered litigation-related costs and liabilities, as well as exit and transaction costs, in determining the agreed upon exchange ratio in respect to the Ideon Merger.

In determining the amount of the provision related to the Company's proposed consolidation efforts, the Company estimated the significant severance costs to be accrued upon the consummation of the Ideon Merger and costs relating to the expected obligations for certain third-party contracts (e.g., existing leases and vendor agreements) to which Ideon is a party and which are neither terminable at will nor automatically terminate upon a change-in-control of Ideon. As a result of the Ideon Merger, 120 employees were terminated. The Company incurred significant exit costs because Ideon's credit card registration and enhancement services are substantially similar to the Company's credit card registration and enhancement services. All of the business activities related to the operations performed by Ideon's Jacksonville, Florida office were transferred to the Company's Comp-U- Card Division in Stamford, Connecticut upon the consummation of the Ideon Merger. The Company does not expect any loss in revenue as a result of these consolidation efforts.

COSTS RELATED TO IDEON PRODUCTS ABANDONED AND RESTRUCTURING

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

During 1995, the following costs related to products abandoned and restructuring were incurred. In early 1995, Ideon launched an expanded PGA TOUR Partners program that provided various benefits to members and consumer response rates after the launch were significantly less than Ideon management's expectations. The product as configured was deemed not economically viable and a charge of $18 million was incurred. Costs associated with the abandonment of the product marketing included employee severance payments (approximately 130 employees), costs to terminate equipment and facilities leases, costs for contract impairments and write-downs taken for asset impairments. In September 1995, after a period of product redesign and test marketing, Ideon discontinued its PGA TOUR Partners credit card servicing role and recorded a charge of $3.6 million for costs associated with the abandonment of this role, including employee severance payments (approximately 60 employees), costs to terminate equipment and facilities leases and the recognition of certain commitments. In April 1995, Ideon launched a nationwide child registration and missing child search program. Consumer response rates after the launch were significantly less than Ideon management's expectations and a charge of $9 million was incurred to cover severance payments (approximately 100 employees), costs to terminate equipment and facilities leases and write-down taken for asset impairments. As a result of the discontinuance of these products, Ideon undertook an overall restructuring of its operations and incurred charges of $7.2 million to terminate operating leases and write-down assets to realizable value, $3.0 million for restructuring its SafeCard division and $4.2 million for restructuring its corporate infrastructure.

During 1994, costs related to products abandoned and restructuring were incurred when Ideon reorganized its operations and named a new senior management team, resulting in $7.9 million of charges for various severance agreements and a lease termination.

PURCHASE BUSINESS COMBINATION LIABILITIES

In connection with the acquisitions of Century 21, Coldwell Banker, RCI and certain other acquisitions related business plans were developed to restructure each of the respective companies. Acquisition liabilities were recorded at the dates of consummation and are included in the respective purchase price allocations. These liabilities include costs associated with restructuring activities such as planned involuntary termination and relocation of employees, the consolidation and closing of certain facilities and the elimination of duplicative operating and overhead activities. Accrued acquisition obligations related to each acquired entity are summarized by type as follows ($000's):

	CENTURY 21	COLDWELL BANKER	RCI	OTHER
Personnel related	$ 12,647	$ 4,237	$ 9,845	$ 5,542
Facility related	16,511	5,491	6,929	3,851
Other costs	990	211	7,025	880
Total	$ 30,148	$ 9,939	$ 23,799	$ 10,273
Terminated employees	319	87	252	275

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

During 1995, approximately $14.3 million was paid and charged against the acquisition liability for restructuring charges related to the Century 21 acquisition. During 1996, approximately $11.3 million, $3.9 million, $0.5 million and $7.7 million was paid and charged against the acquisition liabilities for restructuring charges related to the Century 21, Coldwell Banker, RCI and certain other acquisitions, respectively. Additional restructuring charges were accrued during 1996 for Century 21 of $6.1 million. The adjustment to the restructuring liability represented revised cost estimates for activities contemplated in management's original restructuring plans.

The business plans to restructure Century 21, Coldwell Banker, RCI and certain other acquisitions have been fully executed. Remaining accrued acquisition obligations related to the restructuring of such acquired companies pertain primarily to future lease commitments and other contractual obligations that existed at the respective acquisition dates.

4. OTHER INTANGIBLES - NET

Other intangibles - net consisted of ($000's):

	BENEFIT PERIODS IN YEARS	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995
Avis trademark	40	$ 400,000	$ --
Customer lists	6.5 - 10	113,976	--
Reservation system	10	95,000	--
Contract renewal rights	2 - 16	90,695	90,345
		699,671	90,345
Less accumulated amortization		63,441	51,500
Other intangibles - net		$ 636,230	$ 38,845

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

5. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accounts payable, accrued expenses and other current liabilities consisted of ($000's):

	YEAR ENDED DECEMBER 31,	
	1996	1995
Accounts payable	$ 535,978	$ 407,437
Short-term debt	250,930	--
Merger and acquisition obligations	167,238	13,227
Accrued payroll and related	157,032	88,364
Advances from relocation clients	78,761	95,869
Other	475,007	314,160
Accounts payable, accrued expenses and other current liabilities	$ 1,664,946	$ 919,057

Short-term debt at December 31, 1996 consisted of $150 million of acquired Avis fleet financing, borrowed on behalf of ARAC, which was repaid upon settlement of the corresponding intercompany loan due from ARAC prior to the IPO and a $100.9 million note payable issued to ARAC as partial consideration for ARAC in connection with the Company's acquisition of ARAC. The outstanding short-term debt as of December 31, 1996 had a weighted average interest rate of 6.85%.

6. NET INVESTMENT IN LEASES AND LEASED VEHICLES

The net investment in leases and leased vehicles consisted of ($000's):

	YEAR ENDED DECEMBER 31,	
	1996	1995
Vehicles under open-end operating leases	$ 2,617,263	$ 2,585,953
Vehicles under closed-end operating leases	443,853	320,894
Direct financing leases	356,699	335,498
Accrued interest on leases	851	891
Net investments in leases and leased vehicles	$ 3,418,666	$ 3,243,236

The Company leases vehicles for initial periods of twelve months or more under either operating or direct financing lease agreements. The Company's experience indicates that the full term of the leases may vary considerably due to extensions beyond the minimum lease term. Lessee repayments of investments in leases and leased vehicles for 1996 and 1995 were $1.6 billion and $1.5 billion, respectively, and the ratio of such repayments to the average net investment in leases and leased vehicles was 47.19% and 47.96%, respectively.

Vehicles under operating leases are amortized using the straight-line method over the expected lease term. The Company has two types of operating leases. Under one type, open-end operating leases, resale of the vehicles upon termination of the lease is generally for the account of the lessee except for a minimum residual value which the Company has guaranteed. The Company's experience has been that vehicles under this type of lease agreement have consistently been sold for amounts exceeding the residual value guarantees. Maintenance and repairs of vehicles under these agreements are the responsibility of the lessee. The original cost and accumulated depreciation of vehicles under this type of operating lease was $4.6 billion and $2.0 billion, respectively, at December 31, 1996 and $4.4 billion and $1.8 billion, respectively, at December 31, 1995.

Under the other type of operating lease, closed-end operating leases, resale of the vehicles on termination of the lease is for the account of the Company. The lessee generally pays for or provides maintenance, vehicle licenses and servicing. The original cost and accumulated depreciation of vehicles under these agreements was $600.6 million and $156.7 million, respectively at December 31, 1996 and $482.9 million and $162.0 million, respectively, at December 31, 1995. The Company believes adequate reserves are maintained in the event of loss on vehicle disposition.

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

Leasing revenues, which are reflected in fleet leasing on the supplemental consolidated statements of income consist of ($000's):

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
Operating leases	$ 1,145,745	$ 1,098,697	$ 982,416
Direct financing leases, primarily interest	43,323	42,375	41,688
	$ 1,189,068	$ 1,141,072	$ 1,024,104

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

The Company has transferred existing managed vehicles and related leases to unrelated investors and has retained servicing responsibility. Credit risk for such agreements is retained by the Company to a maximum extent in one of two forms: excess assets transferred, which were $7.1 million and $5.9 million at December 31, 1996 and 1995, respectively; or guarantees to a maximum extent of $0 and $263,000 at December 31, 1996 and 1995, respectively. All such credit risk has been included in the Company's consideration of related reserves. The outstanding balances under such agreements aggregated $158.5 million and $98.4 million at December 31, 1996 and 1995, respectively.

Other managed vehicles with balances aggregating $93.9 million and $114.9 million at December 31, 1996 and 1995, respectively, are included in a special purpose entity which is not owned by the Company. This entity does not require consolidation as it is not controlled by the Company and all risks and rewards rest with the owners. Additionally, managed vehicles totaling approximately $47.4 million and $48.5 million at December 31, 1996 and 1995, respectively, are owned by special purpose entities which are owned by the Company. However, such assets and related liabilities have been netted in the balance sheet since there is a two-party agreement with determinable accounts, a legal right of setoff exists and the Company exercises its right of setoff in settlement with client corporations.

7. MORTGAGE LOANS HELD FOR SALE

Mortgage loans held for sale are recorded at the lower of cost or market value on the aggregate loan basis. The Company issues mortgage-backed certificates insured or guaranteed by various government sponsored entities and private insurance agencies. Primarily, the insurance or guaranty is provided on a non-recourse basis to the Company, except where limited by the Federal Housing Administration and Veterans Administration and their respective loan program. The valuation reserve was approximately $10.1 million and $1.9 million at December

31, 1996 and 1995, respectively. As of December 31, 1996, mortgage loans sold with recourse amounted to approximately $83.0 million.

8. MORTGAGE SERVICING RIGHTS AND FEES

Mortgage servicing rights and fees activity was as follows ($000's):

	EXCESS SERVICING FEES	PURCHASED SERVICING RIGHTS	ORIGINATED SERVICING RIGHTS	IMPAIRMENT ALLOWANCE	TOTAL
Balance, January 1, 1994	$ 75,529	$ 8,808	$ -	$ -	$ 84,337
Additions	24,679	17,241	-	-	41,920
Amortization	(13,512)	(6,772)	-	-	(20,284)
Sales	(8,729)	(31)	-	-	(8,760)
Balance, December 31, 1994	77,967	19,246	-	-	97,213
Additions	51,191	17,849	61,095	-	130,135
Amortization	(18,609)	(5,858)	(4,089)	-	(28,556)
Write-down/provision	(1,630)	-	-	(1,386)	(3,016)
Sales	(1,080)	(3,262)	-	-	(4,342)
Balance, December 31, 1995	107,839	27,975	57,006	(1,386)	191,434
Less: PHH activity for January 1996 to reflect change in PHH fiscal year	(3,623)	(170)	(10,227)	183	(13,837)
Additions	66,825	-	97,568	-	164,393
Amortization	(31,235)	(4,763)	(15,752)	-	(51,750)
Write-down/provision	-	-	-	622	622
Sales	(1,291)	(628)	-	-	(1,919)
Balance, December 31, 1996	$ 138,515	$ 22,414	$ 128,595	$ (581)	$ 288,943

Excess servicing fees represent the present value of the differential between the actual servicing fees and normal servicing fees which are capitalized at the time loans are sold with servicing rights retained. Purchased servicing rights represent the cost of acquiring the rights to service mortgage loans for others. Originated servicing rights represents the present value of normal servicing fees which are capitalized at the time loans are sold with servicing rights retained.

In May 1995, the FASB issued Statement of Financial Accounting Standards No. 122, "Accounting for Mortgage Servicing Rights" (SFAS No. 122). This Statement requires that mortgage servicing rights be recognized when a mortgage loan is sold and servicing rights are retained. The Company adopted SFAS No. 122 effective May 1, 1995 and, accordingly, capitalized originated servicing rights, net of amortization and valuation allowances of approximately $82.4 million and $55.6 million in the years ended December 31, 1996 and 1995, respectively.

SFAS No. 122 requires that a portion of the cost of originating a mortgage loan be allocated to the mortgage servicing rights based on the fair value of the servicing rights' relative to the loan as a whole. To determine the fair value of mortgage servicing rights, the Company uses market prices for comparable mortgage servicing, when available, or alternatively uses a valuation model that calculates the present value of future net servicing income using assumptions that market participants would use in estimating future net servicing income.

SFAS No. 122 also requires the impairment of originated and purchased servicing rights to be measured based on the difference between the carrying amount and current fair value of the servicing rights. In determining impairment, the Company aggregates all mortgage servicing rights, excluding those capitalized prior to the adoption of SFAS No. 122, and stratifies them based on the predominant risk characteristic of interest rate band. For each risk stratification, a valuation allowance is maintained for any excess of amortized book value over the current fair value by a charge or credit to income.

Prior to the adoption of SFAS No. 122, the Company reviewed the recoverability of purchased servicing rights by discounting anticipated future cash flows at appropriate discount rates, utilizing externally published prepayment rates. If the recorded balance exceeded the discounted anticipated future cash flows, the amortization of the purchased servicing rights was accelerated on a prospective basis.

9. MARKETING AND RESERVATION ACTIVITIES

The Company receives marketing and reservation fees from several of its lodging and real estate franchisees. Marketing and reservation fees related to the Company's lodging brands' franchisees are calculated based on a specified percentage of gross room sales. Marketing and reservation fees received from the Company's real estate brands' franchisees are based on a specified percentage of gross closed commissions earned on the sale of real estate. As provided in the franchise agreements, at the Company's discretion, all of these fees are to be expended for marketing purposes and the operation of a centralized brand-specific reservation system for the respective franchisees and are controlled by the Company until disbursement. Membership and service fee revenues included marketing and reservation fees of $157.6 million, $140.1 million, $130.6 million for the years ended December 31, 1996, 1995 and 1994, respectively. Advertising expenses included in marketing and reservation expense are $55.2 million, $48.0 million and $43.6 million for the years ended December 31, 1996, 1995 and 1994, respectively.

10. LONG-TERM DEBT

Long-term debt consists of ($000's):

	DECEMBER 31, 1996	DECEMBER 31, 1995
Revolving Credit Facilities	$ 330,205	$ 15,400
5-7/8% Senior Notes	149,811	149,715
4-1/2% Convertible Senior Notes	146,678	149,971
4-3/4% Convertible Senior Notes	240,000	--
Other loans and capital lease obligations	148,925	41,140
	1,015,619	356,226
Less current portion	11,035	2,249
Long-term debt	$ 1,004,584	$ 353,977

REVOLVING CREDIT FACILITIES: At December 31, 1996, the Company had a $500.0 million revolving credit facility (the "CUC Credit Facility") with a variety of different types of loans available thereunder. Interest was payable, depending on the type of loan utilized by the Company, at a variety of rates based on the federal funds rate, LIBOR, the prime rate or rates quoted by participating banks based on an auction process for the CUC Credit Facility. At December 31, 1996, no borrowings under this facility were outstanding. The CUC Credit Facility required the Company to maintain certain financial ratios and contained other restrictive covenants including, without limitation, financial covenants and restrictions on certain corporate transactions, and also contained various events of default provisions including, without limitation, defaults arising from certain changes in control of the Company.

At December 31, 1996, HFS had $1 billion in revolving credit facilities consisting of (i) a $500.0 million, five year revolving credit facility (the "Five Year Revolving Credit Facility") and (ii) a $500.0 million, 364 day revolving credit facility (the "364 Day Revolving Credit Facility" and collectively with the Five Year Revolving Credit Facility, the "Revolving Credit Facilities"). At December 31, 1996, there was $205.0 million outstanding under the Revolving Credit Facilities and there were no borrowings under such facility at December 31, 1995.

Upon consummation of the Cendant Merger, the CUC Credit Facility was terminated and the Revolving Credit Facilities were maintained with commitments aggregating $1.25 billion and $750.0 million under the 364 Day Revolving Credit Facility and Five Year Revolving Credit Facility, respectively. The 364 Day Revolving Credit Facility will mature on September 30, 1998 but may be renewed on an annual basis for an additional 364 days upon receiving lender approval. The Five Year Revolving Credit Facility will mature on October 1, 2001. The Revolving Credit Facilities, at the option of the Company, bear interest based on competitive bids of lenders participating in the facilities, at prime rates or at LIBOR plus a margin of approximately 22 basis points. The Company is required to pay a per annum facility fee of .08% and .06% of the average daily availability of the Five Year Revolving Credit Facility and 364 Revolving Credit Facility, respectively. The interest rates and facility fees are subject to change based upon credit ratings on the Company's senior unsecured long-term debt by nationally recognized statistical rating companies. The Revolving Credit Facilities contain certain restrictive covenants including restrictions on indebtedness, mergers, liquidations and sale and leaseback transactions and requires the maintenance of certain financial ratios, including a 3:1 minimum interest average ratio and a 3.5:1 maximum coverage ratio, as defined.

During the year ended December 31, 1996, Wright Express Corporation, a wholly-owned subsidiary of the Company, entered into a new revolving credit facility agreement replacing its previous revolving line of credit. This facility has an available line of $60 million and expires February 8, 1999. Interest on the outstanding borrowings is computed, at the option of Wright Express Corporation, under various methods. At December 31, 1996, $31.4 million was outstanding under this facility with an interest rate of 6.04%. Borrowings under the previous arrangement at December 31, 1995 aggregated $15.4 million with interest rates ranging from 6.31% to 7.25%.

In connection with the acquisition of Hebdo Mag, the Company assumed a $115.2 million revolving credit facility which bears interest at varying rates ranging from the prime rate plus .25% to 1.5% or LIBOR plus 1.0% to 2.25%, depending upon Hebdo Mag's ratio of total debt to pro forma cash flow, as defined. At December 31, 1996, $93.8 million was outstanding under this facility. This facility expires on March 15, 1998 but may be renewed on an annual basis for successive periods of one year upon receiving lender approval.

Amounts outstanding under all revolving credit facilities as of December 31, 1996 and 1995 are classified as long-term, based on the Company's intent and ability to maintain these loans on a long-term basis.

SENIOR NOTES: In December 1993, HFS completed a public offering of $150.0 million, unsecured 5-7/8% Senior Notes due December 15, 1998 (the "Senior Notes"). Interest is payable semi-annually.

4-1/2% CONVERTIBLE SENIOR NOTES: In October 1994, HFS completed a public offering of $150.0 million unsecured 4-1/2% Convertible Senior Notes (the "4-1/2% Notes") due 1999, which were convertible at the option of the holders at any time prior to maturity into 132.425 equivalent shares of Company common stock per $1,000 principal amount of the 4-1/2% Notes, representing a conversion price of $7.55 per share. Interest was payable semi-annually commencing April 1995.

On September 22, 1997, HFS exercised its option to redeem the outstanding 4-1/2% Notes effective on October 15, 1997 in accordance with the provisions of the indenture under which the 4-1/2% Notes were issued. Prior to the redemption date, all of the outstanding 4-1/2% Notes were converted. Accordingly, 19.7 million equivalent shares of Company common stock were issued as a result of the conversion of such notes.

4-3/4% CONVERTIBLE SENIOR NOTES: On February 22, 1996, HFS completed a public offering of $240 million unsecured 4-3/4% Convertible Senior Notes (the "4-3/4% Notes") due 2003, which are convertible at the option of the holder at any time prior to maturity into 36.030 equivalent shares of Company common stock per $1,000 principal amount of the 4-3/4% Notes, representing a conversion price of $27.76 per share. The 4- 3/4% Notes are redeemable at the option of the Company, in whole or in part, at any time on or after March 3, 1998 at redemption prices decreasing from 103.393% of principal at March 3, 1998 to 100% of principal at March 3, 2003. However, on or after March 3, 1998 and prior to March 3, 2000, the 4-3/4% Notes will not be redeemable at the option of the Company unless the closing price of the Company's common stock shall have exceeded $38.86 per share (subject to adjustment upon the occurrence of certain events) for 20 trading days within a period of 30 consecutive trading days ending within five days prior to redemption. Interest on the 4- 3/4% Notes is payable semi-annually commencing September 1, 1996.

OTHER LOANS AND CAPITAL LEASES OBLIGATIONS

Zero Coupon Convertible Notes: The Zero Coupon Convertible Notes issued in connection with the Company's fiscal 1990 recapitalization were recorded at their fair value on the date of issuance and were issued in $100 principal amounts and multiples thereof. Each $100 principal amount was convertible into 22.78 shares of Company common stock. Virtually all of the Zero Coupon Convertible Notes were converted into Company common stock by the maturity date of June 6, 1996. The principal balance outstanding at December 31, 1995 was $14.4 million.

6-1/2% Convertible Subordinated Notes: On April 12, 1994, Sierra issued $50.0 million in principal amount of 6-1/2% Convertible Subordinated Notes due April 1, 2001 (the "6-1/2% Notes"). Interest on the 6-1/2% Notes is payable semi-annually on April 1 and October 1 of each year. Each $7.62 principal amount of 6-1/2% Notes is convertible into one share of Company common stock, subject to adjustment under certain conditions. The 6-1/2% Notes are redeemable after April 2, 1997, at the option of the Company, at specified redemption prices. The 6-1/2% Notes are subordinated to all existing and future Senior Indebtedness (as defined in the indenture governing the 6-1/2% Notes) of Sierra. Issuance costs have been netted against the principal convertible debt balance and are being amortized on a straight-line basis over seven years. The principal convertible debt balance outstanding at December 31, 1996 and 1995 was $23.5 million and $23.4 million, respectively.

Other: In connection with the acquisition of Hebdo Mag, the Company assumed long-term debt of $110.5 million consisting of senior and subordinated notes and other miscellaneous loans which is reflected in the long-term debt balance at December 31, 1996.

Long-term debt payments including obligations under capital leases at December 31, 1996 are due as follows ($000's):

YEAR	AMOUNT
1997	$ 11,035
1998	167,797
1999	175,447
2000	34,900
2001	261,286
Thereafter	365,154
Total	$ 1,015,619

11. LIABILITIES UNDER MANAGEMENT AND MORTGAGE PROGRAMS

Borrowings to fund assets under management and mortgage programs, classified as "Liabilities under management and mortgage programs-debt" consisted of ($000's):

	DECEMBER 31,	
	1996	1995
Commercial paper	$ 3,090,843	$ 2,348,732
Medium-term notes	1,662,200	2,031,200
Other	336,900	47,940
Liabilities under management and mortgage programs - debt	$ 5,089,943	$ 4,427,872

Commercial paper, all of which matures within 90 days, is supported by committed revolving credit agreements described below and short-term lines of credit. The weighted average interest rates on the Company's outstanding commercial paper was 5.4% and 5.8% at December 31, 1996 and 1995, respectively

Medium-term notes of $1.6 billion represent unsecured loans which mature in 1997. The weighted average interest rates on such medium-term notes was 5.7% and 5.8% at December 31, 1996 and 1995, respectively. The remaining $0.1 billion of medium-term notes represents an unsecured obligation having a fixed interest rate of 6.5% with interest payable semi-annually and a term of seven years payable in full in 2000.

Other liabilities under management and mortgage programs is principally comprised of unsecured debt, all of which matures in 1997, which includes borrowings under short-term lines of credit and other bank facilities. The weighted average interest rate on unsecured debt was 5.8% and 6.9% at December 31, 1996 and 1995, respectively.

Interest expense is incurred on indebtedness which is used to finance vehicle leasing activities, mobility services, and mortgage servicing activities. Interest incurred on borrowings used to finance vehicle leasing activities of $161.8 million, $159.7 million and $126.7 million for the years ended December 31, 1996, 1995, and 1994 respectively, is included net within fleet leasing revenues in the supplemental consolidated statements of income. Interest on borrowings used to finance both equity advances on homes and mortgage servicing activities are recorded net within service fee revenues in the supplemental consolidated statements of income. Interest related to equity advances on homes was $35.0 million, $26.0 million and $20.0 million for the years ended December 31, 1996, 1995 and 1994, respectively. Interest related to mortgage servicing activities was $63.4 million, $49.9 million and $32.8 million for the years ended December 31, 1996, 1995 and 1994, respectively.

The Company has a $2.5 billion syndicated unsecured credit facility backed by a consortium of domestic and foreign banks. The facility is comprised of $1.25 billion of lines maturing in 364 days and $1.25 billion maturing in five years. Under the credit facilities, the Company is obligated to pay annual commitment fees which were $2.4 million and $2.3 million for the years ended December 31, 1996 and 1995, respectively. The Company had other unused lines of credit of $301.5 million and $327.9 million at December 31, 1996 and 1995, respectively with various banks.

Although the period of service for a vehicle is at the lessee's option, and the period a home is held for resale varies, management estimates, by using historical information, the rate at which vehicles will be disposed and the rate at which homes will be resold. Projections of estimated liquidations of assets under management and mortgage programs and the related estimated repayment of liabilities under management and mortgage programs as of December 31, 1996, as set forth in the table below, indicate that the actual repayments of liabilities under management and mortgage programs will be different than required by contractual maturities. ($000's):

YEARS	ASSETS UNDER MANAGEMENT AND MORTGAGE PROGRAMS	LIABILITIES UNDER MANAGEMENT AND MORTGAGE PROGRAMS
1997	$ 2,961,264	$ 2,608,179
1998	1,539,172	1,471,407
1999	673,535	671,623
2000	318,643	217,143
2001	53,843	71,061
2002-2006	182,777	50,530
	$ 5,729,234	$ 5,089,943

12. FAIR VALUE OF FINANCIAL INSTRUMENTS AND SERVICING RIGHTS

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

Marketable securities: Marketable securities primarily consist of corporate bonds, tax-free municipal obligations, U.S. Treasury notes, commercial paper and equity securities. The Company determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designation as of each balance sheet date. All securities at December 31, 1996 and 1995 were classified as available-for-sale and were reported at fair value with the net unrealized holding gains and losses, net of tax, reported as a component of shareholders' equity until realized. Fair value was based upon quoted market prices or investment adviser estimates. Securities not maturing within one year are classified as non-current assets. Declines in the market value of available-for-sale securities deemed to be other than temporary result in charges to current earnings and the establishment of a new cost basis. The majority of debt securities had contractual maturities of less than one year with $4.0 million and $28.7 million having maturities of greater than one year at December 31, 1996 and 1995, respectively. Gross unrealized gains and losses of such securities were not material.

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

Mortgage servicing rights and fees: Fair value is estimated by discounting the expected net cash flow of servicing rights and fees using discount rates that approximate market rates and externally published prepayment rates, adjusted, if appropriate, for individual portfolio characteristics.

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

Interest rate swaps, foreign exchange contracts, forward delivery commitments, futures contracts and options: The fair value of interest rate swaps, foreign exchange contracts, forward delivery commitments, futures contracts and options is estimated, using dealer quotes, as the amount that the Company would receive or pay to execute a new agreement with terms identical to those remaining on the current agreement, considering interest rates at the reporting date.

The carrying amounts and fair values of the Company's financial instruments at December 31, are as follows ($000's):

	1996			1995		
	NOTIONAL AMOUNT	CARRYING AMOUNT	ESTIMATED FAIR VALUE	NOTIONAL AMOUNT	CARRYING AMOUNT	ESTIMATED FAIR VALUE
Assets						
Cash and cash equivalents	$ -	$ 633,903	$ 633,903	$ -	$ 355,959	$ 355,959
Marketable securities:						
Debt securities	-	75,673	75,673	-	110,492	110,492
Equity securities	-	22,500	22,500	-	15,353	19,200
Assets under management and mortgage programs:						
Receivables	-	1,290,625	1,290,625	-	1,028,976	1,028,976
Relocation receivables	-	773,326	773,326	-	736,038	736,038
Mortgage loans held for sale	-	1,248,299	1,248,299	-	784,901	784,901
Excess mortgage servicing fees	-	138,515	155,033	-	107,839	107,966
Originated mortgage servicing rights	-	128,014	139,776	-	55,620	58,764
Purchased mortgage servicing rights	-	22,414	29,326	-	27,975	33,268
Liabilities						
Long-term debt	-	1,004,584	1,484,277	-	353,977	543,092
Liabilities under management and mortgage programs:						
Debt	-	5,089,943	5,089,943	-	4,427,872	4,427,872
Off balance sheet						
Interest rate swaps	1,670,155	-	-	2,630,567	-	-
In a gain position	-	-	2,457	-	-	4,969
In a loss position	-	-	(10,704)	-	-	(13,828)
Foreign exchange forwards	329,088	-	10,010	118,069	-	6,413
Mortgage-related positions:(a)						
Forward delivery commitments	1,703,495	11,425	7,448	1,323,285	5,407	(6,997)
Option contracts to sell	265,000	952	746	330,000	839	69
Option contracts to buy	350,000	1,346	(463)	485,000	3,388	528
Treasury options used to hedge servicing rights	313,900	1,327	278	-	-	-

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(a) Gains (losses) on mortgage-related positions are already included in the determination of market value of mortgage loans held for sale.

13. COMMITMENTS AND CONTINGENCIES

LEASES: The Company has noncancelable operating leases covering various equipment and facilities, which expire through 2004. Rental expense for the years ended December 31, 1996, 1995 and 1994 was $84.4 million, $66.9 million and $54.5 million respectively, excluding real estate taxes and other fees that are also the responsibility of the Company.

Operating lease commitments over the next five years and thereafter are as follows ($000's):

FOR THE YEAR ENDING DECEMBER 31,	
1997	$ 90,066
1998	77,543
1999	58,727
2000	45,335
2001	33,067
Thereafter	76,430
Total minimum lease payments	$ 381,168

The Company has been granted rent abatements for varying periods on certain of its facilities. Deferred rent relating to those abatements is being amortized on a straight-line basis over the applicable lease terms.

