



### **Fourth Quarter 2004 Earnings Results Conference Call**

Speakers: Henry Silverman, Chairman and CEO and Ronald Nelson, CFO and President

Operator: Good morning, everyone, and welcome to the Cendant Corporation fourth-quarter 2004 conference call. Today's conference is being recorded. At this time, for opening remarks and introductions, I'd like to turn the conference over to Mr. Sam Levenson, Senior Vice President of Corporate and Investor Relations. Please go ahead, sir.

Sam Levenson: Good morning everyone and thank you all for joining us. On the call with me today are our Chairman and CEO, Henry Silverman; our President and Chief Financial Officer, Ron Nelson; and our Group Vice President of Investor Relations, Hank Diamond.

Before we discuss our results for the quarter, I would like to remind everyone of four things. First, the rebroadcast, reproduction and retransmission of this conference call and webcast without the express written consent of Cendant Corporation is strictly prohibited.

Second, if you did not receive a copy of our press release, it is available on our website at [www.Cendant.com](http://www.Cendant.com) or on the First Call system.

Third, the Company will be making statements about its future results during this call. Statements about future results made during the call constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations and the current economic environment. Forward-looking statements and projections are inherently subject to significant economic, competitive and other uncertainties and contingencies, which are beyond the control of management. The Company cautions that the statements are not guarantees of future performance. Actual results may differ materially from those expressed or implied in the forward-looking statements.

Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements and projections are specified in the Company's Form 10-Q for the quarter ended September 30, 2004 and recent filings and Forms 8-K.

Finally, during the call the Company will be using certain non-GAAP financial measures as defined under SEC rules. Where required, we have provided a reconciliation of those measures to the most directly comparable GAAP measures in the tables in the press release and on our website.

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Before I turn the call over to our Chairman, let me briefly review the headlines of yesterday's press release.

During the fourth quarter the Company grew its earnings per share from continuing operations by 18 percent year-over-year, to \$0.33 cents. For the full year 2004, we increased EPS from continuing operations by 27 percent to \$1.71. For full year 2004, revenue was \$19.8 billion, a 10 percent increase over 2003, and our net income was \$2.1 billion.

Free cash flow for the quarter was \$458 million and, for the full year, almost \$2.2 billion. Note that the free cash flow generated by Jackson Hewitt in 2004 until the date of its sale in June is not included in our calculation of free cash flow.

For full year 2005, we project EPS from Continuing Operations of \$1.35 - \$1.43, excluding a previously disclosed non-cash impairment charge in connection with the spin-off of PHH of between \$0.15 and \$0.17 per share and an estimated \$0.03 cents per share charge related to the potential restructuring activities to be undertaken following the PHH spin-off and Wright Express IPO. The high end of the Company's projection for 2005 EPS from Continuing Operations has been reduced by \$0.02 per share from Investor Day to reflect the impact that the PHH spin-off will have on Cendant's Continuing Operations. Specifically, we had earlier assumed we would retain our price of business within our settlement services unit. Over the course of the last two months, we concluded that the natural alliance of that unit with mortgage was more logical, since mortgage was its primary customer, and we agreed to put that unit in PHH and to assume certain liabilities in exchange for a \$100 million reduction of the cash contribution that we had committed to make. We had not anticipated this when we first issued our preliminary guidance; such earnings will, however, continue to belong to stockholders who hold their shares of PHH Corporation.

For 2006, we continue to project EPS from Continuing Operations of \$1.62 - \$1.72. All of these projections assume that the Company's Fleet Management, Wright Express and Marketing Services businesses are reflected in discontinued operations for all of 2005. Ron will give you more detail on this later in the call.

Now, I would like to turn the call over to Cendant's Chairman, Henry Silverman.

Henry Silverman: Thank you, Sam. I'm going to start by reviewing our strategic accomplishments over the last year. Then, Ron will review our 2004 results, our outlook for 2005 and 2006, and then, of course, we will be happy to take your questions.