IDEON: On June 13, 1997, the Company entered into an agreement (the "Agreement") with Peter Halmos, the co-founder of SafeCard Services, Incorporated ("SafeCard"), which was reorganized in 1995 as Ideon. The Company acquired Ideon in August 1996. The Agreement provides for the settlement of all of the outstanding litigation matters involving Peter Halmos, SafeCard and Ideon as set forth below. The Agreement became effective in July 1997. The Agreement calls for the dismissal with prejudice of these outstanding litigation matters and the payment to Peter Halmos, over a six-year period, of $70.5 million. Specifically, the Agreement requires that the Company pay Peter Halmos one up-front payment of $13.5 million and six subsequent annual payments of $9.5 million each. The Agreement also calls for the transfer to the Company of assets related to SafeCard's CreditLine business, including the transfer by CreditLine Corporation to the Company of all of the CreditLine Corporation's rights under a marketing agreement between it and SafeCard dated November 1, 1988.

The following Halmos related cases have been dismissed pursuant to the Agreement:

1. Halmos Trading & Investing Company v. SafeCard Services, Inc. and Gerald Cahill v. Peter A. Halmos and Steven J. Halmos and Halmos Trading & Investment Co., Case No. 93-04354 (06) in the Circuit Court for the 17th Judicial Circuit in and for Broward County, Florida.

2. SafeCard Services, Inc. v. Peter Halmos, a Florida resident; High Plains Capital Corporation, a Wyoming Corporation; and CreditLine Corporation, a Wyoming corporation which is pending in the District Court, First Judicial District of Laramie County, Wyoming; Case No. Doc. 134, No. 192.

3. Peter Halmos, CreditLine Corporation and Continuity Marketing Corporation v. Paul G. Kahn, William T. Bacon, Robert L. Dilenschneider, Eugene Miller and SafeCard Services, Inc., in the United States District Court, Southern District of Florida, Case No. 94-6920 CG-NESBITT.

4. Peter Halmos v SafeCard Services, Inc., William T. Bacon, Jr., Barry I. Tillis and Barry Natter, Case No. 95-6325 (AJ) filed in the Circuit Court, Fifteenth Judicial Circuit, in and for Palm Beach County Florida.

5. High Plains Capital Corporation f/k/a Halmos & Company, Inc v. Ideon Group, Inc., SafeCard Services, Inc., Eugene Miller, Robert L. Dilenschneider, and the Dilenschneider Group, Inc., Palm Beach County, Florida, Civil Action No. CL 95 8313 AE (Hon. Walter Colbath).

6. High Plains Capital Corporation v. Ideon Group, Inc., and SafeCard Services, Inc., Civil Action No. 95 015024, Seventeenth Judicial Circuit, Broward County, Florida.

The following Halmos related case will also be dismissed pursuant to the Agreement:

7. Ideon Group, Inc., SafeCard Services, Inc., Paul G. Kahn, William T. Bacon, Jr., Marshall L. Burman, John Ellis (Jeb) Bush, Robert L. Dilenschneider, Adam W. Herbert, Eugene Miller, and Thomas F. Petway, III v. Peter Halmos, Civil Action No. 14600, filed in the Court of Chancery of New Castle County, Delaware.

On October 22, 1997, the plaintiffs, the Company and all of the Company's indemnitees, entered into a Memorandum of Understanding and thereafter filed final settlement agreements in James B. Chambers and Peter A. Halmos v. SafeCard Services, Inc; Ideon Group, Inc.; Paul G. Kahn; William T. Bacon, Jr.,; Robert L. Dilenschneider; The Dilenschneider Group; Eugene Miller; G. Thomas Frankland; Francis J. Marino; John R. Birk; Marshall Burman; Thomas F. Petway III; John Ellis Bush; Adam W. Herbert, Jr.; Price Waterhouse LLP; Mahoney Adams & Criser, P.A. and John Does 1 through 25, United States District Court, Southern District of Florida, Case No. 95-1298-CIV-NESBITT ("Chambers"); Lois Hekker v. Ideon Group, Inc. and Paul G. Kahn, United States District Court, Middle District of Florida, Jacksonville Division, Case No. 95-681-CIV-J ("Hekker"); and James L. Binder, individually, as custodian for Elizabeth Binder, and as custodian for the James L. Binder, D.D.S., P.C. Profit Sharing Trust; Edward Dubois; Sheila Ann Dubois, as Personal Representative for The Estate of Winifred Dubois; G. Neal Goolsby; John E. Masters, individually and as custodian for Gregory Halmos and Nicholas Halmos; J.B. McKinney; on behalf of themselves and all others similarly situated, and Peter A. Halmos, as Trustee for the Peter A. Halmos Revocable Trust Dated January 24, 1990, and The Halmos Foundation, Inc., individually, v. SafeCard Services, Inc., a Delaware corporation; Paul G. Kahn; William T. Bacon, Jr.; Robert L. Dilenschneider; The Dilenschneider Group, a Delaware corporation; Eugene Miller; Gerald R. Cahill; Oppenheimer & Co., Inc., a Delaware corporation; and John Does 1 through 100, inclusive. United States District Court for the Southern District of Florida, (Miami Division) Case No. 94-2604-CIV-MOORE ("Binder"). The above referenced settlement in the Chambers and Hekker matters was for payment by the Company to class members of $15.0 million. The settlement in the Binder litigation calls for the payment by the Company to class members of $3.0 million. These settlements must be approved by the court at hearings anticipated during the first quarter of 1998.

The following actions remain pending, in whole or in part, as described below:

A suit initiated by Peter Halmos, related entities, and Myron Cherry (a former lawyer for SafeCard) in April 1993 in Cook County Circuit Court in Illinois against SafeCard and one of Ideon's directors, purporting to state claims aggregating in excess of $100.0 million, principally relating to alleged rights to "incentive compensation," stock options or their equivalent, indemnification, wrongful termination and defamation. On February 7, 1995, the court dismissed with prejudice Peter Halmos' claims regarding alleged rights to "incentive compensation," stock options or their equivalent, wrongful termination and defamation. Mr. Halmos has appealed this ruling. SafeCard has filed an answer to the remaining indemnification claims. Its obligation to file an answer to the claims of Myron Cherry have been stayed pending settlement discussions. On December 28, 1995, the court stayed Halmos' indemnification claims pending resolution of a declaratory judgment action filed by Ideon in Delaware Chancery Court. As a result of the Halmos settlement described above, only the claims of Myron Cherry remain pending.

A suit seeking monetary damages and injunctive relief by LifeFax, Inc. and Continuity Marketing Corporation, companies affiliated with Peter Halmos, in the State Circuit Court in Palm Beach County, Florida in April 1995 against Ideon, Family Protection Network, Inc., SafeCard, one of Ideon's directors and Ideon's Chief Executive Officer purporting to state various statutory and tort claims. The claims principally relate to the allegation by these companies that SafeCard's Early Warnings Service and Family Protection Network were conceived and commercialized by, among others, Peter Halmos and have been improperly copied. An amended complaint filed on June 14, 1995 seeking monetary damages adds to the prior claims certain claims by Nicholas Rubino that principally relate to the allegation that SafeCard's Pet Registration Product was conceived by Mr. Rubino and has been improperly copied. The company has filed an appropriate answer. As a result of the Halmos settlement, all claims of Continuity Marketing Corporation will be dismissed, leaving pending only the claims related to Family Protection Network and the Pet Registration Program.

A suit by First Capital Partners, Thomas F. Frist III and Patricia F. Elcan against Ideon and two of its employees in the United States District Court for the Southern District of New York. The litigation involves claims against Ideon, its former CEO and its Vice President of Investor Relations for alleged material misrepresentations and omissions in connection with announcements relating to Ideon's expected earnings per share in 1995 and its new product sales, which included the PGA Tour Card Program, Family Protection Network and Collections of the Vatican Museums. On July 15, 1996, Ideon filed a motion to dismiss. The company withdrew its motion to dismiss and answered the complaint on December 5, 1996.

The Company established a reserve upon the consummation of the merger with Ideon during the third quarter of 1996 related, in part, to these litigation matters. Although not anticipated, in the event the foregoing class action settlements are not approved by the Court, the outcome of the class action matters described above as well as the other pending Ideon matters could also exceed the amount accrued. The Company is also involved in certain other claims and litigation arising in the ordinary course of business, which are not considered material to the financial position, operations or cash flows of the Company.

14. INCOME TAXES

The income tax provision (benefit) consists of ($000's):

	FOR THE YEARS ENDED DECEMBER 31,		
	1996	1995	1994
Current			
Federal	$ 149,290	$ 108,767	$ 106,831
State	19,561	22,050	19,738
Foreign	21,254	14,744	11,261
	190,105	145,561	137,830
Deferred			
Federal	$ 83,308	$ 52,447	$ 36,687
State	15,462	1,299	5,460
Foreign	1,184	1,200	(235)
	99,954	54,946	41,912
Provision for income taxes	$ 290,059	$ 200,507	$ 179,742

Net deferred income tax assets and liabilities are comprised of the following ($000's):

	DECEMBER 31,	
	1996	1995
Provision for doubtful accounts	$ 8,100	$ 7,600
Deferred income	46,400	7,800
Acquisition and litigation related reserves	62,700	14,446
Franchise acquisition costs	(2,600)	(2,400)
Insurance retention refund	(11,306)	(9,773)
Accrued liabilities and deferred income	37,591	29,915
Other	366	2,975
Current net deferred tax asset	$ 141,251	$ 50,563
Depreciation and amortization	$ (173,597)	$ (78,742)
Accrued liabilities and deferred income	65,165	22,239
Acquired net operating loss carryforward	85,900	--
Insurance retention refund	(11,306)	(9,773)
Acquisition and litigation related reserves	--	8,175
Other	(12,932)	(1,798)
Noncurrent net deferred tax liability	$ (46,770)	$ (59,899)

	DECEMBER 31,	
	1996	1995
Depreciation	$ (245,146)	$ (223,337)
Unamortized mortgage servicing rights	(51,239)	(23,489)
Accrued liabilities and deferred income	1,359	2,101
Alternative minimum tax and net operating loss carryforwards	13,078	9,807
Net deferred tax liabilities under management and mortgage programs	$ (281,948)	$ (234,918)

Net operating loss carryforwards at December 31, 1996 acquired in connection with the acquisition of Avis, Inc. expire as follows: 2001, $14.8 million; 2002, $89.6 million; 2005, $7.2 million; 2009, $17.7 million; and 2010, $116.0 million.

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

	FOR THE YEARS ENDING DECEMBER 31,		
	1996	1995	1994
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes net of federal benefit	3.0%	3.6%	3.4%
Amortization of non-deductible goodwill	1.2%	1.4%	1.2%
Foreign taxes differential	0.3%	0.1%	0.3%
Tax exempt interest	(0.2%)	--	(0.6%)
Technology under development	--	--	0.3%
Non consolidated losses	--	--	(0.2%)
Merger costs	1.4%	--	--
Other	(0.1%)	(0.3%)	(0.7%)
Effective tax rate	40.6%	39.8%	38.7%

15. SHAREHOLDERS' EQUITY

A. STOCK SPLITS: On September 26, 1996, the Company's Board of Directors declared a three-for-two split of the Company's common stock which was effected in the form of a stock dividend in October 1996. In each of November 1995 and February 1994, HFS's Board of Directors authorized a two-for-one split of HFS's common stock which was effected in the form of a 100% stock dividend in February 1996 and April 1994, respectively. All equivalent share, per share, stock price and stock award plan information presented herein has been retroactively adjusted to reflect the stock splits.

B. AUTHORIZED SHARES: In conjunction with the Cendant Merger effective on December 17, 1997, the Company's shareholders approved an amendment to the Company's Restated Certificate of Incorporation to increase the number of authorized shares of common stock and preferred stock to 2 billion shares and 10 million shares, respectively. The Company has never issued any shares of preferred stock.

16. STOCK OPTION PLANS

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

The Company also grants options to employees pursuant to three additional stock option plans: the 1992 Employee Stock Option Plan (the "1992 Plan"), the 1992 Bonus and Salary Replacement Stock Option Plan (the "Replacement Plan") and the 1987 Stock Option Plan (the "1987 Plan"). Under these plans, the Company may grant options to purchase in the aggregate up to 90.8 million shares of Company common stock. At December 31, 1996, there were outstanding in the aggregate options to purchase 35.5 million shares of Company common stock pursuant to the 1992 Plan, the Replacement Plan and the 1987 Plan. Options granted under the 1992 Plan generally are exercisable at 20% per year commencing one year from the date of grant. Options granted under the Replacement Plan generally are exercisable at 33% per year commencing one year from the date of grant. Options granted under the 1987 Plan generally are exercisable at 25% per year commencing one year from the date of grant. Options granted under these stock option plans generally have 10-year terms. All options outstanding under these plans are non-qualified stock options. These stock option plans include options acquired by the Company in connection with its various acquisitions accounted for in accordance with the pooling of interests method of accounting (See Note 2).

The Company has granted options to its non-employee directors pursuant to its 1994 Directors Stock Option Plan (the "1994 Directors Plan"). The 1994 Directors Plan provides that options to acquire an aggregate of up to .3 million shares of Company common stock shall be granted to non-employee directors of the Company in office on each of November 23, 1994, 1995, 1996 and 1997. Options under the 1994 Directors Plan are exercisable in full on the date of grant. At January 31, 1997, there also were outstanding grants made to non-employee directors of the Company under the Company's 1990 Directors Stock Option Plan (the "1990 Directors Plan") and 1992 Directors Stock Option Plan (the "1992 Directors Plan"), under which the Company is no longer granting options.

The Company has certain other stock option plans pursuant to which it no longer makes any new option grants, but pursuant to which there continues to exist outstanding options to purchase shares of Company common stock. These options generally expire ten years after their grant dates. Under these plans, there are outstanding both non-qualified stock options and incentive stock options to purchase 3.8 million shares of Company common stock in the aggregate at January 31, 1997. These stock option plans include plans assumed by the Company in connection with its acquisitions of Sierra and Knowledge Adventure, Inc. during fiscal 1997.

Prior to the Cendant Merger, HFS had two stock option plans: the 1992 Stock Option Plan and the Amended and Restated 1993 Stock Option Plan. These plans provided for the granting of options to certain directors, officers, employees and independent contractors of HFS's common stock at prices not less than the fair market values at the date of grant. Generally, such stock options have a ten-year term and vest within five years from the date of grant On December 17, 1997, in connection with the Cendant Merger, all obligations under HFS's stock option plans were assumed by the Company. Following the Cendant Merger, no further grants will be made under these plans.

Prior to the HFS/PHH Merger, PHH had stock option plans for its key employees and outside directors. The plans allowed for the purchase of common stock at prices not less than fair market value on the date of grant. Either incentive stock options or non-statutory stock options were granted under the plans. Options became exercisable after one year from date of grant on a vesting schedule provided by the plans and expired ten years after the date of the grant. On April 30, 1997, in connection with the HFS/PHH Merger, all unexercised PHH stock options were canceled and converted to 1,770,852 equivalent shares of Company common stock. The table below summarizes the annual activity of the Company's pooled stock option plans (shares in 000's):

	OPTIONS OUTSTANDING	WEIGHTED AVG. EXERCISE PRICE
BALANCE AT JANUARY 1, 1994	77,579	$ 4.86
Granted	23,878	9.90
Canceled	(2,079)	6.36
Exercised	(7,731)	3.93
Distribution of Chartwell Leisure Inc.	1,091	4.44
BALANCE AT DECEMBER 31, 1994	92,738	$ 6.20
Granted	21,098	10.74
Canceled	(2,726)	8.48
Exercised	(12,434)	5.39
BALANCE AT DECEMBER 31, 1995	98,676	$ 7.21
Granted	36,116	22.14
Canceled	(2,838)	18.48
Exercised	(14,010)	5.77
Less: PHH activity for January 1996 to reflect change in PHH fiscal year	48	8.78
BALANCE AT DECEMBER 31, 1996	117,992	$ 11.68

The Company adopted the disclosure-only provisions of SFAS No. 123 and accordingly, no compensation cost was recognized in connection with its stock option plans. Had the Company elected to recognize compensation cost for its stock option plans based on the calculated fair value at the grant dates for awards under such plans, consistent with the method prescribed by SFAS No. 123, net income per share would have reflected the pro forma amounts indicated below ($000's, except per share data):

		YEARS ENDED DECEMBER 31,	
		1996	1995
Net income:			
	as reported	$ 423,611	$ 302,825
	pro forma	338,769	297,547
Net income per share:			
Primary	as reported	$ 0.53	$ 0.42
	pro forma	0.43	0.41
Fully diluted	as reported	0.52	0.41
	pro forma	0.43	0.41

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

	THE COMPANY PLANS		HFS PLANS		PHH PLANS	
	1996	1995	1996	1995	1996	1995
Dividend yield	0%	0%	0%	0%	2.8%	3.5%
Expected volatility	28.0%	26.0%	37.5%	37.5%	21.5%	19.8%
Risk-free interest rate	6.3%	5.3%	6.4%	6.4%	6.5%	6.9%
Expected holding period	5 years	5 years	9.1 years	9.1 years	7.5 years	7.5 years

The weighted average fair values of stock options granted during the years ended December 31, 1996 and 1995 were $7.51 and $6.69, respectively for the Company plans. The weighted average fair values of stock options granted during the years ended December 31, 1996 and 1995 for the HFS plans (inclusive of PHH Plans) were $10.96 and $4.79, respectively.

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

The tables below summarize information regarding pooled stock options outstanding and exercisable of the Company as of December 31, 1996 (shares in 000's):

THE COMPANY/HFS OPTIONS	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	SHARES	WEIGHTED AVG. REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
$ .01 to $ 10.00	56,548	6.3	$ 4.19	43,460	$ 3.71
$ 10.01 to $ 20.00	31,597	8.2	14.50	8,781	15.04
$ 20.01 to $ 30.00	16,809	9.4	23.97	1,055	25.77
$ 30.01 to $ 40.00	6,331	9.6	31.78	226	31.37
Total	111,285	7.5	11.67	53,522	6.12
PHH OPTIONS					
Less than $6.87	3,489	4.5	$ 5.74	3,489	$ 5.74
Greater than $6.87	3,218	8.7	8.82	1,055	6.90
Total	6,707	6.5	7.22	4,544	6.01

Shares exercisable and available for grant were as follows (000's):

	THE COMPANY OPTIONS AT DECEMBER 31,		HFS OPTIONS AT DECEMBER 31,		PHH OPTIONS AT DECEMBER 31,	
	1996	1995	1996	1995	1996	1995
Shares exercisable	11,819	12,193	41,703	17,012	4,544	5,890
Shares available for grant	8,358	10,013	3,958	84	1,182	3,316

The Company has reserved 11,390,625 shares of Company common stock for issuance in connection with its 1989 Restricted Stock Plan. As of December 31, 1996, 10,494,423 shares of restricted common stock had been granted under this plan. During fiscal 1997, 720,000 shares of restricted common stock were granted under the plan and 645,000 shares of restricted common stock were granted other than under the plan. The aggregate fair value on the date of grant of such restricted common stock was $30.5 million, which amount was deducted from shareholders' equity and is being amortized over the vesting period of 10 years.

The Company has reserved 1,125,000 shares of Company common stock in connection with its 1994 Employee Stock Purchase Plan, which enables employees to purchase shares of common stock from the Company at 90% of the fair market value on the fifteenth day following the last day of each calendar quarter, in an amount up to 25% of the employees' year-to-date earnings.

17. EMPLOYEE BENEFIT PLANS

The Company sponsors several defined contribution plans that provide certain eligible employees of the Company an opportunity to accumulate funds for their retirement. The Company matches the contributions of participating employees on the basis of the percentages specified in the plans. During 1996, a Deferred Compensation Plan (the "Plan") was implemented providing senior executives with the opportunity to participate in a funded, deferred compensation program. The assets of the Plan are held in an irrevocable rabbi trust. Under the Plan, participants may defer up to 80% of their base compensation and up to 98% of bonuses earned. The Company contributes $0.50 for each $1.00 contributed by a participant, regardless of length of service, up to a maximum of six percent of the employee's compensation. The Plan is not qualified under Section 401 of the Internal Revenue Code. The Company's matching contributions relating to the above plans were not material to the supplemental consolidated financial statements for all periods presented.

PENSION AND SUPPLEMENTAL RETIREMENT PLANS

The Company's PHH subsidiary has a non-contributory defined benefit pension plan covering substantially all US employees of PHH and its subsidiaries. PHH's subsidiary located in the UK has a contributory defined benefit pension plan, with participation at the employee's option. Under both the US and UK plans, benefits are based on an employee's years of credited service and a percentage of final average compensation. The policy for both plans is to contribute amounts sufficient to meet the minimum requirements plus other amounts as the Company deems appropriate from time to time. The projected benefit obligations of the funded plans were $97.1 million and 85.6 million and funded assets, at fair value (primarily common stock and bond mutual funds) were $88.4 million and $74.3 million at December 31, 1996 and 1995, respectively. The net pension cost and the recorded liability were not material to the accompanying supplemental consolidated financial statements.

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

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

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

18. SALE OF THE IMAGINATION NETWORK - SIERRA

The operating activities of The ImagiNation Network, Inc. ("INN") were consolidated with those of Sierra through July 26, 1993. On July 27, 1993 Sierra sold 42% of INN's voting stock and reduced its ownership interest to 58% and reduced its voting control such that Sierra recorded its liquidation preference in excess of recorded book value as shareholders' equity.

In December 1994, Sierra sold its remaining equity interest in INN to AT&T and recorded a gain of $19.7 million for the year ended December 31, 1994. Sierra also entered into a multi-year publishing agreement with AT&T to provide content for INN. The publishing agreement provides for AT&T to fund up to $4.0 million of Sierra's development expenditures under an existing publishing agreement and up to $23.0 million of Sierra's development expenditures, subject to certain limitations, through non-refundable royalty advances. The non-refundable royalty advances are reflected net of research and development expense.

19. FRANCHISING ACTIVITIES

Revenue from franchising activities includes initial fees charged to lodging properties and real estate brokerage offices upon execution of a franchise contract based on the number of rooms at the lodging property and estimated real estate brokerage offices gross closed commissions. Initial franchise fees amounted to $24.2 million, $15.7 million and $13.8 million for the years ended December 31, 1996, 1995 and 1994, respectively.

Franchising activity for the years ended December 31, 1996, 1995 and 1994 is as follows:

	LODGING			REAL ESTATE	
	1996	1995	1994	1996	1995
FRANCHISES IN OPERATION					
Units at end of year	5,397	4,603	4,229	11,349	5,990
EXECUTED BUT NOT OPENED					
Acquired	24	31	-	110	104
New agreements	1,142	983	870	829	248
Backlog, end of year	786	682	594	275	176

20. DERIVATIVE FINANCIAL INSTRUMENTS

The Company employs interest rate swap agreements to match effectively the fixed or floating rate nature of liabilities to the assets funded. A key assumption in the following information is that rates remain constant at December 31, 1996 levels. To the extent that rates change, both the maturity and variable interest rate information will change. However, the net rate the Company pays remains matched with the assets funded.

The following table summarizes the maturity and weighted average rates of the Company's interest rate swaps employed at December 31, 1996. These characteristics are effectively offset within the portfolio of assets funded by the Company ($000's):

		MATURITIES					
	TOTAL	1997	1998	1999	2000	2001	2002
UNITED STATES							
Commercial Paper:							
Pay fixed/receive floating:							
Notional value	$427,181	$199,528	$136,176	$ 59,346	$ 20,531	$ 4,625	$ 6,975
Weighted average receive rate		5.72%	5.72%	5.72%	5.72%	5.72%	5.72%
Weighted average pay rate		6.21%	6.33%	6.47%	6.37%	6.51%	6.60%
Medium-Term Notes:							
Pay floating/receive fixed:							
Notional value	336,000	250,000		86,000			
Weighted average receive rate		6.59%		6.50%			
Weighted average pay rate		5.95%		5.86%			
Pay floating/receive floating:							
Notional value	357,200	357,200					
Weighted average receive rate		5.51%					
Weighted average pay rate		5.90%					
CANADA							
Commercial Paper:							
Pay fixed/receive floating:							
Notional value	68,255	32,631	22,849	10,585	2,190		
Weighted average receive rate		3.11%	3.11%	3.11%	3.11%		
Weighted average pay rate		6.25%	5.89%	5.63%	4.58%		
Pay floating/receive floating:							
Notional value	52,730	28,010	14,961	4,342	2,853	2,564	
Weighted average receive rate		7.21%	7.09%	6.93%	7.61%	7.61%	
Weighted average pay rate		3.38%	3.38%	3.38%	3.38%	3.38%	
Pay floating/receive fixed:							
Notional value	36,481	36,481					
Weighted average receive rate		4.92%					
Weighted average pay rate		3.07%					
UK							
Commercial Paper:							
Pay floating/receive fixed:							
Notional value	379,308	37,708	93,070	138,834	109,696		
Weighted average receive rate		6.56%	6.56%	6.56%	6.56%		
Weighted average pay rate		6.17%	7.85%	6.96%	7.10%		
GERMANY							
Commercial Paper:							
Pay fixed/receive fixed:							
Notional value	13,000	1,950	2,925	(6,825)	3,575	11,375	
Weighted average receive rate		3.25%	3.25%	3.25%	3.25%	3.25%	
Weighted average pay rate		5.34%	5.34%	5.34%	5.34%	5.34%	
Total	$1,670,155	$943,508	$269,981	$292,282	$138,845	$ 18,564	$ 6,975

For the years ended December 31, 1996 and 1995, the Company's hedging activities increased interest expense $4.1 million and $2.0 million, respectively, and had no effect on its weighted average borrowing rate. For the same period in the year ended December 31, 1994, hedging activities increased interest expense $8.4 million and increased the weighted average borrowing rate 0.2%.

The Company enters into foreign exchange contracts as hedges against currency fluctuations on certain intercompany loans. Such contracts effectively offset the currency risk applicable to approximately $329.1 million and $118.1 million of obligations at December 31, 1996 and 1995, respectively.

The Company is exposed to credit-related losses in the event of non-performance by counterparties to certain derivative financial instruments. The Company manages such risk by periodically evaluating the financial position of counterparties and spreading its positions among multiple counterparties. The Company presently does not expect non-performance by any of the counterparties.

21. INDUSTRY SEGMENT INFORMATION

The Company is principally in the business of providing services to businesses that serve consumer industry customers. The Company's major business segments are reflective of the industries in which it serves. See Note 1 for a more detailed description of each of the Company's industry segments. Operating profit consists of revenues less operating expenses excluding interest income, net and includes merger and related charges of $131.3 million and $48.6 million allocated to the membership and other segments respectively, for the year ended December 31, 1996 (See Note 3). Membership services operating profit for the year ended December 31, 1995 includes $97.0 million of costs related to Ideon products abandoned and restructuring. Membership Services operating profit for the year ended December 31, 1994 includes $7.9 million of costs related to Ideon products abandoned and restructuring and a $17.7 million net gain on the sale of INN. The following table presents industry segment data of the Company for the years ended December 31, 1996, 1995 and 1994.