2004 truly was a watershed year for Cendant in terms of strategic accomplishments, as we commenced to the next phase of the Company's development. You will recall that I told you at our Investor Day on December 1<sup>st</sup>, that we manage the Company in two-year cycles. In 2003 and 2004, our strategy was focused on generating organic growth and free cash flow, and deploying that cash flow to reduce debt, repurchase stock and return cash to shareholders through our first-ever dividends. Now only did we accomplish each of

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those goals, we exceeded most of them. We proved that our businesses grow without the benefit of acquisitions, generating organic growth in both revenue and EBITDA from reportable segments over the two years that exactly matched our revenue target of 5 percent and exceeded our EBITDA target by 1 point, or 11 percent. We also exceeded our goal of \$2 billion in annual free cash flow, generating \$4.7 billion over the two-year period, and we deployed that cash consistent with our commitments. We used \$1.3 billion of cash to retire corporate debt, which, including the settlement of the Upper Decs and conversion of the CODES, enabled us to reduce our total corporate debt by \$1.7 billion and eliminate all of our convertible debt, as we pledged to do. We repurchased \$1.4 billion in stock, net of option exercises, and we instituted our first-ever cash dividend, which we subsequently increased by 29 percent. In 2004 alone, we returned half of our free cash flow to shareholders through share repurchases and dividends. We intend to continue to do this in 2005 and beyond.

With this phase of our development successfully complete, we have now moved into the next two-year cycle, where we are focused on refining our portfolio for growth in our core real estate and travel verticals, which we believe are two of the largest and highest-growth markets in the world and where we have comparative advantages. In this phase, we are building the "new Cendant" by divesting businesses where we don't have those advantages and the reinvesting proceeds to acquire strategic assets in travel and real estate, to repurchase more of our stock, and to increase our dividend.

Two points about dividends: In October 2004 we announced the spin-off of PHH and estimated it would be worth about \$1.00 per Cendant share. Promises made, promises kept. And we intend to recommend to our Board of Directors our next dividend increase after the completion of the Wright Express IPO. As we have previously said, we expect to recommend an increase roughly in line with earnings growth in 2004.

The process of building the "new Cendant" actually began in June of 2004 with the successful IPO of Jackson Hewitt Tax Service, the proceeds from which we used to acquire Orbitz. We continued the spin-off of our fleet management and mortgage businesses to our shareholders last week, which removed significant volatility from our results, as Ron will describe. By our next call with you, we will complete the acquisition of e-bookers, divest our Wright Express fuel card business, and use the expected \$1 billion plus in proceeds from that IPO to complete the acquisition of two leading affiliated travel companies in Europe and Asia, Gulliver's and Octopus Travel. This summer, our plan is to sell our Marketing Services businesses.

Our goal is to refine our portfolio by replacing the earnings from non-core assets with earnings from assets that are strategic to us, that provide significant synergies with our existing businesses, and that enhance our long-term organic growth profile.

By year end 2005, you will see a more focused, faster growing Cendant than a year ago, with more predictable results. We will have shed all of our non-core businesses and become a pure-play travel and real estate company, with a stronger balance sheet and a much simpler financial structure. At the same time, for the acquisitions of Orbitz,

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e-bookers and Gulliver's, we will have filled the last real "hole" in our travel distribution portfolio and secured a leading worldwide position in the fast-growing online travel intermediary space, enabling us to execute on our strategy in travel distribution that Sam Katz told you about an Investor Day.

A word about noise: We stipulate that this quarter and perhaps the next quarter or two will be messier than our Board and our management would prefer. However, we are repositioning the Company by divesting about 25 percent of Cendant which we deem to be non-core and non-strategic, and then replacing those assets with earnings from units where we have a clear competitive advantage. Companies as well managed as GE do this over a three to five-year timeframe; we're doing it in less than a year so we don't burden our financial results beyond 2005. Unfortunately, this produces a necessary amount of friction, which is why we encourage you to focus on our growth on a comparable basis.

That said, we believe the strategic path we have embarked upon will significantly enhance shareholder value by increasing our growth rate, pre-tax margin and ROIC, and by simplifying our business model. We have much work to do and much to be excited about to during this two-year cycle.

Now I will turn the call over to Ron to discuss our fourth-quarter and full-year results and our outlook for 2005 and 2006.

Ron Nelson: I'd like to divide my comments this morning into several parts. First, I'd like to address the fourth quarter 2004 results as they relate to the guidance that we gave you in October. Second, I want to briefly review our primary metrics of organic growth and free cash flow generation and explain the positive trends in that regard. Then, finally, I'd like to update our guidance for the first quarter and full year 2005, in light of better knowledge about some of the moving parts we highlighted at our Investor Day in December. For those of you who were unable to attend our Investor Day, I will remind you that the full complement of presentation slides, along with the accompanying audio, can be found on our website.

So let me first talk about comparisons to guidance for the fourth quarter.

As you do your own analysis, you'll note that we were slightly at variance with our October projections in several places, both positive and negative. Overall, earnings per share of \$0.33 matched the high end of fourth quarter guidance, even though several of our businesses generated operating results that exceeded our guidance. The positive contributions came in two places: one, in Real Estate, which ended the quarter earning \$228 million of EBITDA; almost \$20 million above the high-end of guidance for that unit; and two, in Vehicle Services, which closed the quarter earning \$127 million of EBITDA, right on top of the high-end of guidance for that unit. There were a number of other unique items in the quarter, both positive and negative, but, in the aggregate, they had no material impact on our results.