Operations by segment ($000's):

Year Ended December 31, 1996

			REAL ESTATE		
	CONSOLIDATED	MEMBERSHIP	REAL ESTATE FRANCHISE	RELOCATION	MORTGAGE SERVICES
Net revenues	$ 3,908,780	$ 2,097,098	$ 233,469	$ 344,865	$ 127,729
Operating income	739,115	266,314	110,535	54,302	41,302
Identifiable assets	13,588,368	2,517,600	1,295,501	1,086,374	1,742,409
Depreciation and amortization	167,907	60,888	27,317	11,168	4,442
Capital expenditures	140,626	48,678	9,932	9,112	9,859

	TRAVEL				
	LODGING	CAR RENTAL	TIMESHARE	FLEET	OTHER
Net revenues	$ 385,920	$ 10,014	$ 30,723	$ 255,866	$ 423,096
Operating income	145,798	537	3,319	76,218	40,790
Identifiable assets	954,649	882,397	772,585	3,868,472	468,381
Depreciation and amortization	30,852	3,439	2,559	13,214	14,028
Capital expenditures	19,302	--	1,473	9,999	32,271

Year Ended December 31, 1995

			REAL ESTATE		
	CONSOLIDATED	MEMBERSHIP	REAL ESTATE FRANCHISE	RELOCATION	MORTGAGE SERVICES
Net revenues	$ 2,992,122	$ 1,643,242	$ 47,965	$ 301,667	$ 93,251
Operating income	516,596	184,699	19,277	41,718	41,744
Identifiable assets	8,994,384	1,800,952	195,157	1,023,860	1,142,272
Depreciation and amortization	112,914	40,358	2,997	10,385	3,099
Capital expenditures	108,702	53,048	2,034	8,678	2,987

	TRAVEL		
	LODGING	FLEET	OTHER
Net revenues	$ 335,402	$ 258,877	$ 311,718
Operating income	120,606	56,918	51,634
Identifiable assets	724,673	3,649,654	457,816
Depreciation and amortization	26,058	18,837	11,180
Capital expenditures	5,059	9,872	27,024

Year Ended December 31, 1994

			REAL ESTATE	
	CONSOLIDATED	MEMBERSHIP	RELOCATION	MORTGAGE SERVICES
Net revenues	$ 2,446,731	$ 1,363,561	$ 255,974	$ 74,494
Operating income	474,885	218,145	34,534	30,172
Identifiable assets	7,437,042	1,566,186	794,372	849,131
Depreciation and amortization	97,175	27,683	9,280	2,944
Capital expenditures	73,804	29,809	11,541	2,471

	TRAVEL		
	LODGING	FLEET	OTHER
Net revenues	$ 300,694	$ 249,571	$ 202,437
Operating income	102,487	52,323	37,224
Identifiable assets	738,543	3,247,320	241,490
Depreciation and amortization	21,921	17,765	17,582
Capital expenditures	9,378	8,854	11,751

The Company's operations outside of North America principally include fleet management and relocation segment operations in Europe. Geographic operations of the Company are as follows ($000's):

YEAR ENDED DECEMBER 31, 1996	NORTH AMERICA	EUROPE & OTHER	CONSOLIDATED
Net revenues	$ 3,529,563	$ 379,217	$ 3,908,780
Income before income taxes	650,030	63,640	713,670
Identifiable assets	12,519,616	1,068,752	13,588,368
YEAR ENDED DECEMBER 31, 1995			
Net revenues	2,774,201	217,921	2,992,122
Income before income taxes	464,393	38,939	503,332
Identifiable assets	8,230,792	763,592	8,994,384
YEAR ENDED DECEMBER 31, 1994			
Net revenues	$ 2,296,067	$ 150,664	$ 2,446,731
Income before income taxes	439,390	24,942	464,332
Identifiable assets	6,857,565	579,477	7,437,042

22. SELECTED QUARTERLY FINANCIAL DATA - (UNAUDITED)

($000's, except per share data)

1996	FIRST	SECOND (1)	THIRD (2)	FOURTH (3)	TOTAL YEAR
Net revenues	$ 821,411	$ 935,639	$ 1,042,901	$ 1,108,829	$ 3,908,780
Income before income taxes	158,300	179,430	112,569	263,371	713,670
Net income	95,974	101,064	68,466	158,107	423,611
Net income per share:					
Primary	$ .13	$ .13	$ .08	$ .20	$ .53
Fully diluted	$ .13	$ .13	$ .08	$ .19	$ .52

1995	FIRST (4)	SECOND (4)	THIRD (4)	FOURTH (4, 5)	TOTAL YEAR
Net revenues	$ 661,280	$ 722,571	$ 787,150	$ 821,121	$ 2,992,122
Income before income taxes	117,865	64,211	151,646	169,610	503,332
Net income	71,139	36,116	90,082	105,488	302,825
Net income per share:					
Primary	$ .10	$ .05	$ .12	$ .14	$ .42
Fully diluted	$ .10	$ .05	$ .12	$ .14	$ .41

(1) Includes merger cost of $28.6 million ($25.1 million, after tax or $0.03 per share) recorded in connection with the mergers of Davidson & Associates, Inc. and Sierra On-Line, Inc.

(2) Includes merger costs of $147.2 million ($89.6 million, after tax or $0.11 per share) principally related to the completion of the Ideon Group, Inc. acquisition.

(3) Includes costs of $4.1 million principally related to investment banking fees incurred in connection with other Company acquisitions.

(4) The first, second, third and fourth quarters include $8.1 million ($5.2 million, net of tax or $.01 per share), $73.1 million ($46.8 million net of tax or $.07 per share), $16.4 million ($10.5 million net of tax or $.01 per share) and ($.6 million), respectively of Ideon's costs related to products abandoned and restructuring.

(5) Includes merger costs of $5.2 million ($4.2 million, net of tax or $.06 per share) related to the acquisition of Advance Ross.

23. INVESTMENT IN ARAC

Upon entering into a definitive merger agreement to acquire Avis, Inc. in July 1996, HFS announced its strategy to dilute its interest in ARAC's car rental operations while retaining assets associated with the franchise business, including trademarks, reservation system assets and franchise agreements with ARAC and other licensees. Since HFS's control was planned to be temporary, HFS accounted for its 100% investment in ARAC under the equity method. In September 1997, ARAC completed the IPO, which diluted HFS's equity interest to approximately 27.5%.

The Company licenses the Avis trademark to ARAC pursuant to a 50-year master license agreement and receives royalty fees based upon 4% of ARAC revenue, escalating to 4.5% of ARAC revenue over a 5-year period. In addition, the Company operates the telecommunications and computer processing system which services ARAC for reservations, rental agreement processing, accounting and fleet control for which the Company charges ARAC at cost. Summarized financial information of ARAC is as follows ($000's):

AVIS RENT A CAR, INC.

Balance sheet data:	SEPTEMBER 30, 1997 (UNAUDITED)	DECEMBER 31, 1996
Vehicles	$ 3,364,660	$ 2,243,492
Total assets	4,717,107	3,131,357
Debt	3,285,548	2,295,474
Total liabilities	4,263,001	3,054,817
Shareholders' equity	454,106	76,540

	NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED)	OCTOBER 17, 1996 (DATE OF ACQUISITION) TO DECEMBER 31, 1996
Statement of income data:		
Revenues	$ 1,525,696	$ 362,844
Income before provision for income taxes	49,313	2,261
Net income	26,974	1,221

24. SUBSEQUENT EVENTS - (PRIOR TO THE CENDANT MERGER DATE OF DECEMBER 17, 1997)

PROVIDIAN ACQUISITION

On December 9, 1997, HFS executed a definitive agreement to acquire Providian Auto and Home Insurance Company and its subsidiaries from an AEGON N.V. subsidiary for approximately $219.0 million in cash. Closing is subject to receipt of required regulatory approval and other customary conditions and is anticipated in the spring of 1998. Providian sells automobile insurance to consumers through direct response marketing in 45 states and the District of Columbia.

DIVESTITURE

As directed by the Federal Trade Commission ("FTC") as a condition terminating the waiting period under the Hart Scott Rodino Antitrust Improvements Act in connection with the Cendant Merger, on December 17, 1997, the Company sold its wholly-owned subsidiary, Interval International Inc. and certain related entities ("Interval"), for approximately $200.0 million, subject to certain adjustments. The agreement contemplates that the Company will continue to provide certain existing services to Interval's developers and members.

INVESTMENT IN NRT

During the third quarter of 1997, HFS acquired $182.0 million of preferred stock of NRT Incorporated ("NRT"), a newly formed corporation created to acquire residential real estate brokerage firms. HFS acquired $216.1 million of certain intangible assets including trademarks associated with real estate brokerage firms acquired by NRT in 1997. The Company, at its discretion, may acquire up to $81.3 million of additional NRT preferred stock and may also purchase up to $229.9 million of certain intangible assets of real estate brokerage firms acquired by NRT.

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

ISSUANCE OF 3% CONVERTIBLE SUBORDINATED NOTES

On February 11, 1997, the Company issued $550 million in principal amount of 3% Convertible Subordinated Notes (the "3% Notes") due February 15, 2002. Interest on the 3% Notes is payable semi-annually. Each $1,000 principal amount of 3% Notes is convertible into 32.6531 shares of Company common stock subject to adjustment in certain events. The 3% Notes may be redeemed at the option of the Company at any time on or after February 15, 2000, in whole or in part, at the appropriate redemption prices (as defined in the indenture governing the 3% Notes) plus accrued interest to the redemption date. The 3% Notes will be subordinated in right of payment to all existing and future Senior Debt (as defined in the indenture governing the 3% Notes) of the Company. Issuance costs are being amortized on a straight-line basis over five years.

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SUBSEQUENT EVENTS - (POST CENDANT MERGER DATE OF DECEMBER 17, 1997) - UNAUDITED

PROPOSED ACQUISITION

On January 27, 1998, the Company proposed to acquire American Bankers Insurance Group Inc. ("American Bankers") for $58 per share in cash and stock, for an aggregate purchase price approximating $2.7 billion. On January 28, 1998, the Company commenced a tender offer to purchase approximately 23.5 million shares of American Bankers' common stock at a price of $58 per share in cash, which together with shares owned by the Company on the announcement date, approximate 51% of the fully diluted shares of American Bankers. The Company proposed to exchange, on a tax free basis, shares of its common stock with a fixed value of $58 per share for the balance of American Bankers' common stock. The tender offer is subject to certain customary conditions and there can be no assurance that the Company will be successful in its proposal to acquire American Bankers. The Company received a commitment from a bank to provide funds necessary to finance the proposed acquisition.

HARPUR GROUP LTD. ACQUISITION

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

JACKSON HEWITT INC. MERGER

On January 7, 1998, the Company completed the acquisition of Jackson Hewitt Inc. (" Jackson Hewitt"), for approximately $480.0 million in cash or $68 per share of common stock of Jackson Hewitt. Jackson Hewitt is the second largest tax preparation service system in the United States with locations in 41 states.

Jackson Hewitt franchises a system of approximately 2,050 offices that specialize in computerized prepartion of federal and state individual income tax returns.

EXHIBIT 99.2

RESTATEMENT OF QUARTERLY PERIODS

ENDED MARCH 31, 1997 AND 1996

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

	MARCH 31, 1997	DECEMBER 31, 1996
ASSETS		
Current assets		
Cash and cash equivalents	$ 842,041	$ 633,903
Marketable securities	347,451	94,200
Receivables, net	1,258,317	1,290,625
Other current assets	526,211	510,865
Total current assets	2,974,020	2,529,593
Deferred membership acquisition costs	392,493	401,564
Franchise agreements, net	956,012	995,947
Goodwill, net	1,820,234	2,302,226
Other intangibles, net	1,160,589	636,230
Other assets	1,077,175	993,574
Total assets exclusive of assets under programs	8,380,523	7,859,134
Assets under management and mortgage programs		
Net investment in leases and leased vehicles	3,484,445	3,418,666
Relocation receivables	684,207	773,326
Mortgage loans held for sale	1,215,422	1,248,299
Mortgage servicing rights and fees	244,904	288,943
	5,628,978	5,729,234
TOTAL ASSETS	$ 14,009,501	$ 13,588,368

See accompanying notes to supplemental consolidated financial statements

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

	MARCH 31, 1997	DECEMBER 31, 1996
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable, accrued expenses and other current liabilities	$ 1,542,668	$ 1,664,946
Deferred income	1,104,850	1,099,393
Long-term debt	1,757,205	1,004,584
Other noncurrent liabilities	127,207	124,885
Total liabilities exclusive of liabilities under programs	4,531,930	3,893,808
Liabilities under management and mortgage programs		
Debt	4,952,815	5,089,943
Deferred income taxes	244,800	281,948
	5,197,615	5,371,891
Commitments and contingencies		
SHAREHOLDERS' EQUITY		
Preferred stock, $1.00 par value - authorized 10 million shares; none issued and outstanding	--	--
Common stock, $.01 par value - authorized 2 billion shares; issued 812,949,119 and 804,655,850 shares, respectively	8,129	8,047
Additional paid-in capital	2,918,776	2,870,422
Retained earnings	1,655,573	1,556,300
Net unrealized gain on marketable securities	--	4,334
Currency translation adjustment	(25,681)	(12,452)
Restricted stock, deferred compensation	(28,935)	(28,212)
Treasury stock, at cost (13,587,712 and 6,911,757 shares, respectively)	(247,906)	(75,770)
Total shareholders' equity	4,279,956	4,322,669
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 14,009,501	$ 13,588,368

See accompanying notes to supplemental consolidated financial statements

CENDANT CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED MARCH 31,	
	1997	1996
REVENUES		
Membership and service fees, net	$ 1,036,011	$ 663,003
Fleet leasing (net of depreciation and interest costs of $286,075 and $283,123, respectively)	15,319	70,948
Other	112,776	87,460
Net revenues	1,164,106	821,411
EXPENSES		
Operating	420,725	306,519
Marketing and reservation	286,693	239,335
General and administrative	105,232	77,531
Depreciation and amortization	54,272	32,224
Interest, net	19,066	7,502
Total expenses	885,988	663,111
Income before income taxes	278,118	158,300
Provision for income taxes	112,250	62,326
Net income	$ 165,868	$ 95,974
PER SHARE INFORMATION:		
Net income per share		
Primary	$ 0.19	$ 0.13
Fully diluted	$ 0.19	$ 0.13
Weighted average common and common equivalent shares outstanding		
Primary	871,488	768,918
Fully diluted	874,573	778,279

See accompanying notes to supplemental consolidated financial statements

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

	THREE MONTHS ENDED MARCH 31, 1997	1996
OPERATING ACTIVITIES:		
Net income	$ 165,868	$ 95,974
Depreciation and amortization	52,648	26,021
Increase (decrease) from changes in assets under management programs:		
Depreciation and amortization under management and mortgage programs	281,412	254,058
Mortgage loans held for sale	32,876	(544,731)
Other	(116,795)	(5,101)
Net cash provided by (used in) operating activities	416,009	(173,779)
INVESTING ACTIVITIES:		
Assets under management and mortgage programs:		
Investment in leases and leased vehicles	(626,731)	(570,257)
Payments received on investment in leases and leased vehicles	290,134	197,577
Equity advances on homes under management	(900,583)	(590,175)
Repayment of advances on homes under management	962,122	667,146
Additions to originated mortgage servicing rights	(41,691)	(34,068)
Proceeds from sales of mortgage servicing rights	--	4,589
Property and equipment additions	(32,305)	(26,458)
Loans and investments	(24,803)	(10,000)
Proceeds from sale of assets	21,750	--
Proceeds from sales of marketable securities	42,570	46,922
Purchases of marketable securities	(314,348)	(28,832)
Due to Avis Rent A Car, Inc.	(16,192)	--
Net assets acquired, exclusive of cash acquired	(84,744)	(103,067)
Other	1,519	35,346
Net cash used in investing activities	(723,302)	(411,277)
FINANCING ACTIVITIES:		
Proceeds from borrowings	560,907	968,972
Principal payments on borrowings	(911,151)	(453,585)
Net proceeds from issuance of convertible notes	542,655	--
Redemption of series A preferred stock	--	(80,000)
Net change in short-term borrowings under management and mortgage programs	422,622	235,053
Issuance of common stock, net	36,215	15,201
Purchases of common stock	(171,318)	--
Stock option plan transactions	5,366	3,113
Payments of dividends of pooled entities	(6,644)	(5,860)
Net cash provided by financing activities	478,652	682,894
Effect of changes in exchange rates on cash and cash equivalents	36,779	6,512
Net increase in cash and cash equivalents	208,138	104,350
Cash and cash equivalents, beginning of period	633,903	355,959
Cash and cash equivalents, end of period	$ 842,041	$ 460,309

See accompanying notes to supplemental consolidated financial statements

NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The supplemental consolidated balance sheet of Cendant Corporation and subsidiaries, formerly CUC International Inc. (the "Company"), as of March 31, 1997 and supplemental consolidated statements of income and cash flows, for the three months ended March 31, 1997 and 1996 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such financial statements are included. There were no adjustments of an unusual nature recorded during the three months ended March 31, 1997 and 1996.

The accompanying supplemental consolidated financial statements include the accounts and transactions of the Company and all wholly-owned and majority owned subsidiaries and joint ventures except for the Company's ownership of Avis Rent A Car, Inc. ("ARAC"), which is accounted for under the equity method (See Note 5). The accompanying supplemental consolidated financial statements have been restated for the business combinations accounted for as poolings of interests (See Note 2) as if such combined companies had operated as one entity since inception. All material intercompany balances and transactions have been eliminated in consolidation. These supplemental consolidated financial statements will become the Company's primary historical financial statements for the periods presented.

The accompanying supplemental consolidated financial statements and notes thereto are presented in accordance with interim financial reporting requirements as required by Form 10-Q and do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. The December 31, 1996 supplemental consolidated balance sheet was derived from the Company's audited supplemental consolidated financial statements. For further information, refer to the audited supplemental consolidated financial statements and notes thereto included as Exhibit 99.1 in this Form 8-K. Interim results are not indicative of results for a full year.

Certain reclassifications have been made to the historical financial statements of the pooled companies to conform to the restated presentation.

2. BUSINESS COMBINATIONS

1997 POOLINGS

On December 17, 1997, the Company completed a merger with HFS Incorporated ("HFS") (the "Cendant Merger") by issuing 440.0 million shares of its common stock in exchange for all of the outstanding common stock of HFS. Pursuant to the terms of the agreement and plan of merger, HFS stockholders received 2.4031 shares of Company common stock for each share of HFS common stock. Upon consummation of the Cendant Merger, the Company changed its name from CUC International Inc. to Cendant Corporation.

In connection with the Cendant Merger, the Company changed its fiscal year end from January 31 to December 31. HFS has a calendar year end and the Company has only recalendarized its 1997 results. Accordingly, the HFS statements of income for the periods ended March 31, 1997 and 1996 have been combined with the Company's statements of income for the three month periods ended March 31, 1997 and April 30, 1996, respectively.

On October 3, 1997, the Company, through a wholly-owned subsidiary ("Acquisition Sub"), acquired all of the outstanding capital stock of Hebdo Mag International Inc. ("Hebdo Mag") pursuant to the terms of a share purchase agreement dated August 13, 1997 among the Company, Acquisition Sub, Hebdo Mag and other parties thereto. The purchase price of approximately $440 million was satisfied by the issuance of 14.2 million shares of Company common stock. Hebdo Mag is a leading publisher and distributor of classified advertising information.

On April 30, 1997, prior to being merged with and into the Company, HFS acquired PHH Corporation ("PHH") by merger (the "HFS/PHH Merger") which was satisfied by the issuance of 72.8 million equivalent shares of Company common stock in exchange for all of the outstanding common stock of PHH. PHH is the world's largest provider of corporate relocation services and also provides mortgage services and fleet management services. In connection with the HFS/PHH Merger, PHH changed its fiscal year end from April 30 to December 31.

During February 1997, the Company acquired substantially all of the assets and assumed specific liabilities of Numa Corporation ("Numa") for $73.5 million. The purchase price was satisfied by the issuance of 3.4 million shares of Company common stock. Numa publishes personalized heritage publications and markets and sells personalized merchandise.

Upon entering into a definitive merger agreement to acquire Avis, Inc. in July 1996, HFS announced its strategy to dilute its interest in ARAC's car rental operations while retaining assets associated with the franchise business, including trademarks, reservation system assets and franchise agreements with ARAC and other licensees. Since HFS's control was planned to be temporary, HFS accounted for its 100% investment in ARAC under the equity method.

The following table presents the historical results of the Company and the respective pooled entities for the last complete periods prior to their respective mergers ($000's):

	THREE MONTHS ENDED MARCH 31, 1997	THREE MONTHS ENDED MARCH 31, 1996
Net revenues		
The Company	$ 598,944	$ 515,479
HFS (inclusive of PHH)	525,885	277,727
Hebdo Mag	39,277	28,205
	$ 1,164,106	$ 821,411

	THREE MONTHS ENDED MARCH 31, 1997	THREE MONTHS ENDED MARCH 31, 1996
Net income		
The Company	$ 73,624	$ 52,121
HFS (inclusive of PHH)	91,104	43,678
Hebdo Mag	1,140	175
	$ 165,868	$ 95,974

The following table presents the historical results of HFS and PHH for the periods prior to the HFS/PHH Merger ($000's):

	THREE MONTHS ENDED MARCH 31, 1997	THREE MONTHS ENDED MARCH 31, 1996
Net revenues		
HFS	$ 347,962	$ 124,545
PHH	177,923	153,182
	$ 525,885	$ 277,727
Net income		
HFS	$ 58,940	$ 22,818
PHH	32,164	20,860
	$ 91,104	$ 43,678

PURCHASE BUSINESS COMBINATIONS

During the quarter ended March 31, 1997, the Company acquired certain entities for an aggregate purchase price of $48.3 million, satisfied by the payment of $10.5 million in cash and the issuance of 1.5 million shares of Company common stock. The goodwill resulting from these acquisitions aggregated $68.4 million. These acquisitions were accounted for in accordance with the purchase method of accounting and, accordingly, the results of operations have been included in the consolidated results of operations from the respective dates of acquisitions. The results of operations for the periods prior to the respective dates of acquisition were not significant to the Company's operations.

3. MERGER AND RELATED COSTS AND OTHER UNUSUAL CHARGES

In connection with the Company's 1996 acquisitions of Davidson & Associates Inc., Sierra On-Line, Inc. and Ideon Group, Inc., accounted for as poolings of interests, the Company recorded a non-recurring charge of approximately $179.9 million ($118.7 million, after tax) for the year ended December 31, 1996. Such charge is comprised of transaction costs, exit costs and a provision relating to certain litigation matters giving consideration to the Company's intended approach to these matters. As of March 31, 1997, such charges amounted to $96.0 million.

4. PRO FORMA INFORMATION

The following table reflects the unaudited operating results of the Company for the three months ended March 31, 1996 on a pro forma basis, which gives effect to HFS's 1996 acquisitions, accounted for under the purchase method of accounting as if they had occurred on January 1, 1996:

Net revenue	$ 973,490
Net income	115,339
Net income per share (fully diluted)	$ 0.14

5. INVESTMENT IN ARAC

Upon entering into a definitive merger agreement to acquire Avis, Inc. in July 1996, HFS announced its strategy to dilute its interest in ARAC's car rental operations while retaining assets associated with the franchise business, including trademarks, reservation system assets and franchise agreements with ARAC and other licensees. Since HFS's control was planned to be temporary, HFS accounted for its 100% investment in ARAC under the equity method. Summarized financial information of ARAC is as follows ($000's):

AVIS RENT A CAR, INC.

Balance sheet data:	MARCH 31, 1997	DECEMBER 31, 1996
Vehicles	$ 2,159,684	$ 2,243,492
Total assets	3,001,275	3,131,357
Debt	2,175,357	2,295,474
Total liabilities	2,921,177	3,054,817
Shareholders' equity	80,098	76,540

Statement of income data:	THREE MONTHS ENDED MARCH 31 1997
Revenues	$ 456,014
Income before provision for income taxes	6,983
Net income	4,205

6. SOFTWARE RESEARCH AND DEVELOPMENT COSTS AND COSTS OF SOFTWARE REVENUE

Software research and development costs are included in operating expenses and aggregated $23.1 million and $14.9 million for the three months ended March 31, 1997 and 1996, respectively. Software net revenue included in Other was $94.1 million and $60.5 million for the three months ended March 31, 1997 and 1996, respectively. Costs of software revenue are included in operating expenses and aggregated $27.1 million and $24.8 million for the three months ended March 31, 1997 and 1996, respectively.

7. ISSUANCE OF 3% CONVERTIBLE SUBORDINATED NOTES

On February 11, 1997, the Company issued $550.0 million in principal amount of 3% Convertible Subordinated Notes (the "3% Notes") due February 15, 2002. Interest on the 3% Notes is payable semi-annually. Each $1,000 principal amount of 3% Notes is convertible into 32.6531 shares of Company common stock subject to adjustment in certain events. The 3% Notes may be redeemed at the option of the Company at any time on or after February 15, 2000, in whole or in part, at the appropriate redemption prices (as defined in the indenture governing the 3% Notes) plus accrued interest to the redemption date. The 3% Notes will be subordinated in right of payment to all existing and future Senior Debt (as defined in the indenture governing the 3% Notes) of the Company. Issuance costs are being amortized on a straight-line basis over five years.

8. SHAREHOLDERS' EQUITY

A. AUTHORIZED SHARES

In conjunction with the Cendant Merger, effective on December 17, 1997, the Company's shareholders approved an amendment to the Company's restated certificate of incorporation to increase the number of authorized shares of common stock and preferred stock to 2 billion shares and 10 million shares, respectively. The Company has never issued shares of preferred stock.

B. TREASURY PURCHASES

In January 1997, HFS's Board of Directors authorized the purchase of 6.2 million equivalent shares of Company common stock to satisfy stock option exercises and conversions of convertible debt securities and to fund future acquisitions. The Company acquired approximately 6.2 million equivalent treasury shares in January and February 1997 for $179.4 million with revolving credit borrowings.

9. CONTINGENCIES - IDEON

On June 13, 1997, the Company entered into an agreement (the "Agreement") with Peter Halmos, the co-founder of SafeCard Services, Incorporated ("SafeCard"), which was reorganized in 1995 as Ideon. The Company acquired Ideon in August 1996. The Agreement provides for the settlement of all of the outstanding litigation matters involving Peter Halmos, SafeCard and Ideon as set forth below. The Agreement became effective in July 1997. The Agreement calls for the dismissal with prejudice of these outstanding litigation matters and the payment to Peter Halmos, over a six-year period, of $70.5 million. Specifically, the Agreement requires that the Company pay Peter Halmos one up-front payment of $13.5 million and six subsequent annual payments of $9.5 million each. The Agreement also calls for the transfer to the Company of assets related to SafeCard's CreditLine business, including the transfer by CreditLine Corporation to the Company of all of the CreditLine Corporation's rights under a marketing agreement between it and SafeCard dated November 1, 1988.

The following Halmos related cases have been dismissed pursuant to the Agreement:

1. Halmos Trading & Investing Company v. SafeCard Services, Inc. and Gerald Cahill v. Peter A. Halmos and Steven J. Halmos and Halmos Trading & Investment Co., Case No. 93-04354 (06) in the Circuit Court for the 17th Judicial Circuit in and for Broward County, Florida.

2. SafeCard Services, Inc. v. Peter Halmos, a Florida resident; High Plains Capital Corporation, a Wyoming Corporation; and CreditLine Corporation, a Wyoming corporation which is pending in the District Court, First Judicial District of Laramie County, Wyoming; Case No. Doc. 134, No. 192.

3. Peter Halmos, CreditLine Corporation and Continuity Marketing Corporation v. Paul G. Kahn, William T. Bacon, Robert L. Dilenschneider, Eugene Miller and SafeCard Services, Inc., in the United States District Court, Southern District of Florida, Case No. 94-6920 CG-NESBITT.

4. Peter Halmos v SafeCard Services, Inc., William T. Bacon, Jr., Barry I. Tillis and Barry Natter, Case No. 95-6325 (AJ) filed in the Circuit Court, Fifteenth Judicial Circuit, in and for Palm Beach County Florida.

5. High Plains Capital Corporation f/k/a Halmos & Company, Inc v. Ideon Group, Inc., SafeCard Services, Inc., Eugene Miller, Robert L. Dilenschneider, and the Dilenschneider Group, Inc., Palm Beach County, Florida, Civil Action No. CL 95 8313 AE (Hon. Walter Colbath).

6. High Plains Capital Corporation v. Ideon Group, Inc., and SafeCard Services, Inc., Civil Action No. 95 015024, Seventeenth Judicial Circuit, Broward County, Florida.

The following Halmos related case will also be dismissed pursuant to the Agreement:

7. Ideon Group, Inc., SafeCard Services, Inc., Paul G. Kahn, William T.

Bacon, Jr., Marshall L. Burman, John Ellis (Jeb) Bush, Robert L. Dilenschneider, Adam W. Herbert, Eugene Miller, and Thomas F. Petway, III v. Peter Halmos, Civil Action No. 14600, filed in the Court of Chancery of New Castle County, Delaware.

On October 22, 1997, the plaintiffs, the Company and all of the Company's indemnitees, entered into a Memorandum of Understanding and thereafter filed final settlement agreements in James B. Chambers and Peter A. Halmos v. SafeCard Services, Inc; Ideon Group, Inc.; Paul G. Kahn; William T. Bacon, Jr.,; Robert L. Dilenschneider; The Dilenschneider Group; Eugene Miller; G. Thomas Frankland; Francis J. Marino; John R. Birk; Marshall Burman; Thomas F. Petway III; John Ellis Bush; Adam W. Herbert, Jr.; Price Waterhouse LLP; Mahoney Adams & Criser, P.A. and John Does 1 through 25, United States District Court, Southern District of Florida, Case No. 95-1298-CIV-NESBITT ("Chambers"); Lois Hekker v. Ideon Group, Inc. and Paul G. Kahn, United States District Court, Middle District of Florida, Jacksonville Division, Case No. 95-681-CIV-J ("Hekker"); and James L. Binder, individually, as custodian for Elizabeth Binder, and as custodian for the James L. Binder, D.D.S., P.C. Profit Sharing Trust; Edward Dubois; Sheila Ann Dubois, as Personal Representative for The Estate of Winifred Dubois; G. Neal Goolsby; John E. Masters, individually and as custodian for Gregory Halmos and Nicholas Halmos; J.B. McKinney; on behalf of themselves and all others similarly situated, and Peter A. Halmos, as Trustee for the Peter A. Halmos Revocable Trust Dated January 24, 1990, and The Halmos Foundation, Inc., individually, v. SafeCard Services, Inc., a Delaware corporation; Paul G. Kahn; William T. Bacon, Jr.; Robert L. Dilenschneider; The Dilenschneider Group, a Delaware corporation; Eugene Miller; Gerald R. Cahill; Oppenheimer & Co., Inc., a Delaware corporation; and John Does 1 through 100, inclusive. United States District Court for the Southern District of Florida, (Miami Division) Case No. 94-2604-CIV-MOORE ("Binder"). The above referenced settlement in the Chambers and Hekker matters was for payment by the Company to class members of $15.0 million. The settlement in the Binder litigation calls for the payment by the Company to class members of $3.0 million. These settlements must be approved by the court at hearings anticipated during the first quarter of 1998.