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In Real Estate, the positive variance was driven by year-over-year price gains of 14 and 18 percent at our franchise and brokerage operations, respectively. Sides slid marginally, and in the case of NRT, volume was influenced by a modest hangover affect from the hurricanes in the Southeast, and in the case of Franchise, it was primarily timing. We're continuing to see price strength and solid volume into the first quarter with open gross profit at NRT up 12 percent compared with 2004.

While all the units in Vehicle Services contributed to its positive variance, it was a firming of the tone of the car rental market in the fourth quarter that was most responsible. Rental day growth at Budget, up 18 percent, reflected the encouraging early results of the re-positioning in the Budget brand, initiated in the latter half of 2004, to compete more effectively in the leisure market.

In our Marketing Services division, we had several offsetting events during the quarter. On the plus side, we concluded the sale of commission rights on a run-off book of business and a contract termination with a marketing partner, which accelerated the related earnings and cash flow from the next several years into the current period. You may recall that in the third quarter we also benefited from the early termination of a contract with a marketing partner and this resulted in slightly lower revenues in the fourth quarter. On the negative side, as announced yesterday, we recorded net pre-tax charge of \$25 million as a result of a verdict rendered in connection with a contractual dispute with a third party insurance partner. Were it not for this charge, our Marketing Services division would come in slightly ahead of guidance and our EPS would have been \$0.02 higher. We also had slightly higher amortization of deferred expenses related to our insurance marketing activities, and the net impact of all these items, both positive and negative was to increase fourth-quarter Marketing Services revenue by approximately \$33 million and reduce EBITDA by approximately \$9 million.

Let me be clear why we undertook these transactions. The pieces of business that were sold represented run-off books of business that in the transaction would only be worth the net present value of the remaining cash receipts to the buyer. Since presumably our cost of capital is lower than our buyer universe, we felt we would realize greater proceeds from selling them prior to a sale than from a buyer as part of a larger transaction.

Also, offsetting the greater than expected contributions from Real Estate and Vehicle Services were about \$17 million in higher MSR amortization and some incremental hedging costs. This issue is now moot with the spin-off, but illustrates the volatility of that Henry referenced earlier and that we now no longer contend with. Additionally, we had expenses associated with prior acquisitions and litigation costs recorded in our Hospitality segment. These items, together with the seasonality of Landal revenues in our VRG unit, account for the margin reduction apparent in the hospitality numbers for the fourth quarter. Otherwise operating metrics for our Hospitality units remain on target for the year.

Let me spend a minute on our Travel Distribution Segment. While TDS was in line with guidance, there were two items included in its fourth quarter results that had an impact on

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earnings, one of which negatively impacted fourth quarter organic growth. Starting on the plus side with Orbitz, which is not in the organic growth calculation, Orbitz integration expenses were approximately \$0.01 lower than anticipated. In large measure, this was only timing. Offsetting that benefit, however, was a larger than normal bad debt provision including reserves for receivables due from airlines in bankruptcy, owing primarily to the evolving circumstances in the airline industry. Looking ahead to 2005, we expect our TDS segment to grow EBITDA by almost 50 percent, based on the midpoint of our guidance, as we begin to benefit from the Orbitz, e-bookers and Gulliver's acquisitions, as well as from organic growth at Galileo.

A couple of final comments on the fourth-quarter results: First, as you may recall, in the guidance we gave for the fourth quarter we noted that we expected the negative impact of the Orbitz charges to more than offset the EPS line by the favorable resolution of certain tax-related matters. These matters were, in fact, resolved during the quarter and related primarily to the CUC litigation. The benefit recorded by the Company was reflected in EBITDA in the Corporate and Other line.

Second, let me propose a simple way to think about all of this in the context of the fourth quarter: on the plus side, we enjoyed benefits from the acceleration of income and Marketing Services and the benefits related to CUC; on the negative side, we incurred charges from Orbitz related expense, the additional MSR amortization at mortgage, costs related to the PHH spin-off and the litigation charge at Marketing Services, and the net of it all is an immaterial benefit. So, in the end, the Company's operations that drove earnings to our guidance level, and an adjustment to our tax rate, drove it further to the high-end of guidance for the quarter and full year.