The following actions remain pending, in whole or in part, as described below:

A suit initiated by Peter Halmos, related entities, and Myron Cherry (a former lawyer for SafeCard) in April 1993 in Cook County Circuit Court in Illinois against SafeCard and one of Ideon's directors, purporting to state claims aggregating in excess of $100.0 million, principally relating to alleged rights to "incentive compensation," stock options or their equivalent, indemnification, wrongful termination and defamation. On February 7, 1995, the court dismissed with prejudice Peter Halmos' claims regarding alleged rights to "incentive compensation," stock options or their equivalent, wrongful termination and defamation. Mr. Halmos has appealed this ruling. SafeCard has filed an answer to the remaining indemnification claims. Its obligation to file an answer to the claims of Myron Cherry have been stayed pending settlement discussions. On December 28, 1995, the court stayed Halmos' indemnification claims pending resolution of a declaratory judgment action filed by Ideon in Delaware Chancery Court. As a result of the Halmos settlement described above, only the claims of Myron Cherry remain pending.

A suit seeking monetary damages and injunctive relief by LifeFax, Inc. and Continuity Marketing Corporation, companies affiliated with Peter Halmos, in the State Circuit Court in Palm Beach County, Florida in April 1995 against Ideon, Family Protection Network, Inc., SafeCard, one of Ideon's directors and Ideon's Chief Executive Officer purporting to state various statutory and tort claims. The claims principally relate to the allegation by these companies that SafeCard's Early Warnings Service and Family Protection Network were conceived and commercialized by, among others, Peter Halmos and have been improperly copied. An amended complaint filed on June 14, 1995 seeking monetary damages adds to the prior claims certain claims by Nicholas Rubino that principally relate to the allegation that SafeCard's Pet Registration Product was conceived by Mr. Rubino and has been improperly copied. The company has filed an appropriate answer. As a result of the Halmos settlement, all claims of Continuity Marketing Corporation will be dismissed, leaving pending only the claims related to Family Protection Network and the Pet Registration Program.

A suit by First Capital Partners, Thomas F. Frist III and Patricia F. Elcan against Ideon and two of its employees in the United States District Court for the Southern District of New York. The litigation involves claims against Ideon, its former CEO and its Vice President of Investor Relations for alleged material misrepresentations and omissions in connection with announcements relating to Ideon's expected earnings per share in 1995 and its new product sales, which included the PGA Tour Card Program, Family Protection Network and Collections of the Vatican Museums. On July 15, 1996, Ideon filed a motion to dismiss. The company withdrew its motion to dismiss and answered the complaint on December 5, 1996.

The Company established a reserve upon the consummation of the merger with Ideon during the third quarter of 1996 related, in part, to these litigation matters. Although not anticipated, in the event the foregoing class action settlements are not approved by the Court, the outcome of the class action matters described above as well as the other pending Ideon matters could also exceed the amount accrued. The Company is also involved in certain other claims and litigation arising in the ordinary course of business, which are not considered material to the financial position, operations or cash flows of the Company.

EXHIBIT 99.2

RESTATEMENT OF QUARTERLY PERIODS

ENDED JUNE 30, 1997 AND 1996

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

	JUNE 30, 1997	DECEMBER 31, 1996
ASSETS		
Current assets		
Cash and cash equivalents	$ 791,001	$ 633,903
Marketable securities	473,501	94,200
Receivables, net	1,409,026	1,290,625
Other current assets	581,973	510,865
Total current assets	3,255,501	2,529,593
Deferred membership acquisition costs	382,081	401,564
Franchise agreements, net	948,753	995,947
Goodwill, net	1,868,438	2,302,226
Other intangibles, net	1,192,028	636,230
Other assets	1,180,159	993,574
Total assets exclusive of assets under programs	8,826,960	7,859,134
Assets under management and mortgage programs		
Net investment in leases and leased vehicles	3,643,601	3,418,666
Relocation receivables	579,575	773,326
Mortgage loans held for sale	820,615	1,248,299
Mortgage servicing rights and fees	272,042	288,943
	5,315,833	5,729,234
TOTAL ASSETS	$ 14,142,793	$ 13,588,368

See accompanying notes to supplemental consolidated financial statements.

CENDANT CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS EXCEPT SHARE DATA)

	JUNE 30, 1997	DECEMBER 31, 1996
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable, accrued expenses and other current liabilities	$ 1,768,450	$ 1,664,946
Deferred income	944,149	1,099,393
Long-term debt	1,928,394	1,004,584
Other noncurrent liabilities	131,684	124,885
Total liabilities exclusive of liabilities under programs	4,772,677	3,893,808
Liabilities under management and mortgage programs		
Debt	4,776,153	5,089,943
Deferred income taxes	301,200	281,948
	5,077,353	5,371,891
Commitments and contingencies		
SHAREHOLDERS' EQUITY		
Preferred stock, $1.00 par value - authorized 10 million shares; none issued and outstanding	--	--
Common stock, $.01 par value - authorized 2 billion shares; issued 818,401,590 and 804,655,850 shares, respectively	8,184	8,047
Additional paid-in capital	2,939,075	2,870,422
Retained earnings	1,642,188	1,556,300
Net unrealized gain on marketable securities	--	4,334
Currency translation adjustment	(21,064)	(12,452)
Restricted stock, deferred compensation	(27,714)	(28,212)
Treasury stock, at cost (13,587,712 and 6,911,757 shares, respectively)	(247,906)	(75,770)
Total shareholders' equity	4,292,763	4,322,669
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 14,142,793	$ 13,588,368

See accompanying notes to supplemental consolidated financial statements.

CENDANT CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED JUNE 30, 1997	THREE MONTHS ENDED JUNE 30, 1996	SIX MONTHS ENDED JUNE 30, 1997	SIX MONTHS ENDED JUNE 30, 1996
REVENUES				
Membership and service fees, net	$ 1,084,475	$ 764,972	$ 2,015,473	$ 1,427,975
Fleet leasing (net of depreciation and interest costs of $298,200, $272,871, $584,275 and $555,994, respectively)	65,786	62,822	146,581	133,770
Other	150,252	107,845	296,657	195,305
Net revenues	1,300,513	935,639	2,458,711	1,757,050
EXPENSES				
Operating	438,541	334,446	853,356	640,965
Marketing and reservation	315,756	254,044	602,449	493,379
General and administrative	112,984	94,423	218,217	171,954
Merger and related costs and other unusual charges	303,000	28,635	303,000	28,635
Depreciation and amortization	59,422	37,402	120,359	69,626
Interest, net	15,957	7,259	28,358	14,761
Total expenses	1,245,660	756,209	2,125,739	1,419,320
Income before income taxes	54,853	179,430	332,972	337,730
Provision for income taxes	68,290	78,366	180,540	140,692
Net income (loss)	$ (13,437)	$ 101,064	$ 152,432	$ 197,038
PER SHARE INFORMATION				
Net income (loss) per share				
Primary	$ (0.02)	$ 0.13	$ 0.18	$ 0.25
Fully diluted	$ (0.02)	$ 0.13	$ 0.18	$ 0.25
Weighted average common and common equivalent shares outstanding				
Primary	804,246	797,678	875,496	784,106
Fully diluted	804,246	803,484	878,391	792,694

See accompanying notes to supplemental consolidated financial statements.

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

	SIX MONTHS ENDED JUNE 30, 1997	SIX MONTHS ENDED JUNE 30, 1996
OPERATING ACTIVITIES:		
Net income	$ 152,432	$ 197,038
Merger related charge	303,000	--
Merger related payments	(132,500)	--
Depreciation and amortization	107,033	53,219
Increase (decrease) from changes in assets under management programs:		
Depreciation and amortization under management and mortgage programs	531,646	483,578
Mortgage loans held for sale	427,684	(351,657)
Other	(224,306)	39,407
Net cash provided by operating activities	1,164,989	421,585
INVESTING ACTIVITIES:		
Assets under management and mortgage programs:		
Investment in leases and leased vehicles	(1,179,905)	(936,225)
Payments received on investment in leases and leased vehicles	437,239	339,680
Equity advances on homes under management	(2,136,739)	(1,415,655)
Repayment of advances on homes under management	2,203,671	1,498,277
Additions to originated mortgage servicing rights	(85,995)	(89,872)
Proceeds from sales of mortgage servicing rights	29,134	7,113
Property and equipment additions	(61,676)	(51,087)
Loans and investments	(16,325)	(10,000)
Proceeds from sales of marketable securities	60,260	75,460
Purchases of marketable securities	(458,088)	(66,947)
Due to Avis Rent A Car, Inc.	(47,285)	--
Net assets acquired, exclusive of cash acquired	(344,030)	(1,004,137)
Other	40,199	35,099
Net cash used in investing activities	(1,559,540)	(1,618,294)
FINANCING ACTIVITIES:		
Proceeds from borrowings	1,284,196	1,073,675
Principal payments on borrowings	(1,174,217)	(612,144)
Net proceeds from issuance of convertible notes	566,083	--
Redemption of series A preferred stock	--	(80,000)
Net change in short-term borrowings under management and mortgage programs	(54,948)	78,958
Issuance of common stock, net	66,778	1,182,454
Purchases of common stock	(171,318)	--
Stock option plan transactions	22,014	7,074
Payment of dividends of pooled entities	(6,644)	(14,556)
Net cash provided by financing activities	531,944	1,635,461
Effect of changes in exchange rates on cash and cash equivalents	19,705	(3,003)
Net increase in cash and cash equivalents	157,098	435,749
Cash and cash equivalents, beginning of period	633,903	355,959
Cash and cash equivalents, end of period	$ 791,001	$ 791,708

See accompanying notes to supplemental consolidated financial statements.

1. BASIS OF PRESENTATION

The supplemental consolidated balance sheet of Cendant Corporation and subsidiaries, formerly CUC International Inc. (the "Company"), as of June 30, 1997, the supplemental consolidated statements of income for the three and six months ended June 30, 1997 and 1996, and the supplemental consolidated statements of cash flows for the six months ended June 30, 1997 and 1996, are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such financial statements are included. There were no adjustments of an unusual nature recorded during the three and six months ended June 30, 1997 and 1996, except for a one-time charge of $303.0 million ($227.0 million after tax), recorded in the second quarter of 1997 representing merger and related costs incurred in connection with the merger of HFS Incorporated ("HFS") with PHH Corporation ("PHH") and a non-recurring charge of $28.6 million ($25.1 million after tax), recorded in the second quarter of 1996, representing merger and related costs incurred in connection with the 1996 mergers of the Company with Davidson & Associates, Inc. ("Davidson") and Sierra-On-Line, Inc. ("Sierra") (See Note 3) and a $5.0 million restructuring charge recorded in June 1996, related primarily to the contribution of owned Coldwell Banker brokerage offices to an independent trust.

The accompanying supplemental consolidated financial statements include the accounts and transactions of the Company and all wholly-owned and majority owned subsidiaries and joint ventures, except for the Company's ownership of Avis Rent A Car, Inc. ("ARAC"), which is accounted for under the equity method (See Note 5). The accompanying supplemental consolidated financial statements have been restated for the business combinations accounted for as poolings of interests (See Note 2) as if such combined companies had operated as one entity since inception. All material intercompany balances and transactions have been eliminated in consolidation. These supplemental consolidated financial statements will become the Company's primary historical financial statements for the periods presented.

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Certain reclassifications have been made to the historical financial statements of the pooled companies to conform to the restated presentation.

2. BUSINESS COMBINATIONS

1997 POOLINGS

On December 17, 1997, the Company completed a merger with HFS Incorporated ("HFS") (the "Cendant Merger") by issuing 440.0 million shares of its common stock in exchange for all of the outstanding common stock of HFS. Pursuant to the terms of the agreement and plan of merger, HFS stockholders received 2.4031 shares of Company common stock for each share of HFS common stock. Upon consummation of the Cendant Merger, the Company changed its name from CUC International Inc. to Cendant Corporation.

In connection with the Cendant Merger, the Company changed its fiscal year end from January 31 to December 31. HFS has a calendar year end and the Company has only recalendarized its 1997 results. Accordingly, the HFS statements of income for the three and six months ended June 30, 1997 and 1996 have been combined with the Company's statements of income for the three and six months ended June 30, 1997 and July 31, 1996, respectively.

On October 3,1997, the Company, through a wholly-owned subsidiary ("Acquisition Sub"), acquired all of the outstanding capital stock of Hebdo Mag International Inc. ("Hebdo Mag") pursuant to the terms of a share purchase agreement dated August 13, 1997 among the Company, Acquisition Sub, Hebdo Mag and other parties thereto. The purchase price of approximately $440.0 million was satisfied by the issuance of 14.2 million shares of Company common stock. Hebdo Mag is a leading publisher and distributor of classified advertising information.

On April 30, 1997, prior to being merged with and into the Company, HFS acquired PHH by merger (the "HFS/PHH Merger") which was satisfied by the issuance of 72.8 million equivalent shares of Company common stock in exchange for all of the outstanding common stock of PHH. PHH is the world's largest provider of corporate relocation services and also provides mortgage services and fleet management services. In connection with the HFS/PHH Merger, PHH changed its fiscal year end from April 30 to December 30.

During February 1997, the Company acquired substantially all of the assets and assumed specific liabilities of Numa Corporation ("Numa") for $73.5 million. The purchase price was satisfied by the issuance of 3.4 million shares of Company common stock. Numa publishes personalized heritage publications and markets and sells personalized merchandise.

The following table presents the historical results of the Company and the respective pooled entities for the last complete periods prior to their respective mergers ($000's):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1997	1996	1997	1996
Net revenues				
The Company	$ 666,586	$ 555,744	$ 1,265,530	$ 1,071,223
HFS (inclusive of PHH)	579,620	345,317	1,099,597	623,044
Hebdo Mag	54,307	34,578	93,584	62,783
	$ 1,300,513	$ 935,639	$ 2,458,711	$ 1,757,050

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1997	1996	1997	1996
Net income (loss)				
The Company	$ 90,905	$ 40,461	$ 164,529	$ 92,582
HFS (inclusive of PHH)	(106,449)	59,939	(15,344)	103,617
Hebdo Mag	2,107	664	3,247	839
	$ (13,437)	$ 101,064	$ 152,432	$ 197,038

The following table presents the historical results of HFS and PHH for the periods prior to the HFS/PHH Merger ($000's):

	THREE MONTHS ENDED MARCH 31, 1997	SIX MONTHS ENDED JUNE 30, 1996
Net revenues		
HFS	$ 347,962	$ 300,403
PHH	177,923	322,641
Total	$ 525,885	$ 623,044
Net income		
HFS	$ 58,940	$ 61,619
PHH	32,164	41,998
Total	$ 91,104	$ 103,617

PURCHASE BUSINESS COMBINATIONS

During the six months ended June 30, 1997, the Company acquired certain entities for an aggregate purchase price of $49.0 million, satisfied by the payment of $11.2 million in cash and the issuance of 1.5 million shares of Company common stock. The goodwill resulting from these acquisitions aggregated $68.8 million. These acquisitions were accounted for in accordance with the purchase method of accounting and, accordingly, the results of operations have been included in the consolidated results of operations from the respective dates of acquisitions. The results of operations for the periods prior to the respective dates of acquisition were not significant to the Company's operations.

3. MERGER AND RELATED COSTS AND OTHER UNUSUAL CHARGES

PHH MERGER CHARGE

HFS recorded a one-time merger and related charge (the "PHH Merger Charge") of $303.0 million ($227.0 million, after tax) during the second quarter of 1997 in connection with the HFS/PHH Merger. Excluding the PHH Merger Charge, net income was $213.6 million and $379.4 million for the three and six months ended June 30, 1997, respectively. The PHH Merger Charge is summarized by type as follows (in millions):

Personnel related	$	142.4
Professional fees		36.8
Business terminations		44.7
Facility related		57.1
Other costs		22.0
Total	$	303.0

Personnel related charges are comprised of costs incurred in connection with employee reductions associated with the combination of HFS's relocation service business and the consolidation of corporate activities. Personnel related charges include termination benefits such as severance, medical and other benefits. Also included in personnel related charges are supplemental retirement benefits resulting from the change of control. Several grantor trusts were established and funded by HFS to pay such benefits in accordance with the terms of the HFS/PHH merger agreement. Full implementation of the restructuring plan will result in the termination of approximately 500 employees substantially all of whom are located in North America, of which 126 employees were terminated as of June 30, 1997. Professional fees are primarily comprised of investment banking, accounting and legal fees incurred in connection with the HFS/PHH Merger. Business termination charges relate to the exit from certain activities associated with fleet management, mortgage services and ancillary operations. Facility related expenses include costs associated with contract and lease terminations, asset disposals and other charges incurred in connection with the consolidation and closure of excess space.

The Company anticipates that approximately $236.0 million will be paid in cash in connection with the PHH Merger Charge of which $132.5 million was paid through June 30, 1997. The remaining cash portion of the PHH Merger Charge will be financed through cash generated from operations and borrowings under the Company's revolving credit facilities. It is currently anticipated that the restructuring plan will be completed during the first quarter of 1998. Revenue and operating results from activities that will not be continued are not material to the results of operations of the Company.

1996 POOLINGS

Principally in connection with the Company's 1996 acquisitions of Davidson, Sierra and Ideon Group, Inc. ("Ideon"), which were accounted for as poolings of interests, the Company recorded a non-recurring charge of approximately $179.9 million ($118.7 million, after tax) for the year ended December 31, 1996. Such charge is comprised of transaction costs, exit costs and a provision relating to certain litigation matters giving consideration to the Company's intended approach to these matters. As of June 30, 1997, such charges amounted to $125.9 million.

4. PRO FORMA INFORMATION

The following table reflects the unaudited operating results of the Company for the six months ended June 30, 1996 on a pro forma basis, which gives effect to HFS's 1996 acquisitions, accounted for under the purchase method of accounting as if they occurred on January 1, 1996.

Net revenues	$	2,097,948
Net income		262,690
Net income per share (fully diluted)	$	0.31

5. INVESTMENT IN ARAC

Upon entering into a definitive merger agreement to acquire Avis, Inc. in July 1996, HFS announced its strategy to dilute its interest in ARAC's car rental operations while retaining assets associated with the franchise business, including trademarks, reservation system assets and franchise agreements with ARAC and other licensees. Since HFS's control was planned to be temporary, HFS accounted for its 100% investment in ARAC under the equity method. Summarized financial information for ARAC is as follows ($000's):

AVIS RENT A CAR, INC.

Balance sheet data:	JUNE 30, 1997	DECEMBER 31, 1996
Vehicles	$ 2,312,109	$ 2,243,492
Total assets	3,029,073	3,131,357
Debt	2,183,769	2,295,474
Total liabilities	2,941,987	3,054,817
Shareholders' equity	87,086	76,540

Statement of income data:	THREE MONTHS ENDED JUNE 30, 1997	SIX MONTHS ENDED JUNE 30, 1997
Revenues	$ 489,633	$ 945,647
Income before provision for income taxes	17,374	24,360
Net income	9,733	13,106

6. SOFTWARE RESEARCH AND DEVELOPMENT COSTS AND COSTS OF SOFTWARE REVENUE

Software research and development costs are included in operating expenses and aggregated $26.6 million and $15.3 million for the three months ended June 30, 1997 and 1996, respectively, and $49.7 million and $30.2 million for the six months ended June 30, 1997 and 1996, respectively. Software net revenue included in Other was $174.0 million and $129.1 million for the six months ended June 30, 1997 and 1996, respectively. Costs of software revenue are included in operating expenses and aggregated $28.3 million and $21.1 million for the three months ended June 30, 1997 and 1996, respectively, and $55.4 million and $45.9 million for the six months ended June 30, 1997 and 1996, respectively.

7. ISSUANCE OF 3% CONVERTIBLE SUBORDINATED NOTES

On February 11, 1997, the Company issued $550.0 million in principal amount of 3% Convertible Subordinated Notes (the "3% Notes") due February 15, 2002. Interest on the 3% Notes is payable semi-annually. Each $1,000 principal amount of 3% Notes is convertible into 32.6531 shares of Company common stock subject to adjustment in certain events. The 3% Notes may be redeemed at the option of the Company at any time on or after February 15, 2000, in whole or in part, at the appropriate redemption prices (as defined in the indenture governing the 3% Notes) plus accrued interest to the redemption date. The 3% Notes will be subordinated in right of payment to all existing and future Senior Debt (as defined in the indenture governing the 3% Notes) of the Company. Issuance costs are being amortized on a straight-line basis over five years.

8. SHAREHOLDERS' EQUITY

A. AUTHORIZED SHARES

In conjunction with the Cendant Merger effective on December 17, 1997, the Company's shareholders approved an amendment to the Company's restated certificate of incorporation to increase the number of authorized shares of common stock and preferred stock to 2 billion shares and 10 million shares, respectively. The Company has never issued shares of preferred stock.

B. TREASURY PURCHASES

In January 1997, HFS's Board of Directors authorized the purchase of 6.2 million equivalent shares of Company common stock to satisfy stock option exercises and conversions of convertible debt securities and to fund future acquisitions. The Company acquired approximately 6.2 million equivalent treasury shares in January and February 1997 for $179.4 million with revolving credit borrowings.

9. CONTINGENCIES - IDEON

On June 13, 1997, the Company entered into an agreement (the "Agreement") with Peter Halmos, the co-founder of SafeCard Services, Incorporated ("SafeCard"), which was reorganized in 1995 as Ideon. The Agreement calls for the dismissal with prejudice of certain outstanding litigation matters between Peter Halmos and certain of the Company's subsidiaries and the payment to Peter Halmos, over a six-year period, of $70.5 million. Specifically, the Agreement requires that the Company pay Peter Halmos one up-front payment of $13.5 million and six subsequent annual payments of $9.5 million each. For additional disclosure, see Footnote 13 --Commitments and Contingencies to Exhibit 99.1 -- Supplemental Consolidated Financial Statements.

EXHIBIT 99.2

RESTATEMENT OF QUARTERLY PERIODS

ENDED SEPTEMBER 30, 1997 AND 1996

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

	SEPTEMBER 30, 1997	DECEMBER 31, 1996
ASSETS		
Current assets		
Cash and cash equivalents	$ 902,777	$ 633,903
Marketable securities	308,947	94,200
Receivables, net	1,538,415	1,290,625
Other current assets	630,657	510,865
Total current assets	3,380,796	2,529,593
Deferred membership acquisition costs	389,870	401,564
Franchise agreements, net	942,780	995,947
Goodwill, net	1,913,478	2,302,226
Other intangibles, net	1,438,537	636,230
Other assets	1,329,370	993,574
Total assets exclusive of assets under programs	9,394,831	7,859,134
Assets under management and mortgage programs		
Net investment in leases and leased vehicles	3,547,217	3,418,666
Relocation receivables	587,310	773,326
Mortgage loans held for sale	1,162,220	1,248,299
Mortgage servicing rights and fees	305,428	288,943
	5,602,175	5,729,234
TOTAL ASSETS	$ 14,997,006	$ 13,588,368

See accompanying notes to supplemental consolidated financial statements.

CENDANT CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS EXCEPT SHARE DATA)

	SEPTEMBER 30, 1997	DECEMBER 31, 1996
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable, accrued expenses and other current liabilities	$ 1,358,767	$ 1,664,946
Deferred income	1,091,649	1,099,393
Long-term debt	2,422,524	1,004,584
Other noncurrent liabilities	262,407	124,885
Total liabilities exclusive of liabilities under programs	5,135,347	3,893,808
Liabilities under management and mortgage programs		
Debt	4,952,083	5,089,943
Deferred income taxes	300,683	281,948
	5,252,766	5,371,891
Commitments and contingencies		
SHAREHOLDERS' EQUITY		
Preferred stock, $1.00 par value - authorized 10 million shares; none issued and outstanding	--	--
Common stock, $.01 par value - authorized 2 billion shares; issued 824,544,641 and 804,655,850 shares, respectively	8,245	8,047
Additional paid-in capital	3,017,461	2,870,422
Retained earnings	1,890,452	1,556,300
Net unrealized gain on marketable securities	--	4,334
Currency translation adjustment	(27,024)	(12,452)
Restricted stock, deferred compensation	(28,664)	(28,212)
Treasury stock, at cost (13,964,693 and 6,911,757 shares, respectively)	(251,577)	(75,770)
Total shareholders' equity	4,608,893	4,322,669
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 14,997,006	$ 13,588,368

See accompanying notes to supplemental consolidated financial statements.

CENDANT CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1996	1997	1996
REVENUES				
Membership and service fees, net	$ 1,288,092	$ 924,246	$ 3,502,423	$ 2,513,994
Fleet leasing (net of depreciation and interest costs of $307,908, $283,086, $892,186 and $839,080, respectively)	13,148	14,297	42,905	41,016
Other	130,064	104,358	344,687	244,941
Net revenues	1,431,304	1,042,901	3,890,015	2,799,951
EXPENSES				
Operating	464,483	363,426	1,317,841	1,004,391
Marketing and reservation	360,900	283,529	963,349	776,908
General and administrative	105,859	83,811	324,076	255,765
Merger and related costs and other unusual charges	-	147,200	303,000	175,835
Depreciation and amortization	70,240	49,903	190,599	119,529
Interest, net	15,562	2,463	43,920	17,224
Total expenses	1,017,044	930,332	3,142,785	2,349,652
Income before income taxes	414,260	112,569	747,230	450,299
Provision for income taxes	165,996	44,103	346,536	184,795
Net income	$ 248,264	$ 68,466	$ 400,694	$ 265,504
PER SHARE INFORMATION				
Net income per share				
Primary	$ 0.29	$ 0.08	$ 0.47	$ 0.34
Fully diluted	$ 0.28	$ 0.08	$ 0.47	$ 0.33
Weighted average common and common equivalent shares outstanding				
Primary	888,061	834,441	874,379	800,716
Fully diluted	899,447	838,483	877,419	807,607

See accompanying notes to supplemental consolidated financial statements.

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1996
OPERATING ACTIVITIES:		
Net income	$ 400,694	$ 265,504
Merger related charge	303,000	--
Merger related payments	(137,000)	--
Depreciation and amortization	168,083	93,606
Increase (decrease) from changes in assets under management programs		
Depreciation and amortization under management and mortgage programs	812,309	764,173
Mortgage loans held for sale	86,079	(318,767)
Other	(314,955)	61,310
Net cash provided by operating activities	1,318,210	865,826
INVESTING ACTIVITIES:		
Assets under management and mortgage programs		
Investment in leases and leased vehicles	(1,565,857)	(1,217,700)
Payments received on investment in leases and leased vehicles	615,153	470,193
Equity advances on homes under management	(4,185,486)	(2,347,351)
Repayment of advances on homes under management	4,341,295	2,377,103
Additions to originated mortgage servicing rights	(147,608)	(115,219)
Proceeds from sales of mortgage servicing rights	48,974	7,113
Property and equipment additions	(112,608)	(93,381)
Proceeds from sales of marketable securities	233,902	108,071
Purchases of marketable securities	(467,176)	(96,517)
Investment in preferred stock	(181,191)	--
Due from Avis Rent A Car, Inc.	(124,440)	--
Net assets acquired, exclusive of cash acquired	(567,438)	(990,668)
Other	(6,789)	19,853
Net cash used in investing activities	(2,119,269)	(1,878,503)
FINANCING ACTIVITIES:		
Proceeds from borrowings	3,046,657	1,538,130
Principal payments on borrowings	(1,767,264)	(1,212,446)
Net proceeds from issuance of convertible notes	542,830	--
Redemption of series A preferred stock	--	(80,000)
Net change in short term borrowings under management and mortgage programs	(693,891)	114,518
Issuance of common stock, net	119,977	1,218,689
Purchases of common stock	(171,318)	(8,025)
Payment of dividends of pooled entities	(6,644)	(21,154)
Net cash provided by financing activities	1,070,347	1,549,712
Effect of changes in exchange rates on cash and cash equivalents	(414)	(17,104)
Net increase in cash and cash equivalents	268,874	519,931
Cash and cash equivalents, beginning of period	633,903	355,959
Cash and cash equivalents, end of period	$ 902,777	$ 875,890

See accompanying notes to supplemental consolidated financial statements.

NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The supplemental consolidated balance sheet of Cendant Corporation and subsidiaries, formerly CUC International Inc. (the "Company"), as of September 30, 1997, the supplemental consolidated statements of income for the three and nine months ended September 30, 1997 and 1996, and the supplemental consolidated statements of cash flows for the nine months ended September 30, 1997 and 1996, are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such financial statements are included. There were no adjustments of an unusual nature recorded during the three and nine months ended September 30, 1997 and 1996 except for (i) a one-time charge of $303.0 million ($227.0 million after tax), recorded in the second quarter of 1997 representing merger and related costs incurred in connection with the merger of HFS Incorporated ("HFS") with PHH Corporation ("PHH"); (ii) non-recurring charges of $147.2 ($89.6 million, after tax) and $28.6 million ($25.1 million, after tax) recorded in the third and second quarters of 1996, respectively, representing merger and related costs incurred in connection with the 1996 mergers of the Company with Davidson & Associates, Inc. ("Davidson"), Sierra On-Line, Inc. ("Sierra") and Ideon Group, Inc. ("Ideon") and (iii) a $5.0 million restructuring charge recorded in June 1996, related to the contribution of owned Coldwell Banker brokerage offices to an independent trust.

The supplemental consolidated financial statements include the accounts and transactions of the Company and all wholly-owned and majority owned subsidiaries and joint ventures except for the Company's ownership of Avis Rent A Car Inc. ("ARAC"), which is accounted for under the equity method (See Note 5). The accompanying supplemental consolidated financial statements have been restated for the business combinations accounted for as poolings of interest (See Note 2) as if such combined companies had operated as one entity since inception. All material intercompany balances and transactions have been eliminated in consolidation. These supplemental consolidated financial statements will become the Company's primary historical financial statements for the periods presented. Interim results are not necessarily indicative of results for a full year.

The accompanying supplemental consolidated financial statements and notes thereto are presented in accordance with interim financial reporting requirements as required by Form 10-Q and do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. The December 31, 1996 supplemental consolidated balance sheet was derived from the Company's audited supplemental consolidated financial statements. For further information, refer to the supplemental consolidated financial statements and notes thereto included herein as Exhibit 99.1 in this Form 8-K.

Certain reclassifications have been made to the historical financial statements of the pooled companies to conform to the restated presentation.

2. BUSINESS COMBINATIONS

1997 POOLINGS

On December 17, 1997, the Company completed a merger with HFS (the "Cendant Merger") by issuing 440.0 million shares of its common stock in exchange for all of the outstanding common stock of HFS. Pursuant to the terms of the agreement and plan of merger, HFS stockholders received 2.4031 shares of Company common stock for each share of HFS common stock. Upon consummation of the Cendant Merger, the Company changed its name from CUC International Inc. to Cendant Corporation.

In connection with the Cendant Merger, the Company changed its fiscal year end from January 31 to December 31. HFS has a calendar year end and the Company has only recalendarized its 1997 results. Accordingly, the HFS statements of income for the three and nine months ended September 30, 1997 and September 30, 1996 have been combined with the Company's statements of income for the three and nine months ended September 30, 1997 and October 31, 1996, respectively.

On October 3, 1997, the Company, through a wholly-owned subsidiary ("Acquisition Sub"), acquired all of the outstanding capital stock of Hebdo Mag International Inc. ("Hebdo Mag"), pursuant to the terms of a share purchase agreement dated August 13, 1997 among the Company, Acquisition Sub, Hebdo Mag and other parties thereto. The purchase price of approximately $440.0 million was satisfied by the issuance of 14.2 million shares of Company common stock. Hebdo Mag is a leading publisher and distributor of classified advertising information.

On April 30, 1997, prior to being merged with and into the Company, HFS acquired PHH by merger (the "HFS/PHH Merger") which was satisfied by the issuance of 72.8 million equivalent shares of Company common stock in exchange for all of the outstanding common stock of PHH. PHH is the world's largest provider of corporate relocation services and also provides mortgage services and fleet management services. In connection with the merger, PHH changed its fiscal year end from April 30 to December 31.

During February 1997, the Company acquired substantially all of the assets and assumed specific liabilities of Numa Corporation ("Numa") for $73.5 million. The purchase price was satisfied by the issuance of 3.4 million shares of Company common stock. Numa publishes personalized heritage publications and markets and sells personalized merchandise.

The following table presents the historical results of the Company and the respective pooled entities for the last complete periods prior to their respective mergers ($000's):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1996	1997	1996
Net revenues				
The Company	$ 737,067	$ 602,203	$ 2,002,597	$ 1,673,426
HFS (inclusive of PHH)	649,880	409,571	1,749,477	1,032,615
Hebdo Mag	44,357	31,127	137,941	93,910
	$ 1,431,304	$ 1,042,901	$ 3,890,015	$ 2,799,951

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1996	1997	1996
Net income				
The Company	$ 87,553	$ (18,009)	$ 252,082	$ 74,573
HFS (inclusive of PHH)	157,403	84,874	142,057	188,491
Hebdo Mag	3,308	1,601	6,555	2,440
	$ 248,264	$ 68,466	$ 400,694	$ 265,504

The following table presents the historical results of HFS and PHH for the periods prior to the HFS/PHH Merger ($000's):

	THREE MONTHS ENDED MARCH 31, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996
Net revenues		
HFS	$ 347,962	$ 550,010
PHH	177,923	482,605
	$ 525,885	$ 1,032,615
Net income		
HFS	$ 58,940	$ 130,960
PHH	32,164	57,531
	$ 91,104	$ 188,491

PURCHASE BUSINESS COMBINATIONS

During the nine months ended September 30, 1997, the Company acquired certain entities for an aggregate purchase price of $63.3 million, satisfied by the payment of $27.5 million in cash and the issuance of 1.5 million shares of Company common stock. The goodwill resulting from these acquisitions aggregated $89.9 million. These acquisitions were accounted for in accordance with the purchase method of accounting and, accordingly, the results of operations have been included in the consolidated results of operations from the respective dates of acquisitions. The results of operations for the periods prior to the respective dates of acquisition were not significant to the Company's operations.

3. MERGER AND RELATED COSTS AND OTHER UNUSUAL CHARGES

PHH MERGER CHARGE

HFS recorded a one-time merger and restructuring charge (the "PHH Merger Charge") of $303.0 million ($227.0 million, after tax) during the second quarter of 1997 in connection with the HFS/PHH Merger. Excluding the PHH Merger Charge, net income was $627.7 million for the nine months ended September 30, 1997. The PHH Merger Charge is summarized by type as follows (in millions):

Personnel related	$	142.4
Professional fees		36.8
Business terminations		44.7
Facility related		57.1
Other costs		22.0
Total	$	303.0

Personnel related charges are comprised of costs incurred in connection with employee reductions associated with the combination of HFS's relocation service businesses and the consolidation of corporate activities. Personnel related charges include termination benefits such as severance, medical and other benefits. Also included in personnel related charges are supplemental retirement benefits resulting from the change of control. Several grantor trusts were established and funded by HFS to pay such benefits in accordance with the terms of the HFS/PHH Merger agreement. Full implementation of the restructuring plan will result in the termination of approximately 500 employees substantially all of whom are located in North America, of which 369 employees were terminated as of September 30, 1997. Professional fees are primarily comprised of investment banking, accounting and legal fees incurred in connection with the HFS/PHH Merger. Business termination charges relate to the exit from certain activities associated with fleet management, mortgage services and ancillary operations. Facility related expenses include costs associated with contract and lease terminations, asset disposals and other charges incurred in connection with the consolidation and closure of excess space.

The Company anticipates that approximately $236.0 million will be paid in cash in connection with the PHH Merger Charge of which $137.0 million was paid through September 30, 1997. The remaining cash portion of the PHH Restructuring Charge will be financed through cash generated from operations and borrowings under the Company's revolving credit facilities. It is currently anticipated that the restructuring plan will be completed during the first quarter of 1998. Revenue and operating results from activities that will not be continued are not material to the results of operations of the Company.

1996 POOLINGS

In connection with the Company's 1996 acquisitions of Davidson, Sierra and Ideon, which were accounted for as poolings of interests, the Company recorded a non-recurring charge of approximately $179.9 million ($118.7 million, after tax) for the year ended December 31, 1996. Such charge is comprised of transaction costs, exit costs and a provision relating to certain litigation matters giving consideration to the Company's intended approach to these matters. As of September 30, 1997, such charges amounted to $155.7 million.

4. PRO FORMA INFORMATION

The following table reflects the unaudited operating results of the Company for the nine months ended September 30, 1996 on a pro forma basis, which gives effect to HFS's 1996 acquisitions, accounted for under the purchase method of accounting as if they had occurred on January 1, 1996:

Net revenues	$	3,284,158
Net income		319,439
Net income per share (fully diluted)	$	0.38

5. INVESTMENT IN ARAC

Upon entering into a definitive merger agreement to acquire Avis, Inc. in July 1996, HFS announced its strategy to dilute its interest in ARAC's car rental operations while retaining assets associated with the franchise business, including trademarks, reservation system assets and franchise agreements with ARAC and other licensees. Since HFS's control was planned to be temporary, HFS accounted for its 100% investment in ARAC under the equity method. In September 1997, ARAC completed an initial public offering ("IPO") of a subsidiary that operated the car rental operations of HFS Car Rental Inc., which diluted HFS's equity interest in such subsidiary to approximately 27.5%. Net proceeds from the IPO approximating $359.3 million retained by ARAC were used to fund its August 20, 1997 acquisition of The First Gray Line Corporation and repay ARAC indebtedness.

The Company licenses the Avis trademark to ARAC pursuant to a 50-year master license agreement and receives royalty fees based upon 4% of ARAC revenue, escalating to 4.5% of ARAC revenue over a 5-year period. In addition, the Company operates the telecommunications and computer processing system which services ARAC for reservations, rental agreement processing, accounting and fleet control for which the Company charges ARAC at cost. Summarized financial information of ARAC is as follows ($000's):

AVIS RENT A CAR, INC.

Balance sheet data:	SEPTEMBER 30, 1997	DECEMBER 31, 1996
Vehicles	$ 3,364,660	$ 2,243,492
Total assets	4,717,107	3,131,357
Debt	3,285,548	2,295,474
Total liabilities	4,263,001	3,054,817
Shareholders' equity	454,106	76,540

Statement of income data:	THREE MONTHS ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1997
Revenues	$ 580,049	$ 1,525,696
Income before provision for income taxes	24,953	49,313
Net income	13,868	26,974

6. SOFTWARE RESEARCH AND DEVELOPMENT COSTS AND COSTS OF SOFTWARE REVENUE

Software research and development costs are included in operating expenses and aggregated $30.0 million and $15.9 million for the three months ended September 30, 1997 and 1996, respectively, and $79.7 million and $46.1 million for the nine months ended September 30, 1997 and 1996, respectively. Software revenue included in Other was $265.2 million and $228.1 million for the nine months ended September 30, 1997 and 1996, respectively. Costs of software revenue are included in operating expenses and aggregated $26.7 million and $24.0 million for the three months ended September 30, 1997 and 1996, respectively, and $82.1 million and $69.9 million for the nine months ended September 30, 1997 and 1996, respectively.

7. REDEMPTION OF 4-1/2% NOTES

On September 22, 1997, HFS exercised its option to redeem the outstanding 4-1/2% Convertible Senior Notes ("4-1/2% Notes") effective on October 15, 1997 in accordance with the provisions of the indenture under which the 4-1/2% Notes were issued. Prior to the redemption date, all of the outstanding 4-1/2% Notes were converted. Accordingly, 19.7 million equivalent shares of Company common stock were issued (0.2 million shares as of September 30, 1997) as a result of the conversion of such notes.

8. ISSUANCE OF 3% CONVERTIBLE SUBORDINATED NOTES

On February 11, 1997, the Company issued $550.0 million in principal amount of 3% Convertible Subordinated Notes (the "3% Notes") due February 15, 2002. Interest on the 3% Notes is payable semi-annually. Each $1,000 principal amount of 3% Notes is convertible into 32.6531 shares of Company common stock subject to adjustment in certain events. The 3% Notes may be redeemed at the option of the Company at any time on or after February 15, 2000, in whole or in part, at the appropriate redemption prices (as defined in the indenture governing the 3% Notes) plus accrued interest to the redemption date. The 3% Notes will be subordinated in right of payment to all existing and future Senior Debt (as defined in the indenture governing the 3% Notes) of the Company. Issuance costs are being amortized on a straight-line basis over five years.

9. INVESTMENT IN NRT

During the third quarter of 1997, HFS acquired $182.0 million of preferred stock (included in other assets) of NRT Incorporated ("NRT"), a newly formed corporation created to acquire residential real estate brokerage firms. HFS acquired $216.1 million of certain intangible assets including trademarks associated with real estate brokerage firms acquired by NRT in 1997. HFS, at its discretion, may acquire up to $81.3 million of additional NRT preferred stock and may also purchase up to $229.9 million of certain intangible assets of real estate brokerage firms acquired by NRT.

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

10. SHAREHOLDERS' EQUITY

A. AUTHORIZED SHARES

In conjunction with the Cendant Merger effective on December 17, 1997, the Company's shareholders approved an amendment to the Company's restated certificate of incorporation to increase the number of authorized shares of common stock and preferred stock to 2 billion shares and 10 million shares, respectively. The Company has never issued shares of preferred stock.

B. TREASURY PURCHASES

In January 1997, HFS's Board of Directors authorized the purchase of 6.2 million equivalent shares of Company common stock to satisfy stock option exercises and conversions of convertible debt securities and to fund future acquisitions. The Company acquired approximately 6.2 million equivalent treasury shares in January and February 1997 for $179.4 million with revolving credit borrowings.

11. CONTINGENCIES - IDEON

On June 13, 1997, the Company entered into an agreement (the "Agreement") with Peter Halmos, the co-founder of SafeCard Services, Incorporated ("SafeCard"), which was reorganized in 1995 as Ideon. The Agreement calls for the dismissal with prejudice of certain outstanding litigation matters between Peter Halmos and certain of the Company's subsidiaries and the payment to Peter Halmos, over a six-year period, of $70.5 million. Specifically, the Agreement requires that the Company pay Peter Halmos one up-front payment of $13.5 million of six subsequent annual payments of $9.5 million each. For additional disclosure, see Footnote 13 --Commitments and Contingencies to Exhibit 99.1 -- Supplemental Consolidated Financial Statements.

EXHIBIT 99.3

SUPPLEMENTAL MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL OVERVIEW

On December 17, 1997 CUC International Inc. ("CUC" or the "Company") merged with HFS Incorporated ("HFS") and was renamed Cendant Corporation in a transaction which has been accounted for as a pooling of interests. Accordingly, financial statements have been restated for all periods presented as if CUC and HFS had operated as one entity since inception. The Company is a leading global provider of services to businesses serving consumer industries.

The Company provides fee-based services to consumers within the Membership, Travel and Real Estate business segments. The Company generally does not own the assets or share the risks associated with the underlying businesses of its customers. In the Membership Services segment, the Company is a technology-driven leading provider of membership-based consumer services. In the Travel segment, the Company is the world's largest franchisor of lodging facilities and rental car agencies, the leading provider of vacation timeshare exchange services and a leading provider of international fleet management services. In the Real Estate segment, the Company is the world's largest franchisor of residential real estate brokerage offices, the world's largest provider of corporate relocation services and operates a leading mortgage lending business in the United States. The combination of CUC and HFS provides the Company's membership businesses access to HFS's more than 100 million consumer contacts, while providing HFS businesses with the technology-driven, direct marketing expertise necessary to successfully cross-market within its existing business units.

SEGMENT DISCUSSION

Certain of the underlying business segments are comprised of businesses acquired which were accounted for as poolings of interest (See "Liquidity and Capital Resources - 1997 Poolings, 1996 Poolings and 1995 Poolings"). Accordingly, all financial information has been restated as if all of the pooled companies operated as one entity since inception. Certain of the underlying segments are comprised of businesses which were acquired in 1996 and 1995 and accounted for by the purchase method of accounting. (See " Liquidity and Capital Resources - 1996 Purchase Acquisitions and 1995 Purchase Acquisitions"). Accordingly, the results of operations of such acquired companies were included in the consolidated operating results of the Company from the respective dates of acquisition. In the underlying results of operations discussions, operating expenses include total expenses excluding interest expense and income taxes.

RESULTS OF OPERATIONS DISCUSSION

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

Net income increased $120.8 million (40%) despite non-recurring merger and related charges approximating $179.9 million ($118.7 million, after tax) (the "Davidson, Sierra and Ideon Merger Charge") in 1996 in connection with the mergers with Davidson & Associates, Inc. ("Davidson"), Sierra On-Line, Inc. ("Sierra") and Ideon Group, Inc. ("Ideon"). In connection with such charge, $131.3 million was allocated to the operations of the "Membership" segment.

The increase in net income primarily resulted from a $222.5 million (43%) increase in operating income.

The financial summary of the Company for the years ended December 31, 1996 and 1995 is as follows ($000's):

	1996	1995	VARIANCE
Net revenue	$ 3,908,780	$ 2,992,122	31%
Operating expenses	3,169,665	2,475,526	28%
Operating income	$ 739,115	$ 516,596	43%
Net income	$ 423,611	$ 302,825	40%

MEMBERSHIP SEGMENT

The Company provides its consumers, representing approximately 73 million memberships at September 30, 1997, access to a variety of goods and services including shopping, travel, auto, dining, home improvement, lifestyle, credit card and checking account enhancement packages, financial products and discount programs. The Company also administers insurance package programs which are generally combined with discount shopping and travel for credit union members and distributes welcoming packages which provide new homeowners with discounts for local merchants. Revenue is derived from membership fees which vary depending on the particular membership program. The Company provides individual, wholesale and discount program membership services to consumers, which are distributed through various channels including financial institutions, credit unions, charities, other cardholder-based organizations and retail establishments. Individual memberships consist of members that pay directly for the services and the Company pays for the marketing costs to solicit the members primarily using direct marketing techniques. Wholesale memberships include members that pay directly for the services to their sponsor and the Company does not pay for the marketing costs to solicit the members. Discount program memberships are generally marketed through a direct sales force, participating merchants or general advertising and the related fees are either paid directly by the member or the local retailer. All of these categories share various aspects of the Company's marketing and operating resources. The Company maintains a flexible marketing plan so that it is not dependent on any one service for the future growth of the total membership base.

	YEAR ENDED DECEMBER 31,		
OPERATING INCOME ($000'S)	1996	1995	VARIANCE
Net revenue	$ 2,097,098	$ 1,643,242	28%
Operating expenses	1,830,784	1,458,543	26%
Operating income	$ 266,314	$ 184,699	44%

Operating income increased $81.6 million (44%) despite $34.3 million of incremental non-recurring merger and related costs and other unusual charges in 1996 compared to 1995. Operating income increased $115.9 million (41%) excluding such charges.

The Company's overall membership base continues to grow at a rapid rate (from 59.7 million members at December 31, 1995 to 66.3 million members at December 31, 1996), which is the largest contributing factor to the 28% increase in membership revenues (from $1.6 billion in 1995 to $2.1 billion in 1996). While the overall membership base increased by 6.6 million members, or 11% during the year, the average annual fee charged for the Company's membership services increased by approximately 4%.

In 1996, individual (before giving effect to Ideon acquired members), wholesale and discount program memberships grew by 14%, 23% and 12%, respectively. Wholesale memberships have grown in part due to the success of the Company's international business in Europe. For the year ended December 31, 1996, individual, wholesale and discount program memberships represented 68%, 13% and 19% of membership revenues, respectively. The Company completed a number of acquisitions accounted for under the purchase method of accounting during 1996. Total revenue contributed by these acquisitions is not material to the Company's total reported membership revenue.

As the Company's membership services continue to mature, a greater percentage of the total individual membership base is in its renewal years. This results in increased profit margins for the Company due to the significant decrease in certain marketing costs incurred on renewing members. Improved response rates for new members also favorably impact profit margins.

Individual membership usage continues to increase, which contributes to additional service fees and indirectly contributes to the Company's strong renewal rates. Historically, an increase in overall membership usage has had a favorable impact on renewal rates. Actual membership cancellations were $401 million in 1996, compared to $376 million in 1995. This represents 17% and 19%, respectively, of the gross membership revenues accrued for all services. The Company records its deferred revenue net of estimated cancellations which are anticipated in the Company's marketing programs. The number of cancellations has increased due to the increased level of marketing efforts, but has decreased as a percentage of the total number of members.

The major components of the Company's membership operating costs continue to be personnel, telephone, computer processing and participant insurance premiums (the cost of obtaining insurance coverage for members). Historically, the Company has seen a direct correlation between providing a high level of service to its members and improved retention. Marketing costs remained constant as a percentage of revenues, which is primarily due to maintained per member acquisitions costs and an increase in renewing members. The Company routinely reviews all membership renewal rates and has not seen any material change in the average renewal rate in 1996 compared to 1995. Renewal rates are calculated by dividing the total number of renewing members not requesting a refund during their renewal year by the total members eligible for renewal.

TRAVEL SEGMENT

LODGING

The Company operates eight nationally recognized brands with approximately 5,700 lodging properties under franchise contracts of up to 20 years in duration. The Company provides central reservation system services and national marketing programs, which are completely funded by its franchisees from a designated portion of the franchise fees. The Company charges royalty fees based on a percentage of franchisee gross room sales to fund all expenses not covered by marketing and reservation fees, such as quality inspections and franchise sales and service functions. The significant revenue drivers of the Company are the number of royalty-paying franchise units and the average rate at which they pay. Other relevant drivers are the average daily rates and occupancy percentages of the underlying lodging properties.

OPERATING INCOME ($000'S)	YEAR ENDED DECEMBER 31, 1996	1995	VARIANCE
Net revenue	$ 385,920	$ 335,402	15%
Operating expenses	240,122	214,796	12%
Operating income	$ 145,798	$ 120,606	21%

Operating income increased 21% and net revenue increased 15% as a result of a 13% increase in royalty fees and a 41% increase in revenue from preferred alliances seeking access to the Company's franchisees and their underlying consumer base. Results for 1996 demonstrated that room growth is the most significant outcome driver for franchisee royalty, as the Company added 55,253 net rooms in 1996, representing a 133% increase from 1995 results. The Company added 94,506 rooms in 1996 (including 30,274 rooms added by the acquisition of Travelodge franchise contracts) and terminated 39,253 rooms in 1996 (including 6,053 Park Inn International rooms, comprising the franchise system sold in September 1996 for $2.2 million). In 1995, the Company added 63,280 rooms (including 9,780 rooms added by the acquisition of Knights Inn franchise contracts) and terminated 39,603 rooms (including 22,151 related to a special year-end removal of properties as a result of the repositioning and tightening of quality standards of the Company's brands). Total U.S. system revenue per available room ("REVPAR") increased 1.3% primarily due to a 1.9% increase in the average daily rates ("ADR") charged at franchised lodging facilities, however, REVPAR for comparable properties in 1996 and 1995 ("same store basis") increased 3.3% as a result of increases in ADR. The 12% ($25.3 million) increase in operating expenses included an 18% increase ($4.7 million) in depreciation and amortization, primarily related to the excess of cost over net assets acquired ("goodwill") associated with the acquisitions of the Travelodge and Knights Inn franchise systems in January 1996 and August 1995, respectively. In addition, operating expenses increased as a result of a 13% ($17.8 million) increase in marketing and reservation expenses associated with funds administered by the Company on a pass-through basis (corresponding franchisee contribution included in revenue).

CAR RENTAL

HFS acquired HFS Car Rental, Inc. (formerly Avis, Inc.) in October 1996. In September 1997, Avis Rent A Car, Inc. ("ARAC") then a subsidiary of HFS Car Rental Inc., which operated the rental car operations of HFS Car Rental Inc., completed an initial public offering ("IPO") which diluted HFS's equity interest in ARAC from 100% to 27.5%. HFS retained the assets that are consistent with its service provider business profile, including the trademarks, franchise agreements, reservation system and information technology system assets. The Company licenses the Avis trademark to ARAC pursuant to a 50-year master license agreement and receives royalty fees based upon 4% of ARAC revenue, escalating to 4.5% of ARAC revenue over a 5-year period. In addition, the Company operates the telecommunications and computer processing system which services ARAC for reservations, rental agreement processing, accounting and fleet control for which the Company charges ARAC at cost.

OPERATING INCOME ($000'S)	FOR THE PERIOD OCTOBER 17, 1996 TO DECEMBER 31, 1996
Net revenue	$ 10,014
Operating expenses	9,477
Operating income	$ 537

Net revenue consisted primarily of fees for information technology services provided to ARAC from the October 17, 1996 acquisition date. Operating expenses consisted of $3.4 million of depreciation and amortization expenses primarily associated with the Avis trademark and goodwill and $6.0 million of technology related expenses for services provided to ARAC and other rental car companies.

TIMESHARE

HFS acquired Resort Condominiums International ("RCI") in November 1996 for $487.1 million plus up to $200 million of contingent consideration. RCI sells subscription memberships to owners of vacation timeshare resorts which allow members to exchange their timeshare accommodations for timeshare accommodations owned by other members at participating affiliated resorts worldwide. In addition to membership fees, RCI earns fees for exchanges processed by its call center. The key timeshare revenue drivers include the number of fee paying members and exchanges as well as each corresponding average fee.

OPERATING INCOME ($000'S)	FOR THE PERIOD NOVEMBER 12, 1996 TO DECEMBER 31, 1996
Net revenue	$ 30,723
Operating expenses	27,404
Operating income	$ 3,319

Net revenue primarily consisted of $11.3 million of member fees and $12.1 million of exchange fees. Operating expenses consisted primarily of $17.9 million of staff and communication costs associated with member services (call centers). Assuming Company ownership of RCI since January 1, 1995, pro forma annual membership and exchange fee revenue increased 12% to $102.0 million and $11% to $157.6 million, respectively and total members and exchanges for calendar year 1996 increased 8% to 2.2 million and 9% to 1.7 million, respectively compared to 1995.

FLEET MANAGEMENT SERVICES

Fleet management services are offered to corporate clients and government agencies to assist them in effectively managing their vehicle fleet costs, reducing in-house administrative costs and enhancing driver productivity. Services consist of leasing (which generally requires an investment by the Company in the vehicle and includes new vehicle purchasing, open and closed-end operating leasing, direct finance leasing and used vehicle marketing) as well as a variety of fee-based services including fuel purchasing, maintenance management programs, expense reporting, fuel management programs, accident and safety programs and other driver services for managing clients' vehicle fleets. The Company has experienced minimal losses associated with its investment in vehicles due to the overall creditworthiness of its corporate clients.

	YEAR ENDED DECEMBER 31,		
OPERATING INCOME ($000'S)	1996	1995	VARIANCE
Net revenue	$ 255,866	$ 258,877	(1%)
Operating expenses	179,648	201,959	(11%)
Operating income	$ 76,218	$ 56,918	34%

Operating income increased $19.3 million (34%) to $76.2 million, primarily as a result of an increase in fee-based services and an $11.7 million gain on the sale of the Company's truck fuel management business ("NTS") which was sold in January 1996. The net revenue generated in 1996 included the increase in fee- based services but was offset by the absence of approximately $21.8 million of revenue from the sold NTS business. The $22.3 million (11%) decrease in operating expenses was primarily associated with $19.1 million of expenses associated with the sold NTS business.

REAL ESTATE SEGMENT

REAL ESTATE FRANCHISE

The Company licenses brand names to independently owned brokerage offices associated with three of the four largest franchise systems in the world. The Company acquired the world's largest franchise system, the CENTURY 21(R) franchise system, in August 1995, the ERA(R) franchise system in February 1996 and the Coldwell Banker(R)franchise system in May 1996. The most significant revenue driver for real estate franchise is the number of transactions for which the broker receives commission revenue. Royalties are calculated based on a percentage of such franchisee commission revenue. Marketing fees are collected by the Company and are used to fund national advertising expenditures and other marketing activities.

	YEAR ENDED DECEMBER 31,		
OPERATING INCOME ($000'S)	1996	1995	VARIANCE
Net revenue	$ 233,469	$ 47,965	387%
Operating expenses	122,934	28,688	329%
Operating income	$ 110,535	$ 19,277	473%

The increases in net revenue and operating income are due to the CENTURY 21 franchise system's first full year contribution to operating results and partial year contributions from the acquired Coldwell Banker and ERA franchise systems. These franchises systems licensed their trademarks to approximately 184,000 sales associates at December 31, 1996. The royalty portion of revenue increased $162.8 million (361%) and revenue from preferred affiliates grew from $0.2 million to $13.4 million, net of the Company's $11.0 million fourth quarter 1996 write-off of revenue associated with the license of the CENTURY 21 trademark to Amre, Inc., which filed for bankruptcy protection in February 1997.

Operating expenses increased 329% ($94.2 million) as a result of incremental expenses associated with acquired franchise systems. Operating expenses also included a $5.0 million restructuring charge associated with the second quarter 1996 contribution of Coldwell Banker's former owned brokerage business to National Realty Trust (the "Trust"), an independent entity governed by independent trustees.

RELOCATION

Relocation primarily consist of the purchase, management and resale of homes and fee-based home- related services for transferred employees of corporate clients, members of affinity group clients and government agencies. Although the Company acquires the homes of client employees, the client corporations reimburse the Company for carrying costs until the home is sold and for home sale losses. Accordingly, the Company earns a fee for services with minimal real estate risk. Operating expenses primarily consist of staffing and related costs for sales and service functions. Operating results include contributions from PHH Relocation for all periods shown, from Coldwell Banker Relocation Services, Inc. ("CBRS") since the May 31, 1996 acquisition date and from Worldwide Relocation Management, Inc. ("WRM") since the August 1, 1995 acquisition date.

OPERATING INCOME ($000'S)	YEAR ENDED DECEMBER 31, 1996	1995	VARIANCE
Net revenue	$ 344,865	$ 301,667	14%
Operating expenses	290,563	259,949	12%
Operating income	$ 54,302	$ 41,718	30%

Acquired CBRS and WRM operations generated $19.2 million of operating income and PHH Relocation operating income decreased $6.6 million (18%). PHH Relocation net revenue increased $23.7 million due to an expansion of services provided to corporate clients while revenue from home sale assistance was flat compared to 1995. The revenue increase was offset by $30.3 million of increased expenses associated with the development of the expanded full service infrastructure.

MORTGAGE SERVICES

Mortgage services primarily consist of the origination, sale and servicing of residential first mortgage loans. The Company packages its originated loans for sale in secondary markets, generally within 45 days of origination, and retains servicing rights. The Company markets a variety of first mortgage products to consumers through relationships with corporations, affinity groups, government agencies, financial institutions, real estate brokerage firms and mortgage banks by a combination of retail teleservices delivery and wholesale correspondent lending arrangements.

OPERATING INCOME ($000'S)	YEAR ENDED DECEMBER 31, 1996	1995	VARIANCE
Net revenue	$ 127,729	$ 93,251	37%
Operating expenses	86,427	51,507	68%
Operating income	$ 41,302	$ 41,744	(1%)

The increase in net revenue resulted from a 149% increase in loan origination revenue offset by a 28% decrease in loan servicing fees. The volume of loan closings increased 33% from $6.3 billion to $8.4 billion and the average fee increased from 54 to 100 basis points. Whereas the portfolio of loans serviced increased 16% from $19.4 billion to $22.5 billion, the average fee decreased 38% from 30.8 to 19.2 basis points. The increase in origination fees and decrease in servicing fees results from the implementation of Statement of Financial Accounting Standards ("SFAS") No. 122 "Accounting for Mortgage Servicing Rights" in 1995, which had the effect of reallocating revenue from servicing fees to origination fees. A reduction in gains recorded from the sale of a portion of the loan servicing portfolio also contributed to the decrease in service fees. The gain on the sale of servicing amounted to $17.4 million in 1995 compared to $1.5 million in 1996. Operating expenses increased as a result of higher closing volume experienced in expanded retail teleservices delivery arrangements in 1996.

OTHER SEGMENT

Other business operations primarily consist of the development and sale of high-quality educational, entertainment and personal productivity interactive multimedia products for home and school use ("Software"), casino credit information and marketing services, the equity in earnings from the Company's investment in ARAC (net of information technology fees charged to ARAC) and other operations or transactions which are not included in the Company's primary business segments.

OPERATING INCOME ($000'S)	YEAR ENDED DECEMBER 31, 1996	1995	VARIANCE
Net revenue	$ 423,096	$ 311,718	36%
Operating expenses	382,306	260,084	47%
Operating income	$ 40,790	$ 51,634	(21%)

Operating income decreased $10.9 million (21%) as a result of $48.6 million of incremental merger and related charges associated with the acquisitions of Davidson and Sierra. Excluding such merger and related charges, operating income increased $37.8 million (73%) primarily as a result of a $27.1 million increase from Software operations and $9.5 million in consideration received for the termination of a corporate services agreement with Chartwell Leisure Inc. Software revenue increased 28% to $375.2 million in 1996 and excluding the merger and related costs, software profit margins increased from 14% in 1995 to 19% in 1996. Distribution revenue, which consists principally of third-party software and typically has low operating margins, was down from $64.8 million in 1995 to $46.9 million in 1996. The Company's Software operations continue to grow by focusing on selling titles through retailers. Excluding distribution revenue, core software revenue grew by 44%. Contributing to the Software revenue growth in 1996 is the availability of a larger number of titles as well as a significant increase in the installed base of CD-ROM personal computers.

YEAR ENDED DECEMBER 31, 1995 VS YEAR ENDED DECEMBER 31, 1994

Net income increased $41.7 million (9%) despite $89.1 million of incremental non-recurring merger charges and costs associated with Ideon products abandoned. Net income excluding such charges increased $72.1 million (25%). The increase in net income was a result of a $41.7 million increase in operating income partially offset by a $2.7 million increase in net interest expense associated with financing the CENTURY 21 acquisition, and a general rise in interest rates in 1995 compared to 1994. Despite average LIBOR rate increases approximating 84 basis points, the Company's average borrowing rate increased only 40 basis points to 6.0%, principally as a result of favorable fixed rate debt securities issued in 1994 and 1993.

The financial summary of the Company for the years ended December 31, 1995 and 1994 is as follows ($000's):

	1995	1994	VARIANCE
Net revenue	$ 2,992,122	$ 2,446,731	22%
Operating expenses	2,475,526	1,971,846	26%
Operating income	$ 516,596	$ 474,885	9%
Net income	$ 302,825	$ 286,590	6%

MEMBERSHIP SEGMENT

	YEAR ENDED DECEMBER 31,		
OPERATING INCOME ($000'S)	1995	1994	VARIANCE
Net revenue	$ 1,643,242	$ 1,363,561	21%
Operating expenses	1,458,543	1,145,416	27%
Operating income	$ 184,699	$ 218,145	(15%)

Operating income decreased $33.4 million (15%) as a result of $89.1 million of incremental non-recurring merger charges and costs related to Ideon products abandoned. Excluding such costs, operating income increased $55.7 million (26%) in 1995 compared to 1994.

The Company's overall membership base grew at a rapid rate (from 46.9 million members at December 31, 1994 to 59.7 million members at December 31, 1995), which is the largest contributing factor to the 21% increase in membership revenues (from $1.4 billion in 1994 to $1.6 billion in 1995). While the overall membership base increased by 12.8 million members, or 27%, (of which approximately 8.0 million members came from acquisitions during the year ("Acquired Members")), the average annual fee charged for the Company's membership services increased by 3%.

In 1995, individual (before giving effect to Ideon acquired members), wholesale and discount program memberships grew by 14%, 19% and 11%, respectively, in addition to the increase due to Acquired Members. For the year ended December 31, 1995, individual, wholesale and discount program memberships represented 68%, 12% and 20% of membership revenues, respectively. Discount program memberships incurred the largest increase from Acquired Members. Welcome Wagon International, Inc., Getko Group Inc. and Advance Ross Corporation, all acquired in 1995, are classified in this membership category as their businesses provide local discounts to consumers. The Company maintains a flexible marketing plan so that it is not dependent on any one service for the future growth of the total membership base. The Company completed a number of acquisitions during 1995 which were accounted for under the purchase method of accounting. The total revenues contributed by these acquisitions are not material to the Company's total reported revenues.

Individual membership usage continues to increase, which contributes to additional service fees and indirectly contributes to the Company's strong renewal rates. Historically, an increase in overall membership usage has had a favorable impact on renewal rates. Actual membership cancellations were $376 million in 1995 compared to $354 million in 1994. This represents 19% and 21%, respectively, of the gross membership revenues accrued for all services. The Company records its deferred revenue net of estimated cancellations which are anticipated in the Company's marketing programs. The number of cancellations has increased due to the increased level of marketing efforts, but has decreased as a percentage of the total number of members.

The major components of the Company's membership operating costs are personnel, telephone, computer processing and participant insurance premiums (the cost of obtaining insurance coverage for members). Marketing costs decreased as a percentage of revenues which is primarily due to improved per member acquisition costs and an increase in renewing members. The Company routinely reviews all membership renewal rates and has not seen any material change in the average renewal rate in 1996 compared to 1995.

TRAVEL SEGMENT

LODGING

OPERATING INCOME ($000'S)	YEAR ENDED DECEMBER 31, 1995	1994	VARIANCE
Net revenue	$ 335,402	$ 300,694	12%
Operating expenses	214,796	198,207	8%
Operating income	$ 120,606	$ 102,487	18%

Net revenue increased 12% as a result of a $20.7 million (16%) increase in royalty fees and a $6.8 million (49%) increase in revenue from preferred alliances seeking access to franchisees and their customers. Room growth represented the most significant revenue outcome driver contributing to the revenue increase. The Company added 63,280 rooms during 1995, representing an 18.8% increase, but also terminated 39,603 rooms including 22,151 rooms in a special year-end removal of properties as a result of the repositioning and tightening of quality standards of the Company's brands. Total REVPAR increased 3.0% primarily due to a 2.6% increase in the average daily rates charged at franchisee hotels and a 1.8% increase in average royalty rates.

Demonstrating the Company's ability to translate revenue into earnings, operating income increased $18.1 million (18%) while operating expenses increased only $16.6 million (8%). The increase in operating expenses included $4.6 million of franchise sales and bad debt expenses associated with system growth as well as $1.5 million of scheduled Ramada license fee increases. Depreciation expense also increased $4.1 million in part from a full year's expense in 1995 related to the newly developed reservation system for Days Inn which was implemented in October 1994. The increase was also attributable to goodwill amortization associated with the issuance of Company common stock in December 1994 and September 1995, pursuant to an earnout agreement entered into with Bryanston Group, Inc., an affiliate of the sellers of the Days Inn franchise system.

FLEET MANAGEMENT SERVICES

OPERATING INCOME ($000'S)	YEAR ENDED DECEMBER 31, 1995	1994	VARIANCE
Net revenue	$ 258,877	$ 249,571	4%
Operating expenses	201,959	197,248	2%
Operating income	$ 56,918	$ 52,323	9%

The revenue increase primarily resulted from an increase in service fees generated by growth in fuel and maintenance management programs. Such growth reflects increased market penetration in the United States and United Kingdom. Operating expenses increased only 2% reflecting a cost reduction program implemented in 1995 net of certain expenses that vary with revenue growth.

REAL ESTATE SEGMENT

REAL ESTATE FRANCHISE

The CENTURY 21 franchise system contributed $48.0 million of net revenue and $19.3 million of operating income for the five months following HFS's August 1, 1995 acquisition. Franchise fees paid by the approximately 6,000 CENTURY 21 franchised brokerage offices approximated $42.1 million and accounted for the significant portion of real estate franchise net revenue. Operating expenses included $21.5 million of SG&A, including franchise sales, service and training expenses and $3.0 million of depreciation and amortization associated with goodwill and franchise agreements acquired in the CENTURY 21 acquisition.

RELOCATION

OPERATING INCOME ($000'S)	YEAR ENDED DECEMBER 31, 1995	1994	VARIANCE
Net revenue	$ 301,667	$ 255,974	18%
Operating expenses	259,949	221,440	17%
Operating income	$ 41,718	$ 34,534	21%

The 18% increase in net revenue resulted primarily from an expansion of full service products offered to corporate clients and a 7% ($7.8 million) increase in home sale assistance fees. 1995 also included revenue and expense contributions from WRM which was acquired on August 1, 1995 in connection with the acquisition of CENTURY 21. The operating expense increase resulted from growth in the infrastructure necessary to match competition for fee-based services other than home sale assistance and system related expenses associated with U.S. and Canadian asset management businesses.

MORTGAGE SERVICES

OPERATING INCOME ($000'S)	YEAR ENDED DECEMBER 31, 1995	1994	VARIANCE
Net revenue	$ 93,251	$ 74,494	25%
Operating expenses	51,507	44,322	16%
Operating income	$ 41,744	$ 30,172	38%

The increase in net revenue was primarily a result of the capitalization of $55.6 million of net revenue associated with the capitalization of originated mortgage servicing rights partially offset by a $10.7 million reduction in the gain on sale of servicing rights and a 32% increase in total loan closings from 1994 to 1995. In addition, operating expenses increased as the Company responded to the increase in loan production volume and the increased servicing portfolio.

Mortgage loan closings increased from $3.4 billion in 1994 to $6.3 billion in 1995. These increases resulted from increased consumer demand and the Company's increased market share due primarily to expanded relationships with affinity groups which represented 29% of the total increase, and with financial institutions which represented 24% of the total increase. Servicing net revenue increased 13% as a result of an increase in the average servicing portfolio partially offset by increased amortization of servicing rights.

The Company adopted SFAS No. 122, effective May 1, 1995. This statement requires that originated mortgage servicing rights be recognized as income when the loan is sold and servicing is retained. The effect of this change in accounting was partially offset by a decrease in margins realized on loans sold. This decline in margins reflects the price competition in the industry intended to capture market share during a period of low demand for mortgages which was created by changes in interest rates during 1995.

OTHER SEGMENT

	YEAR ENDED DECEMBER 31,		
OPERATING INCOME ($000'S)	1995	1994	VARIANCE
Net revenue	$ 311,718	$ 202,437	54%
Operating expenses	260,084	165,213	57%
Operating income	$ 51,634	$ 37,224	39%

Operating income increased $14.4 million (39%) as a result of $27.8 million from software operations and incremental profits from Central Credit Inc., which conducts a casino credit information business and was acquired in May 1995. Operating income in 1994 included a $19.7 million gain on the sale of the ImagiNation Network.

Software revenues increased 53% ($100.9 million) to $292.0 million in 1995. Contributing to the strong Software growth in 1995 was the release of 63 new titles and an additional 18 titles which were acquired, as compared to 34 new products released in 1994. Also contributing to the Software revenue growth is the significant increase in the installed base of CD-ROM personal computers as well as increases in affiliated label and distribution revenues.

THREE MONTHS ENDED MARCH 31, 1997 VS THREE MONTHS ENDED MARCH 31, 1996

Consolidated revenue increased 42% ($342.7 million) to $1.2 billion and consolidated net income increased 73% ($69.9 million) to $165.9 million in 1997 while fully diluted earnings per share ("EPS") increased 46% ($.06) to $.19. Operating income (revenue less expenses excluding interest and income taxes) increased 79% ($131.4 million) to $297.2 million.

Net interest expense increased 154% ($11.6 million) primarily resulting from borrowings under revolving credit facilities which financed the RCI acquisition and 1997 treasury stock purchases, while the weighted average effective interest rate decreased from 6.83% to 6.39% as a result of increased fixed rate borrowings at lower interest rates.

Operating expenses consist of total expenses excluding interest expense and income taxes. Results for the Company's segments are as follows:

	THREE MONTHS ENDED MARCH 31,		
OPERATING INCOME ($000'S)	1997	1996	VARIANCE
Net revenue	$ 1,164,106	$ 821,411	42%
Operating expenses	866,922	655,609	32%
Operating income	$ 297,184	$ 165,802	79%

MEMBERSHIP SEGMENT

	THREE MONTHS ENDED MARCH 31,		
OPERATING INCOME ($000'S)	1997	1996	VARIANCE
Net revenue	$ 544,080	$ 483,211	13%
Operating expenses	426,804	393,066	9%
Operating income	$ 117,276	$ 90,145	30%

The Company's overall membership base continues to grow at a rapid rate (from 60.9 million members at March 31, 1996 to 68.6 million members at March 31, 1997), which is the largest contributing factor to the 13% increase in membership revenues (from $483.2 million for the quarter ended March 31, 1996 to $544.1 million for the quarter ended March 31, 1997). While the overall membership base increased by approximately 2.2 million members during the quarter, the average annual fee collected for the Company's membership services increased by approximately 3%.

Compared to the previous year's first quarter, individual, wholesale and discount program memberships grew by 10%, 24% and 12%, respectively. Wholesale memberships have grown in part due to the success of the Company's international business in Europe. For the quarter ended March 31, 1997, individual, wholesale and discount program memberships represented 67%, 14% and 19% of membership revenues, respectively.

As the Company's membership services continue to mature, a greater percentage of the total individual membership base is in its renewal years. This results in increased profit margins for the Company due to the significant decrease in certain marketing costs incurred on renewing members. Improved response rates for new members also favorably impacts profit margins. Individual membership usage continues to increase, which contributes to additional service fees and indirectly contributes to the Company's strong renewal rates. Historically, an increase in overall membership usage has had a favorable impact on renewal rates. Included in net revenue for the quarter ended March 31, 1997, are revenues resulting from acquisitions which were completed during the quarter. However, net revenue contributed from these acquisitions is not material to the Company's total reported net revenue. The Company routinely reviews all membership renewal rates and has not seen any material change over the last year in the average renewal rate.

TRAVEL SEGMENT

LODGING

OPERATING INCOME ($000'S)	THREE MONTHS ENDED MARCH 31, 1997	1996	VARIANCE
Net revenue	$ 89,843	$ 81,290	11%
Operating expenses	53,843	53,341	1%
Operating income	$ 36,000	$ 27,949	29%

Operating income increased 29% as a result of a 11% increase in net revenue. The net revenue increase resulted from a 7% increase in royalty fees and an 83% increase in revenue from preferred alliances seeking access to the Company's franchisees and their underlying consumer base. Total royalty paying rooms grew 7% from the same period in 1996 and total system REVPAR increased 2% primarily due to a 3% increase in the ADR charged at franchised lodging facilities.

CAR RENTAL

OPERATING INCOME ($000'S)	THREE MONTHS ENDED MARCH 31, 1997
Net revenue	$ 58,834
Operating expenses	38,624
Operating income	$ 20,210

The Company acquired HFS Car Rental Inc. in October 1996. Assuming Company ownership since January 1, 1996, total net revenue increased $10.1 million (20%) to $58.8 million compared to pro forma 1996 net revenue. The increase resulted from a $2.0 million (11%) increase in royalty fees (including a $1.2 million increase in fees from ARAC) and a $6.1 million (34%) increase in information technology fees earned primarily from customers other than ARAC. Operating expenses increased $5.7 million (17%) compared to 1996 pro forma operating expenses. Operating expenses consisted primarily of $11.0 million and $15.2 million of reservation and information technology expenses as well as $9.3 million of depreciation and amortization expenses associated with the Avis trademark and goodwill.

TIMESHARE

OPERATING INCOME ($000'S)	THREE MONTHS ENDED MARCH 31, 1997
Net revenue	$ 100,925
Operating expenses	80,199
Operating income	$ 20,726

Net revenue primarily consists of $30.8 million of membership fees and $49.9 million of exchange fees. The Company acquired RCI in November, 1996. Assuming Company ownership of timeshare operations since January 1, 1996, pro forma first quarter membership and exchange fee revenue increased 27% and 4%, respectively. Total members and exchanges increased 8% to 2.0 million and 3% to 0.5 million compared to 1996, respectively.

FLEET MANAGEMENT

OPERATING INCOME ($000'S)	THREE MONTHS ENDED MARCH 31, 1997	1996	VARIANCE
Net revenue	$ 80,795	$ 70,948	14%
Operating expenses	48,631	44,749	9%
Operating income	$ 32,164	$ 26,199	23%

Operating income increased 23% ($6.0 million) to $32.2 million, primarily as a result of a $6.4 million (23%) increase in fee-based services. The $3.9 million (9%) increase in operating expenses was primarily attributable to expenses associated with a truck fuel management business which was sold in January 1996.

REAL ESTATE SEGMENT

REAL ESTATE FRANCHISE

OPERATING INCOME ($000'S)	THREE MONTHS ENDED MARCH 31, 1997	1996	VARIANCE
Net revenue	$ 55,397	$ 26,492	109%
Operating expenses	35,701	18,128	97%
Operating income	$ 19,696	$ 8,364	135%

The Company acquired the CENTURY 21 franchise system in August 1995, the ERA franchise system in February 1996 and Coldwell Banker franchise system in May 1996. The royalty portion of revenue increased $28.5 million (144%) to $48.3 million primarily attributable to acquired Coldwell Banker franchise system operations. Pro forma royalty revenue, which gives effect to the acquisitions of Coldwell Banker Corporation ("Coldwell Banker") and ERA as if these acquisitions were consummated on January 1, 1996, increased $2.3 million (5%) on the strength of a 2% increase in sales transactions and a 4% increase in the average price of homes sold. The percentage increase in sales transactions outperformed comparative industry results for the first quarter of 1997. Operating expenses increased as a result of incremental expenses associated with acquired franchise systems.

MORTGAGE SERVICES

OPERATING INCOME ($000'S)	THREE MONTHS ENDED MARCH 31, 1997	1996	VARIANCE
Net revenue	$ 33,632	$ 19,885	69%
Operating expenses	20,840	17,456	19%
Operating income	$ 12,792	$ 2,429	427%

The increase in net revenue resulted from a 44% increase in loan origination revenue offset by a 16% decrease in loan servicing fees. The volume of loan closings increased 9% from $2.3 billion to $2.5 billion and the average origination fee increased from 91 to 124 basis points. The increase in the average fee was due to an increase in profitability achieved in the sale of loans in the secondary market and an increase in volume from retail teleservices delivery. The portfolio of loans serviced increased 16% from $22.0 billion to $25.6 billion, the average servicing fee decreased 28% from 6.4 to 4.6 basis points. The decrease in the average fee earned is due to the impact of SFAS No. 122 which became effective in 1995. Operating expenses increased as a result of the larger servicing portfolio and increased recruiting and staff training expenses.

RELOCATION

	THREE MONTHS ENDED MARCH 31,		
OPERATING INCOME ($000'S)	1997	1996	VARIANCE
Net revenue	$ 85,245	$ 67,374	27%
Operating expenses	71,283	60,014	19%
Operating income	$ 13,962	$ 7,360	90%

The $6.6 million (90%) increase in operating income is primarily attributable to acquired CBRS operations.

OTHER SEGMENT

	THREE MONTHS ENDED MARCH 31,		
OPERATING INCOME ($000'S)	1997	1996	VARIANCE
Net revenues	$ 115,355	$ 72,211	60%
Operating expenses	90,997	68,855	32%
Operating income	$ 24,358	$ 3,356	626%

The increase in net revenues is in large part attributable to the continued focus on selling software titles through retailers and the availability of a larger number of titles as well as the significant increase in the installed base of CD-ROM personal computers. Operating income increased $21.0 million primarily as a result of $12.5 million from Software operations and a $5.8 million gain on the sale of an investment. As a result of the Company recalendarizing only its 1997 results, software operations for calendar 1997 are compared against the fiscal period ended April 30, 1996. Assuming a comparable quarter, software operating income increased $3.2 million from 1996 to 1997.

THREE MONTHS ENDED JUNE 30, 1997 VS THREE MONTHS ENDED JUNE 30, 1996

HFS recorded an anticipated $303.0 million one-time merger and related charge ($227.0 million, after tax) (the "PHH Merger Charge") during the second quarter of 1997 in connection with the merger of PHH Corporation ("PHH") with and into HFS (the "HFS/PHH Merger"). In connection with such charge, $40.4 million and $50.4 million of costs were allocated to the operations of the fleet management and relocation business segments, respectively. The remaining merger and related costs did not directly apply to the Company's operating segments and were therefore included as operating expenses within the Company's "Other" segment.

The Company recorded a $28.6 million merger and related charge ($25.1 million after tax) (the "Second Quarter 1996 Davidson and Sierra Merger Charge") in connection with the Davidson and Sierra Mergers. Such charge pertained to the Company's software operations which is included in the Company's "Other" segment.

The financial summary for the three months ended June 30, 1997 and 1996, INCLUDING THE PHH MERGER CHARGE AND THE SECOND QUARTER 1996 DAVIDSON AND SIERRA MERGER CHARGE IS AS FOLLOWS ($000'S):

	THREE MONTHS ENDED JUNE 30,		
	1997	1996	VARIANCE
Net revenue	$ 1,300,513	$ 935,639	39%
Operating expenses	1,229,703	748,950	64%
Operating income	$ 70,810	$ 186,689	(62%)
Net income (loss)	$ (13,437)	$ 101,064	(113%)
Net income (loss) per share (fully diluted)	$ (0.02)	$ 0.13	(115%)

The financial summary for the three months ended June 30, 1997 and 1996, EXCLUDING THE PHH MERGER CHARGE AND THE SECOND QUARTER 1996 DAVIDSON AND SIERRA MERGER CHARGE IS AS FOLLOWS ($000'S):

	THREE MONTHS ENDED JUNE 30,		
	1997	1996	VARIANCE
Net revenue	$ 1,300,513	$ 935,639	39%
Operating expenses	926,703	720,315	29%
Operating income	$ 373,810	$ 215,324	74%
Net income	$ 213,563	$ 126,164	69%
Net income per share (fully diluted)	$ 0.25	$ 0.16	56%

Net interest expense increased $8.7 million primarily resulting from borrowings under revolving credit facilities which financed 1997 treasury stock purchases, merger expenditures, the acquisition of RCI and other acquisition related expenditures. The weighted average effective interest rate decreased from 7.20% to 5.80% as a result of increased fixed rate borrowings at lower interest rates.

FOR COMPARATIVE PURPOSES, THE FOLLOWING SEGMENT INFORMATION AND DISCUSSIONS EXCLUDE THE PHH MERGER CHARGE AND THE SECOND QUARTER 1996 DAVIDSON AND SIERRA MERGER CHARGE.

MEMBERSHIP SEGMENT

OPERATING INCOME ($000'S)	THREE MONTHS ENDED JUNE 30, 1997	1996	VARIANCE
Net revenues	$ 641,047	$ 521,742	23%
Operating expenses	483,413	418,928	15%
Operating income	$ 157,634	$ 102,814	53%

The Company's overall membership base continues to grow at a rapid rate (from 62.3 million members at June 30, 1996 to 70.7 million members at June 30, 1997), which is the largest contributing factor to the 23% increase in membership revenues (from $521.7 million for the quarter ended June 30, 1996 to $641.0 million for the quarter ended June 30, 1997). While the overall membership base increased by approximately 2.1 million members during the quarter, the average annual fee collected for the Company's membership services increased by approximately 1%.

Compared to the previous year's second quarter, individual, wholesale and discount program memberships grew by 11%, 22% and 12%, respectively. Wholesale memberships have grown in part due to the success of the Company's international business in Europe. For the quarter ended June 30, 1997, individual, wholesale and discount program memberships represented 67%, 14% and 19% of membership revenues, respectively.

As the Company's membership services continue to mature, a greater percentage of the total individual membership base is in its renewal years. This results in increased profit margins for the Company due to the significant decrease in certain marketing costs incurred on renewing members. Improved response rates for new members also favorably impacted profit margins. Individual membership usage continues to increase, which contributes to additional service fees and indirectly contributes to the Company's strong renewal rates. Historically, an increase in overall membership usage has had a favorable impact on renewal rates. Included in net revenue for the quarter ended June 30, 1997, are revenues resulting from acquisitions which were completed during the six months ended June 30, 1997. However, net revenue contributed from these acquisition is not material to the Company's total reported net revenue. The Company routinely reviews all membership renewal rates and has not seen any material change over the last year in the average renewal rate.

TRAVEL SEGMENT

LODGING

OPERATING INCOME ($000'S)	THREE MONTHS ENDED JUNE 30, 1997	1996	VARIANCE
Net revenue	$ 108,111	$ 98,933	9%
Operating expenses	63,910	61,683	4%
Operating income	$ 44,201	$ 37,250	19%

The net revenue increase resulted from a 6% increase in royalty fees and a 55% increase in revenue from preferred alliances seeking access to the Company's franchisees and their underlying consumer base. Total royalty paying rooms grew 5% from the same period in 1996 and total system REVPAR increased 2%

primarily due to a 2% increase in ADR charged at franchised lodging facilities. The 4% increase in operating expenses resulted primarily from an increase in marketing and reservation expenses.

CAR RENTAL

OPERATING INCOME ($000'S)	THREE MONTHS ENDED JUNE 30, 1997
Net revenue	$ 60,036
Operating expenses	37,669
Operating income	$ 22,367

The Company acquired HFS Car Rental Inc. in October 1996. Net revenue consisted primarily of $46.9 million of franchise fees and $11.6 million of information technology fees from third party clients. Operating expenses consisted primarily of $11.5 million and $15.1 million of reservation and information technology expenses as well as $9.2 million of depreciation and amortization expenses associated with the Avis trademark and goodwill.

TIMESHARE

OPERATING INCOME ($000'S)	THREE MONTHS ENDED JUNE 30, 1997
Net revenue	$ 89,261
Operating expenses	70,416
Operating income	$ 18,845

The Company acquired RCI in November 1996. Net revenue primarily consists of $30.8 million of member fees and $43.0 million of exchange fees. Assuming Company ownership of timeshare operations since January 1, 1996, pro forma member and exchange fee revenue increased 20% and 16%, respectively. Total members and exchanges increased 8% to 2.0 million and 11% to 0.4 million compared to 1996, respectively.

FLEET MANAGEMENT

OPERATING INCOME ($000'S)	THREE MONTHS ENDED JUNE 30, 1997	1996	VARIANCE
Net revenue	$ 65,786	$ 62,822	5%
Operating expenses	40,756	46,150	(12%)
Operating income	$ 25,030	$ 16,672	50%

Operating income increased $8.4 million (50%) to $25.0 million, primarily as a result of a $6.4 million (23%) increase in fee-based services. The $5.4 million (12%) decrease in operating expenses was primarily attributable to expenses associated with a truck fuel management business which was sold in January 1996 and operational efficiencies realized as part of the second quarter 1997 restructuring of certain fleet management operations.

REAL ESTATE SEGMENT

REAL ESTATE FRANCHISE

OPERATING INCOME ($000'S)	THREE MONTHS ENDED JUNE 30, 1997	1996	VARIANCE
Net revenue	$ 83,671	$ 56,575	48%
Operating expenses	36,190	33,124	9%
Operating income	$ 47,481	$ 23,451	102%

The Company acquired the ERA franchise system in February 1996 and the Coldwell Banker franchise system in May 1996. The royalty portion of revenue increased $23.9 million (47%) to $74.6 million, primarily attributable to acquired Coldwell Banker franchise system operations. Pro forma royalty revenue, which gives effect to the acquisitions of the Coldwell Banker and ERA franchise systems as if these acquisitions were consummated on January 1, 1996, would have increased $4.4 million (6%) on the strength of a 10% increase in the average price of homes sold. Operating expenses increased 9% as a result of incremental expenses associated with acquired franchise systems net of a $5.0 million charge associated with the second quarter 1996 contribution of Coldwell Banker's former owned brokerage business to the Trust.

MORTGAGE SERVICES

OPERATING INCOME ($000'S)	THREE MONTHS ENDED JUNE 30, 1997	1996	VARIANCE
Net revenue	$ 42,497	$ 35,269	20%
Operating expenses	23,829	21,631	10%
Operating income	$ 18,668	$ 13,638	37%

The increase in net revenue resulted from a 44% increase in loan origination revenue offset by a 16% decrease in loan servicing fees. The volume of loan closings increased 9% from $2.3 billion to $2.5 billion and the average origination fee increased from 91 to 124 basis points. The increase in the average fee was due to an increase in profitability achieved in the sale of loans in the secondary market and an increase in volume from retail teleservices delivery. The portfolio of loans serviced increased 16% from $22.0 billion to $25.6 billion, the average servicing fee decreased 28% from 6.4 to 4.6 basis points. The decrease in the average fee earned is due to the impact of SFAS No. 122 which became effective in 1995. Operating expenses increased as a result of the larger servicing portfolio and increased recruiting and staff training expenses.

RELOCATION

OPERATING INCOME ($000'S)	THREE MONTHS ENDED JUNE 30, 1997	1996	VARIANCE
Net revenue	$ 103,448	$ 83,741	24%
Operating expenses	78,158	72,871	7%
Operating income	$ 25,290	$ 10,870	133%

The increase in net revenue was primarily attributable to $8.3 million of incremental revenue generated by acquired CBRS operations. The $5.3 million increase in operating expenses included expenses associated with the acquired operations net of $2.4 million of restructuring related savings in 1997. Assuming company ownership of CBRS since January 1, 1996, pro forma revenue increased $6.1 million (6%) from 1996 primarily as a result of an increase in referral fees.

OTHER SEGMENT

OPERATING INCOME ($000'S)	THREE MONTHS ENDED JUNE 30, 1997	1996	VARIANCE
Net revenues	$ 106,656	$ 76,557	39%
Operating expenses	92,362	65,928	40%
Operating income	$ 14,294	$ 10,629	34%

Operating income increased $3.7 million (34%) primarily as a result of $20.8 million of equity in earnings in ARAC, partially offset by a decrease of $12.0 million from Software operations and the absence of fees associated with the license of the Century 21 trademark to Amre Inc. As a result of the Company only recalendarizing its 1997 results, software operations for calendar 1997 are compared against the fiscal period ended July 31, 1996. Assuming a comparable quarter, software operating income decreased $2.2 million from 1996 to 1997.

SIX MONTHS ENDED JUNE 30, 1997 VS SIX MONTHS ENDED JUNE 30, 1996

The financial summary for the six months ended June 30, 1997 and 1996, INCLUDING THE PHH MERGER CHARGE OF $303.0 MILLION ($227.0 MILLION, AFTER TAX) AND THE SECOND QUARTER 1996 DAVIDSON AND SIERRA MERGER CHARGE OF $28.6 MILLION ($25.1 MILLION, AFTER TAX) IS AS FOLLOWS ($000'S):

OPERATING INCOME ($000'S)	SIX MONTHS ENDED JUNE 30, 1997	1996	VARIANCE
Net revenue	$2,458,711	$ 1,757,050	40%
Operating expenses	2,097,381	1,404,559	49%
Operating income	$ 361,330	$ 352,491	3%
Net income	$ 152,432	$ 197,038	(23%)
Net income per share	$ 0.18	$ 0.25	(28%)

The financial summary for the six months ended June 30, 1997 and 1996, EXCLUDING THE PHH MERGER CHARGE AND THE SECOND QUARTER 1996 DAVIDSON AND SIERRA MERGER CHARGE IS AS FOLLOWS ($000'S):

OPERATING INCOME ($000'S)	SIX MONTHS ENDED JUNE 30, 1997	1996	VARIANCE
Net revenue	$ 2,458,711	$1,757,050	40%
Operating expenses	1,794,381	1,375,924	30%
Operating income	$ 664,330	$ 381,126	74%
Net income	$ 379,432	$ 222,138	71%
Net income per share	$ 0.44	$ 0.28	57%

Net interest expense increased 92% ($13.6 million) primarily resulting from borrowings under revolving credit arrangements which financed 1997 treasury stock purchases, restructuring expenditures, the RCI acquisition and other acquisition related expenditures, while the weighted average effective interest rate decreased 7.26% to 6.10 % as a result of increased fixed rate borrowings at lower interest rates.

FOR COMPARATIVE PURPOSES, THE FOLLOWING SEGMENT INFORMATION AND DISCUSSIONS EXCLUDE THE PHH MERGER CHARGE AND THE SECOND QUARTER 1996 DAVIDSON AND SIERRA MERGER CHARGE.

MEMBERSHIP SEGMENT

	SIX MONTHS ENDED JUNE 30,		
OPERATING INCOME ($000'S)	1997	1996	VARIANCE
Net revenues	$ 1,185,127	$ 1,004,953	18%
Operating expenses	914,415	811,994	13%
Operating income	$ 270,712	$ 192,959	40%

The Company's overall membership base continues to grow at a rapid rate (from 62.3 million members at June 30, 1996 to 70.7 million members at June 30, 1997), which is the largest contributing factor to the 18% increase in membership revenues (from $1.0 billion for the six months ended June 30, 1996 to $1.2 billion for the six months ended June 30, 1997). While the overall membership base increased by approximately 4.4 million members during the six months ended June 30, 1997, the average annual fee collected for the Company's membership services increased by approximately 3%.

Compared to the previous year's first six months, individual, wholesale and discount program memberships grew by 11%, 22% and 12%, respectively. Wholesale memberships have grown in part due to the success of the Company's international business in Europe. For the six months ended June 30, 1997, individual, wholesale and discount program memberships represented 67%, 14% and 19% of membership revenues, respectively.

As the Company's membership services continue to mature, a greater percentage of the total individual membership base is in its renewal years. This results in increased profit margins for the Company due to the significant decrease in certain marketing costs incurred on renewing members. Improved response rates for new members also favorably impacted profit margins. Individual membership usage continues to increase, which contributes to additional service fees and indirectly contributes to the Company's strong renewal rates. Historically, an increase in overall membership usage has had a favorable impact on renewal rates. Included in net revenues for the six months ended June 30, 1997, are revenues resulting from acquisitions which were completed during the six months ended June 30, 1997. However, net revenue contributed from these acquisitions are not material to the Company's total reported net revenue. The Company routinely reviews all membership renewal rates and has not seen any material change over the last year in the average renewal rate.

TRAVEL SEGMENT

LODGING

OPERATING INCOME ($000'S)	SIX MONTHS ENDED JUNE 30, 1997	1996	VARIANCE
Net revenue	$ 197,954	$ 180,223	10%
Operating expenses	117,753	115,024	2%
Operating income	$ 80,201	$ 65,199	23%

The net revenue increase resulted from a 6% increase in royalty fees and a 70% increase in revenue from preferred alliances seeking access to the Company's franchisees and their underlying consumer base. Total royalty paying rooms grew 3% from the same period in 1996 and total REVPAR increased 2% primarily due to a 3% increase in ADR charged at franchised lodging facilities. The 2% increase in operating expenses resulted primarily from an increase in marketing and reservation expenses.

CAR RENTAL

OPERATING INCOME ($000'S)	SIX MONTHS ENDED JUNE 30, 1997
Net revenue	$ 118,870
Operating expenses	76,293
Operating income	$ 42,577

The car rental segment generated $42.6 million of operating income in the six months ended June 30, 1997. Net revenue consisted primarily of $86.9 million of franchise fees and $21.6 million of information technology fees from third party clients. Operating expenses consisted primarily of $22.4 million and $30.3 million of reservation and information technology expenses as well as $18.5 million of depreciation and amortization expenses associated with the Avis trademark and goodwill.

TIMESHARE

OPERATING INCOME ($000'S)	SIX MONTHS ENDED JUNE 30, 1997
Net revenue	$ 187,710
Operating expenses	148,139
Operating income	$ 39,571

Net revenue primarily consists of $61.6 million of member fees and $92.8 million of exchange fees. Assuming Company ownership of timeshare operations since January 1, 1996, pro forma first quarter membership revenue and exchange fee revenue would have increased 23% and 10% respectively. Total members and exchanges increased 8% to 2.0 million and 6% to 0.9 million compared to 1996, respectively.

FLEET MANAGEMENT SERVICES

OPERATING INCOME ($000'S)	SIX MONTHS ENDED JUNE 30, 1997	1996	VARIANCE
Net revenue	$ 146,581	$ 133,770	10%
Operating expenses	89,387	90,899	(2%)
Operating income	$ 57,194	$ 42,871	33%

Operating income increased $14.3 million (33%) to $57.2 million, primarily as a result of a $9.4 million (14%) increase in fee-based services. The $1.5 million (2%) decrease in operating expenses was primarily associated with expenses associated with a truck fuel management business which was sold in January 1996 and operational efficiencies realized as part of the second quarter 1997 restructuring of certain fleet management operations.

REAL ESTATE SEGMENT

REAL ESTATE FRANCHISE

OPERATING INCOME ($000'S)	SIX MONTHS ENDED JUNE 30, 1997	1996	VARIANCE
Net revenue	$ 139,068	$ 87,192	59%
Operating expenses	71,891	55,377	30%
Operating income	$ 67,177	$ 31,815	111%

The royalty portion of revenue increased $52.4 million (74%) to $123.0 million primarily attributable to acquired Coldwell Banker franchise system operations. Pro forma royalty revenue, which gives effect to the acquisitions of Coldwell Banker and ERA franchise systems as if these acquisitions were consummated on January 1, 1996, would have increased $6.8 million (6%) on the strength of an 8% increase in the average price of homes sold. Operating expenses increased as a result of incremental expenses associated with the acquired franchise systems.

MORTGAGE SERVICES

OPERATING INCOME ($000'S)	SIX MONTHS ENDED JUNE 30, 1997	1996	VARIANCE
Net revenue	$ 76,129	$ 55,154	38%
Operating expenses	44,669	39,087	14%
Operating income	$ 31,460	$ 16,067	96%

The increase in net revenue resulted from a 63% increase revenue from new production and a 7% increase in revenue from the servicing portfolio. The volume of new loan production decreased 5% from $4.5 billion to $4.3 billion as a result of a 37% decrease in refinancing volume which was offset by a 21% increase in purchase mortgage volume. The average fee earned in new production increased from 68 basis points to 117 basis points as a result of improved profitability achieved in the sale of loans in the secondary market. Operating expenses increased 14% due to the larger servicing portfolio as well as increased recruiting, training and systems development costs.

RELOCATION

OPERATING INCOME ($000'S)	SIX MONTHS ENDED JUNE 30, 1997	1996	VARIANCE
Net revenue	$ 188,693	$ 151,115	25%
Operating expenses	149,441	132,885	12%
Operating income	$ 39,252	$ 18,230	115%

The $21.0 million (115%) increase in operating income is attributable to approximately $14.3 million of operating income from relocation businesses owned for the entire six month periods of 1997 and 1996 and the balance was generated from acquired CBRS operations.

OTHER SEGMENT

OPERATING INCOME ($000'S)	SIX MONTHS ENDED JUNE 30, 1997	1996	VARIANCE
Net revenues	$ 218,579	$ 144,643	51%
Operating expenses	182,393	130,658	40%
Operating income (loss)	$ 36,186	$ 13,985	159%

Operating income increased $22.2 million which primarily reflects $24.3 million of the equity in earnings of ARAC during 1997. The increase in net revenues is in large part attributable to the continued focus on selling software titles through retailers and the availability of a larger number of titles as well as the significant increase in the installed base of CD-ROM personal computers.

THREE MONTHS ENDED SEPTEMBER 30, 1997 VS THREE MONTHS ENDED SEPTEMBER 30, 1996

The Company recorded a merger and related charge of $147.2 million ($89.6 million, after tax) (the "Third Quarter 1996 Davidson, Sierra and Ideon Merger Charge") during the third quarter of 1996 in connection with the 1996 mergers of the Company with Davidson, Sierra and Ideon. In connection with such charge $127.2 million was allocated to the operations of the "Membership" segment, and the remaining $20.0 million of the charge pertained to the Company's software operations, which is included in the Company's "Other" segment.

The financial summary of the Company for the three months ended September 30, 1997 and 1996, INCLUDING AND EXCLUDING THE DAVIDSON, SIERRA AND IDEON MERGER CHARGE, IS AS FOLLOWS ($000'S):

		1996		VARIANCE	
	1997	INCLUDING CHARGE	EXCLUDING CHARGE	INCLUDING CHARGE	EXCLUDING CHARGE
Net revenue	$ 1,431,304	$ 1,042,901	$ 1,042,901	37%	37%
Operating expenses	1,001,482	927,869	780,669	8%	28%
Operating income	$ 429,822	$ 115,032	$ 262,232	274%	64%
Net income	$ 248,264	$ 68,466	$ 158,066	263%	57%
Net income per share (fully diluted)	$ 0.28	$ 0.08	$ 0.19	250%	47%

Net interest expense increased $13.1 million in 1997 primarily resulting from borrowings under revolving credit arrangements which financed 1997 treasury stock purchases, restructuring expenditures and acquisition related expenditures. The weighted average effective interest rate decreased from 7.84% to 5.30% as a result of increased fixed rate borrowings at lower interest rates.

FOR COMPARATIVE PURPOSES, THE FOLLOWING SEGMENT INFORMATION AND DISCUSSIONS EXCLUDE THE THIRD QUARTER 1996 DAVIDSON, SIERRA AND IDEON MERGER CHARGE.

MEMBERSHIP SEGMENT

	THREE MONTHS ENDED SEPTEMBER 30,		
OPERATING INCOME ($000'S)	1997	1996	VARIANCE
Net revenues	$ 690,220	$ 534,718	29%
Operating expenses	544,414	438,793	24%
Operating income	$ 145,806	$ 95,925	52%

The Company's overall membership base continues to grow at a rapid rate (from 63.8 million members at September 30, 1996 to 72.9 million members at September 30, 1997), which is the largest contributing factor to the 29% increase in membership revenues (from $534.7 million for the quarter ended September 30, 1996 to $690.2 million for the quarter ended September 30, 1997). While the overall membership base increased by approximately 2.2 million members during the quarter, the average annual fee collected for the Company's membership services increased by approximately 1%.

Compared to the previous year's third quarter, individual, wholesale and discount program memberships grew by 13%, 21% and 13%, respectively. Wholesale memberships have grown in part due to the success of the Company's international business in Europe. For the quarter ended September 30, 1997, individual, wholesale and discount program memberships represented 67%, 14% and 19% of membership revenues, respectively.

As the Company's membership services continue to mature, a greater percentage of the total individual membership base is in its renewal years. This results in increased profit margins for the Company due to the significant decrease in certain marketing costs incurred on renewing members. Improved response rates for new members also favorably impacted profit margins. Individual membership usage continues to increase, which contributes to additional service fees and indirectly contributes to the Company's strong renewal rates. Historically, an increase in overall membership usage has had a favorable impact on renewal rates. Included in net revenue for the quarter ended September 30, 1997, are revenues resulting from acquisitions which were completed during the nine months ended September 30, 1997. However, net revenue contributed from these acquisitions are not material to the Company's total reported net revenue. The Company routinely reviews all membership renewal rates and has not seen any material change over the last year in the average renewal rate.

TRAVEL SEGMENT

LODGING

	THREE MONTHS ENDED SEPTEMBER 30,		
OPERATING INCOME ($000'S)	1997	1996	VARIANCE
Net revenue	$ 124,473	$ 115,670	8%
Operating expenses	73,487	71,530	3%
Operating income	$ 50,986	$ 44,140	16%

The net revenue increase resulted from an 8% increase in royalty fees and a 41% increase in revenue from preferred alliances seeking access to the Company's franchisees and their underlying consumer base. The increase in royalty fees resulted primarily from a 5% growth in franchised rooms from the same period in 1996. The 3% increase in operating expenses represents increased marketing expenses associated with funds administered by the Company on behalf of franchisees on a pass-through basis (corresponding franchisee contribution included in revenue).

CAR RENTAL

In September 1997, the IPO of ARAC, then a subsidiary that operated the car rental operations of HFS Car Rental Inc., was completed, which diluted HFS's equity interest in such subsidiary from 100% to 27.5%. The Company licenses the Avis trademark to ARAC pursuant to a 50-year master license agreement and receives royalty fees based upon 4% of ARAC revenue, escalating to 4.5% of ARAC revenue over a 5-year period. In addition, the Company operates the telecommunications and computer processing system, which services ARAC for which the Company charges ARAC at cost.

OPERATING INCOME ($000'S)	THREE MONTHS ENDED SEPTEMBER 30, 1997	1996 (PRO FORMA)	VARIANCE
Net revenue	$ 62,787	$ 59,315	6%
Operating expenses	37,596	38,334	(2%)
Operating income	$ 25,191	$ 20,981	20%

Assuming the ARAC IPO occurred on January 1, 1996, pro forma operating income increased $4.2 million (20%) from 1996 to 1997 as a result of $1.3 million (7%) increase in royalty fees and $2.2 million of preferred alliance and other revenue. A 6% increase in franchisee car rental price per day contributed to the royalty increase.

TIMESHARE

OPERATING INCOME ($000'S)	THREE MONTHS ENDED SEPTEMBER 30, 1997	1996 (PRO FORMA)	VARIANCE
Net revenue	$ 86,860	$ 78,164	11%
Operating expenses	64,392	66,649	(3%)
Operating income	$ 22,468	$ 11,515	95%

Assuming Company ownership of timeshare operations since January 1, 1996, pro forma operating income increased $11.0 million (95%) from 1996 to 1997 as a result of expense reductions realized following the November 1996 acquisition of RCI. Pro forma revenue increased 11% as a result of a 9% increase in exchange revenue and a 24% increase in subscription revenue, resulting from member fee and price increases.

FLEET MANAGEMENT

OPERATING INCOME ($000'S)	THREE MONTHS ENDED SEPTEMBER 30, 1997	1996	VARIANCE
Net revenue	$ 59,810	$ 59,062	1%
Operating expenses	41,104	44,156	(7%)
Operating income	$ 18,706	$ 14,906	25%

Net revenue increased only $.7 million (1%) as a result of the Company's January 1997 sale of certain credit card operations. The Company currently participates in such credit card operations as a joint venture partner and accordingly, records revenue based on its equity in earnings on the joint venture. As a result, revenue in 1997 includes revenue, net of expenses from the joint venture, compared to gross revenue received from corresponding, wholly-owned credit card operations in 1996. Assuming the joint venture commenced January 1, 1996, pro forma net revenue increased 12% primarily as a result of $3.6 million of increased fuel card revenue in the United Kingdom and a $1.6 million increase in the United States fleet card operations. Operating income increased 25% as a result of savings generated from the restructuring of operations subsequent to the HFS/PHH Merger.

REAL ESTATE SEGMENT

REAL ESTATE FRANCHISE

OPERATING INCOME ($000'S)	THREE MONTHS ENDED SEPTEMBER 30, 1997	1996	VARIANCE
Net revenue	$ 98,344	$ 79,426	24%
Operating expenses	36,574	36,187	1%
Operating income	$ 61,770	$ 43,239	43%

The royalty portion of revenue increased $13.0 million (18%) to $85.8 million. Increased royalty revenue reflects higher broker sales volume primarily resulting from a 5 % increase in real estate transactions and a 12% increase in the average price of homes sold. The net revenue increase also reflects a 75% increase in revenue from preferred alliance programs to $8.3 million in 1997. The Company limited operating expenses to a $0.4 million (1%) increase as a result of the post-acquisition realization of cost savings associated with the consolidation of operating functions of its franchise systems.

RELOCATION

OPERATING INCOME ($000'S)	THREE MONTHS ENDED SEPTEMBER 30, 1997	1996	VARIANCE
Net revenue	$ 112,034	$ 101,958	10%
Operating expenses	76,907	80,804	(5%)
Operating income	$ 35,127	$ 21,154	66%

The increase in net revenue was primarily attributable to an increase in referral fees from home sale transactions. The $3.9 million reduction in operating expenses primarily reflects savings associated with the restructuring of relocation operations following the HFS/PHH Merger.

MORTGAGE SERVICES

OPERATING INCOME ($000'S)	THREE MONTHS ENDED SEPTEMBER 30, 1997	1996	VARIANCE
Net revenue	$ 51,602	$ 40,513	27%
Operating expenses	32,161	26,533	21%
Operating income	$ 19,441	$ 13,980	39%

The increase in net revenue resulted primarily from a $6.2 million (22%) increase in loan origination revenue due to an increase in loan closings ($3.5 billion for third quarter) and a $4.9 million (41%) increase in loan servicing fees. Operating expenses increased $5.6 million (21%), reflecting the increase in current loan origination volume, and the anticipation of future volume increases.

OTHER SEGMENT

OPERATING INCOME ($000'S)	THREE MONTHS ENDED SEPTEMBER 30, 1997	1996	VARIANCE
Net revenue	$ 145,174	$ 111,554	30%
Operating expenses	94,847	82,666	15%
Operating income	$ 50,327	$ 28,888	74%

Operating income increased $21.4 million (74%) primarily as a result of a $26.9 million increase in the equity in earnings of ARAC (recorded in net revenue) and a $6.0 million gain on the sale of an investment partially offset by a decrease of $22.4 million from Software operations. As a result of the Company recalendarizing only its 1997 results, software operations for calendar 1997 are compared against the fiscal period ended October 31, 1996. Assuming a comparable quarter, software operating income remained relatively constant from 1996 to 1997. The increase in net revenues is also attributable to the continued focus on selling software titles through retailers and the availability of a large number of titles as well as the significant increase in the installed base of CD-ROM personal computers.

NINE MONTHS ENDED SEPTEMBER 30, 1997 VS NINE MONTHS ENDED SEPTEMBER 30, 1996

The Company incurred an anticipated $303.0 million one-time merger and restructuring charge ($227.0 million, after tax) during the nine months ended September 30, 1997 in connection with the HFS/PHH Merger. In connection with such charge, $40.4 million and $50.4 million of costs were allocated to the operations of the fleet management and relocation business segments, respectively. The remaining merger and related costs did not directly apply to the Company's operating segments and were therefore included as operating expenses in the Company's "Other" segment.

During the nine months ended September 30, 1996, the Company incurred a merger and related charge of $175.8 million ($114.7 million after tax) in connection with the mergers with Davidson, Sierra and Ideon. In connection with such charge, $127.2 million was allocated to the operations of the membership segment and the remaining $48.6 million pertained to the Company's software operations, which is included in the Company's "Other" segment.

The financial summary for the nine months ended September 30, 1997 and 1996 INCLUDING THE PHH MERGER CHARGE OF $303.0 MILLION ($227.0 MILLION AFTER TAX) AND THE MERGER AND RELATED CHARGES ASSOCIATED WITH THE MERGERS WITH DAVIDSON, SIERRA AND IDEON OF $175.8 MILLION $114.6 MILLION AFTER TAX) IS AS FOLLOWS ($000's):

	1997	1996	VARIANCE
Net revenue	$ 3,890,015	$ 2,799,951	39%
Operating expenses	3,098,865	2,332,428	33%
Operating income	$ 791,150	$ 467,523	69%
Net income	$ 400,694	$ 265,504	51%
Net income per share (fully diluted)	$ .47	$ .33	42%

The financial summary for the nine months ended September 30, 1997 and 1996, EXCLUDING THE PHH MERGER CHARGE AND THE MERGER AND RELATED CHARGES ASSOCIATED WITH THE MERGERS WITH DAVIDSON, SIERRA AND IDEON IS AS FOLLOWS ($000's):

	1997	1996	VARIANCE
Net revenue	$ 3,890,015	$ 2,799,951	39%
Operating expenses	2,795,865	2,156,593	30%
Operating income	$ 1,094,150	$ 643,358	70%
Net income	$ 627,694	$ 380,104	65%
Net income per share (fully diluted)	$ .73	$ .48	52%

Net interest expense increased 155% ($26.7 million) primarily resulting from borrowings under revolving credit arrangements which financed 1997 treasury stock purchases, restructuring expenditures and acquisition related expenditures, while the weighted average effective interest rate decreased from 7.53% to 6.09% as a result of increased fixed rate borrowings at lower interest rates.

FOR COMPARATIVE PURPOSES, THE FOLLOWING SEGMENT INFORMATION AND DISCUSSIONS EXCLUDE THE PHH MERGER CHARGE AND THE MERGER AND RELATED CHARGES ASSOCIATED WITH THE MERGERS WITH DAVIDSON, SIERRA AND IDEON.

MEMBERSHIP SEGMENT

	NINE MONTHS ENDED SEPTEMBER 30,		
OPERATING INCOME ($000'S)	1997	1996	VARIANCE
Net revenue	$ 1,875,347	$ 1,539,240	22%
Operating expenses	1,458,829	1,250,785	17%
Operating income	$ 416,518	$ 288,455	44%

The Company's overall membership base continues to grow at a rapid rate (from 63.8 million members at September 30, 1996 to 72.9 million members at September 30, 1997), which is the largest contributing factor to the 22% increase in membership revenues (from $1.5 billion for the nine months ended September 30, 1996 to $1.9 billion for the nine months ended September 30, 1997). While the overall membership base increased by approximately 6.6 million members during the nine months ended September 30, 1997, the average annual fee collected for the Company's membership services increased by approximately 3%.

Compared to the previous year's first nine months, individual, wholesale and discount program memberships grew by 10%, 23% and 12%, respectively. Wholesale memberships have grown in part due to the success of the Company's international business in Europe. For the quarter ended September 30, 1997, individual, wholesale and discount program memberships represented 67%, 14% and 19% of membership revenues, respectively.

As the Company's membership services continue to mature, a greater percentage of the total individual membership base is in its renewal years. This results in increased profit margins for the Company due to the significant decrease in certain marketing costs incurred on renewing members. Improved response rates for new members also favorably impacted profit margins. Individual membership usage continues to increase, which contributes to additional service fees and indirectly contributes to the Company's strong renewal rates.

Historically, an increase in overall membership usage has had a favorable impact on renewal rates. Included in total revenues for the quarter ended September 30, 1997, are revenues resulting from acquisitions which were completed during the nine months ended September 30, 1997. However, total revenues contributed from these acquisitions are not material to the Company's total reported revenues. The Company routinely reviews all membership renewal rates and has not seen any material change over the last year in the average renewal rate.

TRAVEL SEGMENT

LODGING

OPERATING INCOME ($000'S)	NINE MONTHS ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996	VARIANCE
Net revenue	$ 322,427	$ 295,892	9%
Operating expenses	191,240	186,555	3%
Operating income	$ 131,187	$ 109,337	20%

The net revenue increase resulted from a 7% increase in royalty fees and a 62% increase in revenue from preferred alliances seeking access to the Company's franchisees and their underlying consumer base. The increase in royalty fees resulted primarily from a 4% growth in franchised rooms from the same period in 1996. The 3% ($4.7 million) increase in operating expenses resulted from a 10% ($12.2 million) increase in marketing and reservation expenses which are funded by the Company's franchisees partially offset by the absorption of corporate overhead expenses by several other operating segments acquired in 1996.

CAR RENTAL

OPERATING INCOME ($000'S)	NINE MONTHS ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996	VARIANCE
Net revenue	$ 181,657	$ 165,112	10%
Operating expenses	113,889	109,561	4%
Operating income	$ 67,768	$ 55,551	22%

Assuming the ARAC IPO occurred on January 1, 1996, pro forma operating income increased 22% primarily as a result of a $3.3 million (5%) increase in royalty fees and $5.2 million of preferred alliance and other revenue. The increase in royalty fees was primarily attributable to a 5% increase in ARAC's car rental price per day.

TIMESHARE

OPERATING INCOME ($000'S)	NINE MONTHS ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996	VARIANCE
Net revenue	$ 274,570	$ 236,675	16%
Operating expenses	212,531	207,397	2%
Operating income	$ 62,039	$ 29,278	112%

Assuming Company ownership of timeshare operations since January 1, 1996, pro forma operating income increased $32.8 million (112%) from 1996 to 1997 as a result of a $37.9 million (16%) increase in net revenue and only a $5.1 million (2%) increase in operating expenses. Pro forma revenue increased 16% as a result of an $11.6 million (9%) increase in exchange revenue and an $18.0 million (24%) increase in subscription revenue due to both membership and price increases. The pro forma operating expense increase of only 2% is a result of expense reductions realized following the November 1996 acquisition of RCI.

FLEET MANAGEMENT

OPERATING INCOME ($000'S)	NINE MONTHS ENDED SEPTEMBER 30, 1997	1996	VARIANCE
Net revenue	$ 206,391	$ 192,832	7%
Operating expenses	130,491	135,055	(3%)
Operating income	$ 75,900	$ 57,777	31%

Operating income increased $18.1 million (31%) to $75.9 million, primarily as a result of a $13.6 million (7%) increase in net revenue and a $4.6 million (3%) decrease in operating expenses resulting from operational efficiencies realized from the second quarter 1997 restructuring of certain fleet management operations. The increase in net revenue is comprised of a 10% increase in fee-based revenue and a 4% increase in asset-based fees.

REAL ESTATE INDUSTRY

REAL ESTATE FRANCHISE

OPERATING INCOME ($000'S)	NINE MONTHS ENDED SEPTEMBER 30, 1997	1996	VARIANCE	NINE MONTHS ENDED SEPTEMBER 30, 1996 (PRO FORMA)	VARIANCE
Net revenue	$ 237,412	$ 159,951	48%	$ 203,519	17%
Operating expenses	108,465	84,897	28%	113,264	(4%)
Operating income	$ 128,947	$ 75,054	72%	$ 90,255	43%

Operating income increased 72% as a result of a $77.5 million (48%) increase in net revenue and only a $23.6 million (28%) increase in operating expenses. The royalty portion of revenue increased $65.5 million (46%) to $208.8 million which is primarily attributable to the Coldwell Banker franchise system operations which were acquired in May 1996. Operating expenses increased as a result of incremental expenses associated with the acquired franchise systems. Pro forma operating income which gives effect to the acquisitions of the Coldwell Banker and ERA franchise systems as if these acquisitions were consummated on January 1, 1996, increased $38.7 million (43%) from 1996 to 1997 as a result of a $33.9 million (17%) increase in net revenue and a $4.8 million (4%) reduction in operating expenses. Pro forma net revenue increased primarily as a result of a 10% increase in royalty fees principally due to increases in homes sold and the average price of homes sold. The pro forma reduction in operating expenses reflects cost savings realized from the restructuring of real estate businesses acquired.

RELOCATION

OPERATING INCOME ($000'S)	NINE MONTHS ENDED SEPTEMBER 30, 1997	1996	VARIANCE	1996 (PRO FORMA)	VARIANCE
Net revenue	$ 300,727	$ 253,073	19%	$ 287,951	4%
Operating expenses	226,348	213,689	6%	241,859	(6%)
Operating income	$ 74,379	$ 39,384	89%	$ 46,092	61%

The $35.0 million (89%) increase in operating income is primarily attributable to operating income from the Coldwell Banker relocation business acquired in May 1996. Pro forma operating income increased $28.3 million (61%) from 1996 to 1997 as a result of a $12.8 million (4%) increase in net revenue and a $15.5 million (6%) reduction in operating expenses. Pro forma net revenue increased primarily as a result of an increase in referral fees from home sale transactions. The pro forma reduction in operating expenses reflects savings associated with the restructuring of relocation operations following the HFS/PHH Merger.

MORTGAGE SERVICES

OPERATING INCOME ($000'S)	NINE MONTHS ENDED SEPTEMBER 30, 1997	1996	VARIANCE
Net revenue	$ 127,731	$ 95,667	34%
Operating expenses	76,832	65,620	17%
Operating income	$ 50,899	$ 30,047	69%

Operating income increased 69% as a result of a 34% increase in net revenue, net of a 17% increase in operating expenses. Loan origination revenue increased $25.5 million (43%) as a result of a 19% increase in loan closings and a 20% price increase. Servicing revenue increased $4.3 million (20%) as a result of an 18% increase in revenue from the servicing portfolio. Operating expenses increased 17% due to increases in loan origination volume as well as increased recruiting, training and systems development costs associated with the anticipation of increased volume, primarily from the retail teleservice delivery systems.

OTHER SEGMENT

OPERATING INCOME ($000'S)	NINE MONTHS ENDED SEPTEMBER 30, 1997	1996	VARIANCE
Net revenue	$ 363,753	$ 263,296	38%
Operating expenses	277,240	219,992	26%
Operating income	$ 86,513	$ 43,304	100%

Operating income increased $43.2 million (100%) primarily as a result of a $51.2 million increase in the equity in earnings of ARAC (recorded in net revenue) and a $16.7 million gain on the sale of investments, partially offset by a decrease of $22.3 million from software operations. As a result of the Company recalendarizing its 1997 results, software operations for calendar 1997 are compared against the fiscal period ended October 31, 1996. Assuming a comparable nine month period, software operating income remained relatively constant from 1996 to 1997.

The increase in net revenues is in large part attributable to the continued focus on selling software titles through retailers and the availability of a large number of titles as well as the significant increase in the installed base of CD-ROM personal computers.

LIQUIDITY AND CAPITAL RESOURCES

ACQUISITION OVERVIEW

The Company continues to seek to expand and strengthen its leadership position in its membership, travel and real estate industry segments with strategic acquisitions. The Company's acquired businesses share similar characteristics, foremost of which is that each was immediately accretive to Company cash flow and earnings. Revenue is substantially generated from service fees and is not dependent on tangible assets or the need for capital expenditures other than technology investments. These service businesses each generate significant cash flow which is enhanced by the Company's operating leverage that supports acquired revenue streams without corresponding increases in operating infrastructure expenses.

1997 POOLINGS

CENDANT - The Cendant Merger was completed on December 17, 1997 pursuant to which the Company issued 440.0 million shares of its common stock for all of the outstanding common stock of HFS. Pursuant to the agreement and plan of merger, HFS stockholders received 2.4031 shares of Company common stock for each share of HFS common stock. The Company anticipates that it will incur merger and related charges approximating $825 million associated with fourth quarter 1997 mergers.

As directed by the Federal Trade Commission ("FTC") as a condition of terminating the waiting period under the Hart Scott Rodino Antitrust Improvements Act in connection with the Cendant Merger, on December 17, 1997, the Company sold its wholly-owned subsidiary, Interval International Inc. and certain related entities ("Interval"), for approximately $200 million, subject to certain adjustments. The agreement contemplates that the Company will continue to provide certain existing services to Interval's developers and members.

HEBDO MAG - On October 3, 1997, the Company acquired all of the outstanding capital stock of Hebdo Mag for approximately $440 million, which was satisfied by the issuance of approximately 14.2 million shares of Company common stock. Hebdo Mag is a leading publisher and distributor of international classified advertising information.

PHH - On April 30, 1997, HFS acquired PHH by merger, which was satisfied by the issuance of 72.8 million equivalent shares of Company common stock in exchange for all of the outstanding common stock of PHH. PHH is the world's largest provider of corporate relocation services and also provides mortgage and fleet management services. HFS recorded a one-time merger and related charge of approximately $303.0 million in the second quarter of 1997 upon consummation of the HFS/PHH Merger.

1996 POOLINGS

DAVIDSON AND SIERRA - During July 1996, the Company acquired all of the outstanding capital stock of Davidson for a purchase price of approximately $1 billion, which was satisfied by the issuance of approximately 45.1 million shares of Company common stock. Also during July 1996, the Company acquired all of the outstanding capital stock of Sierra for a purchase price of approximately $858 million, which was satisfied by the issuance of approximately 38.4 million shares of the Company common stock. Davidson and Sierra develop, publish and distribute educational and entertainment software for home and school use. During August 1996, the Company acquired all of the outstanding capital stock of Ideon, principally a provider of credit card enhancement services, for a purchase price of approximately $393 million, which was satisfied by the issuance of 16.6 million shares of Company common stock.

In connection with the Davidson, Sierra and Ideon mergers, the Company recorded a charge approximating $179.9 million in the year ended December 31, 1996. Such costs are non-recurring and those associated with the Ideon Merger include a provision relating to certain litigation matters giving consideration to the Company's intended approach to these matters. The Company has since settled certain of these litigation matters while certain of these matters remain outstanding. Although the Company has attempted to estimate the amounts that will be required to settle the remaining litigation matters, there can be no assurance that the actual aggregate amount of such settlements will not exceed the amount accrued.

1995 POOLINGS

GETKO, NAOG AND ADVANCE ROSS - During June 1995, the Company acquired all of the outstanding capital stock of Getko Group, Inc. ("Getko") for a purchase price of approximately $100 million, which was satisfied by the issuance of approximately 5.6 million shares of Company common stock. Getko distributes complimentary welcoming packages to new homeowners throughout the United States and Canada. During September 1995, the Company acquired all of the outstanding capital stock of North American Outdoor Group, Inc. ("NAOG") for a purchase price of approximately $52 million, which was satisfied by the issuance of approximately 2.3 million shares of Company common stock. NAOG owns one of the largest for-profit hunting and general interest fishing membership organizations in the United States, and also owns various other membership organizations. During January 1996, the Company acquired all of the outstanding capital stock of Advance Ross Corporation ("Advance Ross") for a purchase price of approximately $183 million, which was satisfied by the issuance of approximately 8.9 million shares of Company common stock. Advance Ross processes value-added tax refunds to travelers in over 20 European countries.

1997 PURCHASE ACQUISITIONS

PROPOSED ACQUISITION

On January 27, 1998, the Company proposed to acquire American Bankers Insurance Group Inc. ("American Bankers") for $58 per share in cash and stock, for an aggregate purchase price approximating $2.7 billion. On January 28, 1998, the Company commenced a tender offer to purchase approximately 23.5 million of American Bankers' common stock at a price of $58 per share in cash, which together with shares the Company owns on the announcement date approximating 51% of the fully diluted shares of American Bankers. The Company proposed to exchange, on a tax free basis, shares of its common stock with a fixed value of $58 per share for the balance of American Bankers' common stock. The tender offer is subject to certain conditions and there can be no assurance that the Company will be successful in its proposal to acquire American Bankers. The Company has received a commitment from a bank to provide funds necessary to finance the proposed acquisition.

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

JACKSON HEWITT - On January 7, 1998, the Company completed the acquisition of Jackson Hewitt Inc. ("Jackson Hewitt"), for approximately $480 million in cash or $68 per share of common stock of Jackson Hewitt. Jackson Hewitt is the second largest tax preparation service franchise system in the United States with locations in 41 states. Jackson Hewitt franchises a system of approximately 2,050 offices that specialize in computerized preparation of federal and state individual income tax returns.

PROVIDIAN - On December 9, 1997, HFS executed a definitive agreement to acquire Providian Auto and Home Insurance Company and its subsidiaries from an AEGON N.V. subsidiary for approximately $219 million in cash. Closing is subject to receipt of required regulatory approval and other customary conditions and is anticipated in the spring of 1998. Providian sells automobile insurance to consumers through direct response marketing in 45 states and the District of Columbia.

INVESTMENT IN NRT - During the third quarter of 1997, HFS acquired $182.0 million of preferred stock of NRT Incorporated ("NRT"), a newly formed corporation created to acquire residential real estate brokerage firms. HFS acquired $216.1 million of certain intangible assets including trademarks associated with real estate brokerage firms acquired by NRT in 1997. The Company, at its discretion, may acquire up to $81.3 million of additional NRT preferred stock and may also purchase up to $229.9 million of certain intangible assets of real estate brokerage firms acquired by NRT.

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

1996 PURCHASE ACQUISITIONS

RCI - In November 1996, HFS completed the acquisition of all the outstanding common stock of RCI for approximately $487 million comprised of $412 million in cash and $75 million of HFS common stock plus future contingent payments of up to $200 million over the next five years. The cash portion of the purchase price was funded with borrowings under a revolving credit facility, acquired RCI cash and excess proceeds from a second quarter public offering of approximately 46.6 million equivalent shares of Company common stock (the "Offering") which generated $1.2 billion of proceeds.

RCI is the world's largest provider of timeshare exchange programs and is also engaged in publishing related to the timeshare industry and provides other travel-related services, integrated software systems and resort management and consulting services.

AVIS - In October 1996, HFS completed the acquisition of all of the outstanding capital stock of HFS Car Rental Inc., formerly Avis Inc. ("Avis"), including payments under certain employee stock plans of Avis and the redemption of certain series of preferred stock of Avis for $806.5 million. The purchase price was comprised of approximately $367.2 million in cash, $100.9 million in indebtedness and $338.4 million (approximately 11.1 million equivalent shares) in Company common stock. The cash portion of the purchase price was funded with excess proceeds from the Offering.

Prior to the consummation of the acquisition, HFS announced its strategy to dilute its interest in the Avis car rental operations while retaining assets that are consistent with its service provider business profile, including the trademark, franchise agreements, reservation system and information technology system assets. In September 1997, ARAC (the company which operated the rental car operations of HFS Car Rental, Inc.) completed an IPO resulting in a 72.5% dilution of HFS's equity interest in ARAC.

COLDWELL BANKER - In May 1996, HFS acquired by merger Coldwell Banker, the largest gross revenue producing residential real estate company in North America and a leading provider of corporate relocation services. HFS paid $640.0 million in cash for all of the outstanding capital stock of Coldwell Banker and repaid $105.0 million of Coldwell Banker indebtedness. The aggregate purchase price for the transaction was financed through the May 1996 sale of an aggregate 46.6 million equivalent shares of Company common stock generating $1.2 billion of proceeds pursuant to a public offering. Immediately following the closing of the Coldwell Banker acquisition, HFS conveyed Coldwell Banker's 318 owned real estate brokerage offices to National Realty Trust, an independent trust in which HFS has no beneficial interest and recorded a $5.0 million pre-tax charge in connection with such contribution.

OTHER - During 1996, HFS acquired certain other entities for an aggregate purchase price of $286.2 million comprised of $210.4 million in cash, $70.8 million of common stock (2.5 million equivalent Company shares) and $5.0 million of notes.

1995 PURCHASE ACQUISITIONS

CENTURY 21 - In August 1995, a majority owned subsidiary of HFS, C21 Holding Corp. ("Holding"), acquired Century 21 Real Estate Corporation ("Century 21"), the world's largest residential real estate brokerage franchisor. Aggregate consideration for the acquisition consisted of $245.0 million plus expenses, including an initial cash payment of $70.2 million, 9.6 million equivalent shares of Company common stock valued at $64.8 million, the assumption of $80.0 million of Century 21 redeemable preferred stock prior to the acquisition (subsequently redeemed in February 1996) and a $30.0 million contingent payment made in February 1996. Consideration paid in 1996 financed these payments with proceeds from the February 1996 issuance of $240 million of unsecured 4-3/4% Convertible Senior Notes (the "4-3/4% Notes").

Effective October 29, 1996 (the "Effective Date"), HFS amended the Subscription and Stockholders' Agreement dated as of August 1, 1995 among Holding, HFS and a group of former executives of Century 21 Real Estate Corporation ("the Former Management") pursuant to which the Company owned 87.5% of Holding and the Former Management owned 12.5% of Holding. Such amendment provided for the acceleration of HFS's option to purchase the 12.5% ownership from the Former Management at fair market value, determined as of the Effective Date. The Company completed such purchase in the second quarter of 1997 for $52.8 million.

OTHER - During 1995, the Company and HFS collectively acquired certain entities for an aggregate purchase price of $163.3 million, comprised of $122.5 million in cash and $40.8 million of common stock (6.0 million equivalent Company shares).

TREASURY PURCHASES

In January 1997, HFS's Board of Directors authorized the purchase of 6.2 million equivalent shares of Company common stock to satisfy stock option exercises and conversions of convertible debt securities and to fund future acquisitions. HFS acquired approximately 6.2 million equivalent treasury shares of Company common stock in the first quarter of 1997 for $179.4 million with revolving credit borrowings.

FINANCING (EXCLUSIVE OF MANAGEMENT AND MORTGAGE PROGRAM FINANCING)

POST CENDANT MERGER

The Company continues to believe that it has excellent liquidity and access to liquidity through various sources. The Company has also demonstrated its ability to access equity and public debt markets and financial institutions to generate capital for strategic acquisitions. Indicative of the Company's creditworthiness, as of the consummation of the Cendant Merger, Standard and Poors Corporation ("S&P") and Duff and Phelps ("Duff") affirmed A ratings to the Company's debt and Moody's Investor Service ("Moody's") upgraded the Company's senior unsecured debt rating to A3. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by S&P, Duff and Moody's.

As of the Cendant Merger consummation date, the Company terminated its existing credit facility and amended the HFS revolving credit facilities to provide aggregate commitments of $2.0 billion consisting of (i) a $1.25 billion, 364-day revolving credit facility (the "364 Day Revolving Credit Facility") and (ii) a $750.0 million, five year revolving credit facility (the "Five Year Revolving Credit Facility" and collectively with the 364 Day Revolving Credit Facility, (the "Revolving Credit Facilities"). The 364 Day Revolving Credit Facility will mature on September 30, 1998 but may be renewed on an annual basis for an additional 364 days up to a maximum aggregate term of five years upon receiving lender approval. The Five Year Revolving Credit Facility will mature on October 1, 2001. The Revolving Credit Facilities, at the option of the Company, bear interest based on competitive bids of lenders participating in the facilities, at prime rates or at LIBOR plus a margin of approximately 22 basis points. The Company is required to pay a per annum facility fee of .08% and .06% of the average daily availability of the Five Year Revolving Credit Facility and the 364 Day Revolving Credit Facility, respectively. The interest rates and facility fees are subject to change based upon credit ratings assigned to the Company's senior unsecured long-term debt by nationally recognized statistical rating companies. The Revolving Credit Facilities contain certain restrictive covenants including restrictions on indebtedness, mergers, liquidations and sale and leaseback transactions.

The Company intends to file a shelf registration statement with the Securities and Exchange Commission for the issuance of up to an aggregate $3 billion of debt and equity securities. These securities may be offered from time to time based on terms to be determined at the time of sale. The proceeds would be used for general corporate purposes, which may include future acquisitions.

PRE CENDANT MERGER

Prior to the Cendant Merger, the Company had a $500.0 million revolving credit facility (the "CUC Credit Facility") with a variety of different types of loans available thereunder. Interest was payable, depending on the type of loan utilized by the Company, at a variety of rates based on the federal funds rate, LIBOR, the prime rate or rates quoted by participating banks based on an auction process for the CUC Credit Facility. No borrowings under this facility were outstanding at December 31, 1996, March 31, 1997, June 30, 1997 and September 30, 1997. The CUC Credit Facility required the Company to maintain certain financial ratios and contained other restrictive covenants including, without limitation, financial covenants and restrictions on certain corporate transactions, and also contained various events of default provisions including, without limitation, defaults arising from certain changes in control of the Company.

Prior to Cendant Merger, HFS maintained up to $1.5 billion in revolving credit facilities pursuant to the same terms and conditions under the Company's Revolving Credit Facilities post the Cendant Merger. Outstanding borrowings under HFS's revolving credit facilities at December 31, 1996, March 31, 1997, June 30, 1997 and September 30, 1997 aggregated $205.0 million, $430.0 million, $615.0 million and $1.1 billion, respectively. At December 31, 1996, March 31, 1997, June 30, 1997 and September 30, 1997 available borrowings under HFS's revolving credit facilities were $795.0 million, $570.0 million, $885.0 million and $400.0 million respectively.

In connection with the acquisition of Hebdo Mag, the Company assumed a $115.2 million revolving credit facility and other long-term debt of $110.5 million, consisting of senior and subordinated notes and other miscellaneous loans. The revolving credit facility bears interest at varying rates ranging from the prime rate plus .25% to 1.5% or LIBOR plus 1.0% to 2.25%, depending upon Hebdo Mag's ratio of total debt to pro forma cash flow, as defined. This facility expires on February 15, 1998 but may be renewed on an annual basis for successive periods of one year upon receiving lender approval. Outstanding borrowings under this facility at December 31, 1996, March 31, 1997, June 30, 1997 and September 30, 1997 aggregated $93.8 million, $89.3 million, $77.6 million and $82.9 million, respectively.

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

In January 1997, Wright Express Corporation, a wholly-owned subsidiary, entered into a new revolving credit facility agreement replacing its previous revolving line of credit. The new credit facility has an available line of $60 million. At December 31, 1996 and September 30, 1997, Wright Express had $31.4 million and $36.2 million, respectively outstanding under the new credit facility. The new credit facility expires February 8, 1999.

On February 22, 1996, HFS completed a public offering of $240 million unsecured 4-3/4% Convertible Senior Notes (the "4-3/4% Notes") due 2003, which are convertible at the option of the holder at any time prior to maturity into 36.028 equivalent shares of Company common stock per $1,000 principal amount of the 4-3/4% Notes, representing a conversion price of $27.756 per share. The 4-3/4% Notes are redeemable at the option of the Company, in whole or in part, at any time on or after March 3, 1998 at redemption prices decreasing from 103.393% of principal at March 3, 1998 to 100% of principal at March 3, 2003. However, on or after March 3, 1998 and prior to March 3, 2000, the 4-3/4% Notes will not be redeemable at the option of the Company unless the closing price of the Company's common stock shall have exceeded $38.86 per share (subject to adjustment upon the occurrence of certain events) for 20 trading days within a period of 30 consecutive trading days ending within five days prior to redemption. Interest on the 4-3/4% Notes is payable semi-annually commencing September 1, 1996.

In October 1994, HFS completed a public offering of $150 million unsecured 4-1/2% Convertible Senior Notes (the "4-1/2% Notes") due 1999, which were convertible at the option of the holders at any time prior to maturity into 132.425 equivalent shares of Company common stock per $1,000 principal amount of the 4- 1/2% Notes, representing a conversion price of $7.55 per share. Interest was payable semi-annually commencing April 1995. On September 22, 1997, HFS exercised its option to redeem the outstanding 4-1/2% Notes effective October 15, 1997 in accordance with the provisions of the indenture under which the 4-1/2% Notes were issued. Prior to the redemption date, all of the outstanding 4-1/2% Notes were converted. Accordingly, 19.7 million equivalent shares of Company common stock were issued as a result of the conversion of such notes.

In connection with the Company's 1996 acquisition of Sierra, the Company assumed $50 million in principal amount of 6-1/2% convertible subordinated notes due April 1, 2001 (the "Notes"). Interest on the Notes is payable semi-annually on April 1 and October 1 of each year. Each $7.62 principal amount of Notes is convertible into one share of Company common stock, subject to adjustment under certain conditions. The Notes are redeemable after April 2, 1997, at the option of Sierra, at specified redemption prices. At December 31, 1996 and September 30, 1997, Sierra had $23.5 million and $20.3 million, respectively, outstanding on the Notes.

Long-term debt increased $1.4 billion to $2.4 billion at September 30, 1997 when compared to amounts outstanding at December 31, 1996, primarily as a result of the $550 million issuance of 3% Notes, and approximately $900 million of incremental borrowings under HFS's revolving credit facilities, which was principally used to fund $171.3 million of treasury share purchases, $137.0 million of the PHH Merger Charge and $680.0 million of the Company's investment in NRT and certain intangible assets associated with NRT's acquisitions during the third quarter of 1997 and other acquisition related payments. Long-term debt at September 30, 1997 primarily consisted of $1.1 billion of fixed rate publicly issued debt and $1.2 billion of borrowings under the Company's revolving credit facilities.

Long-term debt increased $646.0 million from $354.0 million at December 31, 1995 to $1.0 billion at December 31, 1996, primarily due to the issuance of the $240 million 4-3/4% Notes and $189.6 million of incremental borrowings under HFS's revolving credit facilities which partially financed the November acquisition of RCI. In addition, the Company assumed $204.3 million of debt in connection with the merger of Hebdo Mag, which consisted of revolving credit facility borrowings, senior and subordinated notes and other miscellaneous loans.

MANAGEMENT AND MORTGAGE PROGRAM FINANCING

PHH operates mortgage services, fleet management and relocation businesses as a separate public reporting entity and supports purchases of leased vehicles and originated mortgages primarily by issuing commercial paper and medium term notes. Such borrowings are not classified based on contractual maturities, but rather are included in liabilities under management and mortgage programs rather than long-term debt since such debt corresponds directly with high quality related assets. Although PHH's debt to equity ratio approximates 6 to 1, such debt corresponds directly with net investments in high quality related assets. Accordingly, following the announcement of the HFS/PHH Merger, S&P, Moody's and Fitch Investor Service affirmed investment grade ratings of A+, A2 and A+, respectively to PHH debt and A1 and F1, respectively to PHH commercial paper. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time.

PHH debt is issued without recourse to the Company. The Company expects to continue to have broad access to global capital markets by maintaining the quality of its assets under management. This is achieved by establishing credit standards to minimize credit risk and the potential for losses. Depending upon asset growth and financial market conditions, PHH utilizes the United States, European and Canadian commercial paper markets, as well as other cost-effective short-term instruments. In addition, PHH will continue to utilize the public and private debt markets to issue unsecured senior corporate debt. Augmenting these sources, PHH will continue to manage outstanding debt with the potential sale or transfer of managed assets to third parties while retaining fee-related servicing responsibility.

PHH's aggregate outstanding borrowings at the underlying balance sheet dates were as follows ($ billions):

	DECEMBER 31, 1996	MARCH 31, 1997	JUNE 30, 1997	SEPTEMBER 30, 1997
Commercial paper	$ 3.1	$ 3.5	$ 3.1	$ 2.5
Medium-term notes	1.7	1.2	1.5	2.3
Other	0.4	0.3	0.2	0.2

To provide additional financial flexibility, the Company's current policy is to ensure that minimum committed facilities aggregate 80 percent of the average amount of outstanding commercial paper. PHH maintains a $2.5 billion syndicated unsecured credit facility which is backed by domestic and foreign banks and is comprised of $1.25 billion of lines of credit maturing in 364 days and $1.25 billion maturing in five years. In addition, PHH has approximately $300 million of uncommitted lines of credit with various financial institutions. Management closely evaluates not only the credit of the banks but the terms of the various agreements to ensure ongoing availability. The full amount of PHH's committed facilities in 1997 to date are undrawn and available. Management believes that its current policy provides adequate protection should volatility in the financial markets limit PHH's access to commercial paper or medium-term notes funding.

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

The Company and PHH currently operate under policies limiting (a) the payment of dividends on PHH's capital stock to 40% of net income of PHH on an annual basis, less the outstanding principal balance of loans from PHH to the Company as of the date of the proposed dividend payment, and (b) the outstanding principal balance of loans from PHH to the Company to 40% of net income of PHH on an annual basis, less payment of dividends on PHH's capital stock during such year.

CASH FLOWS

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

The Company generated $1.6 billion of cash flows from operations in 1996 representing a $464.3 million increase from 1995. This increase primarily reflects improved net income net of non-cash charges.

In 1996, cash flows from operating activities of $1.6 billion and $1.8 billion of cash flows from financing activities, principally consisting of net debt financing of $733 million and $1.2 billion of proceeds from the issuance of common stock were used principally to fund $1.7 million of Company acquisitions and the Company's net investment in assets under management mortgage programs of $1.3 billion and core service fee based operations.

NINE MONTHS ENDED SEPTEMBER 30, 1997 VS NINE MONTHS ENDED SEPTEMBER 30, 1996

The Company generated $1.3 billion of cash flows from operations in 1997 representing a $452.4 million increase from 1996. This increase primarily reflects improved net income net of non cash charges. In 1997, cash flows from operating activities of $1.3 billion and net debt borrowings of $1.1 billion, including the February 1997 issuance of $550 million 3% convertible subordinated Notes were used principally to fund the Company's net investment in assets under mangement and mortgage programs of $893.5 million, $748.6 million of Company acquisitions, treasury stock purchases of $171.3 million, and core service fee based operations.

CAPITAL EXPENDITURES

The Company anticipates investing approximately $200 million during calendar year 1998 in capital expenditures. Such capital expenditures are primarily associated with the consolidation of internationally based call centers and information technology systems to support expected volume increases in the Company's mortgage services business and improve operational efficiencies in the delivery of relocation services.

IMPACT OF INFLATION AND SEASONALITY

To date, inflation has not had a material impact on Company operations. The third quarter represented 29% of annual pro forma net income as a result of peak leisure travel and real estate sales in summer months. Fourth quarter respresented 27% of pro forma net income due to holiday season demand for software products.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

NEW ACCOUNTING PRONOUNCEMENTS: In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income" and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company is currently assessing these statements, which are effective for fiscal years beginning after December 15, 1997 and establish standards for the reporting and display of comprehensive income and disclosure regarding related segments.

In March 1997, FASB issued SFAS No. 128, "Earnings per Share" which is effective for the Company in financial statements issued after December 15, 1997. SFAS No. 128 supersedes APB 15 and replaces the presentations of primary EPS with a presentation of Basic EPS. It also requires presentation of Basic and Diluted EPS on the income statement for all entities with complex capital structures. Assuming SFAS No. 128 was applicable for 1996, the Company would have reported the following net income (loss) per share amounts:

	BASIC	DILUTED
YEAR ENDED DECEMBER 31,		
1996	.56	.52
1995	.45	.42
THREE MONTHS ENDED MARCH 31,		
1997	.21	.19
1996	.14	.12
THREE MONTHS ENDED JUNE 30,		
1997	(.02)	(.02)
1996	.14	.13
SIX MONTHS ENDED JUNE 30,		
1997	.19	.18
1996	.27	.25
THREE MONTHS ENDED SEPTEMBER 30,		
1997	.31	.29
1996	.89	.84
NINE MONTHS ENDED SEPTEMBER 30,		
1997	.50	.47
1996	.36	.34

In June 1996, the FASB issued SFAS No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The statement provides accounting and reporting standards for transfers and servicing of financial assets and, among other things, also requires that previously recognized servicing receivables that exceed contractually specified servicing fees be reclassified as interest-only strips receivable, and subsequently measured under the provisions of SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities." The Company adopted the provisions of SFAS No. 125 on January 1, 1997 and has reclassified a portion of its excess servicing fees to interest-only strips. The effect of adopting SFAS No. 125 was not material to the Company's operations or financial condition.

FORWARD LOOKING STATEMENTS

Certain statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations constitute "forwarding-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forwarding-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forwarding-looking statements. These forwarding-looking statements were based on various factors and were derived utilizing numerous important assumptions and other important factors that could cause actual results to differ materially from those in the forwarding-looking statements. Important assumptions and other factors that could cause actual results to differ materially from those in the forwarding-looking statements, include, but are not limited to: uncertainty as to the Company's future profitability, the Company's ability to develop and implement operational and financial systems to manage rapidly growing operations; competition in the Company's existing and potential future lines of business; the Company's ability to integrate and operate successfully acquired and merged businesses and the risks associated with such businesses, including the Company's ability to obtain financing on acceptable terms to finance the Company's growth strategy and for the Company to operate within the limitations imposed by financing arrangements; uncertainty as to the future profitability of acquired businesses, and other factors. Other factors and assumptions not identified above were also involved in the derivation of these forwarding-looking statements, and the failure of such other assumptions to be realized as well as other factors may also cause actual results to differ materially from those projected. The Company assumes no obligation to update these forwarding-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forwarding-looking statements.