Let me now move to organic growth. As we promised, we have re-instituted providing the organic growth tables and will now include them with each quarter's earnings release. I want to focus on fully organic growth, inasmuch as this metric is intended as a longer-term measure and quarter-to-quarter numbers can be influenced, as ours were, by seasonality and other short-term anomalies. For the year, reportable segments grew at a weighted average of 5 percent on the revenue line and 9 percent on the EBITDA line. Notable in those calculations are the fact that we absorbed an over \$200 million decline in mortgage services EBITDA, all of which was related to the mortgage unit. Were we to factor out PHH from these calculations, the weighted average organic growth across our reportable segments would have been 8 percent in revenue and 17 percent in EBITDA. All of our core operations in real estate and travel had growth in EBITD; TDS's organic growth was positive for the year despite the effects of airline bankruptcies and a soft European travel economy, and our other core segments each had organic EBITDA growth of 15 percent or better.

Before we move on, here are a couple of additional highlights for the quarter and year:

- In Real Estate franchise, we renewed 95 percent of the Gross commission income up for renewal in 2004, including Coldwell Banker, which renewed 100 percent. This is an accomplishment that reflects the value of our franchisees derive from our brands and one

that is unmatched, we believe, by any other franchise company. J.D. Power & Associates recently ranked both Coldwell Banker and ERA highest in home buyer and seller satisfaction, underscoring the value which consumers place on our brands.

- In the Timeshare Resort Group, revenue growth outpaced tour flow growth as we continued to drive sales efficiencies. Also, Trendwest's domestic results stabilized during the quarter as new management initiatives began to take hold. We expect results to continue to improve in 2005, although first quarter will be the most challenging due to difficult comparisons from strong, high margin upgrade sales in the first quarter of 2004.

- For those of you who are curious about why the margin appear to decline in Hospitality, the reason include that our 2004 European Vacation Rental Group acquisitions added to revenues in the fourth quarter, but reduced EBITDA, due primarily to unusual expenses associated with prior acquisitions. In addition, margins were impacted by the seasonality of Landal's results, which, in the fourth quarter, typically generate revenues but no profits. Our Hospitality group is performing well, and there should be no misunderstanding.

- In Travel Distribution, even excluding Orbitz we had a 34 percent increase in online travel bookings leading to a strong turnaround in our CheapTickets online unit in 2004. In addition, the acquisitions earlier this year Flairview Travel and Travel 2/Travel 4 both continue to perform well above our acquisition forecast.

All in all, we believe, not only that our businesses are performing well but they are well positioned for continued organic growth.

The final element of 2004 that I would like to cover is cash generation and deployment.

First, cash generation: Free cash flow exceeded the \$2 billion target that we committed to, ending the year at almost \$2.2 billion. Some of the over-achievement is related to timing and it is possible that the timing will reverse and impact subsequent periods. That said, we continue to forecast 2005 free cash flow of \$1.8 to \$2 billion, reflecting the effects of the PHH spin-off and the planned divestitures of Wright Express in the Marketing Services division.

As to deployment: we look at deployment in three broad categories:

First, is investing for growth: In that category, our capital expenditure budget was originally targeted for \$525 - \$575 million, but on the third quarter call we told you it would come closer to \$500 million, as some spending on corporate systems and airport facilities renovations had shifted into 2005. In actuality, we ended up spending about \$469 million.

Also, a part of investing for growth is acquisitions. Despite a somewhat active year, our net acquisition spend was \$861 million or approximately 39 percent of our free cash flow. This lower number reflects the redeployment of Jackson Hewitt proceeds into

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growth assets. As we have noted on several occasions, our acquisition activity over the coming months is more about re-positioning the Company strategically into higher-growth assets than about simply expanding the balance sheet with additional acquisitions. Just to restate for the record: we weigh the returns from additional bolt-ons against share repurchases, and there are absolutely no transforming events in our plans.

The other category is investment in the balance sheet. In this vein, we accomplished our planned debt reduction. We targeted \$1 to \$1.5 billion of gross debt reduction for the full-year, not including the Upper Decs, and with the redemption of 3 7/8's in November we hit that target. We ended the year with \$3.7 billion of term debt and revolver borrowings of \$650 million all reduced by \$591 million of cash and, therefore, ended the year with approximately \$3.7 billion in net corporate debt. Along the way, we achieved one of our important balance sheet objectives: we eliminated all of our convertible securities and greatly simplified our corporate debt structure, which now consists of six tranches of straight debt due over the next 11 years, plus our bank borrowings. Our net debt to EBITDA ratio ended the year at just over 1 to 1 and our net debt to net capitalization ratio stood at 23 percent.

The third category of deployment is returning capital to shareholders, one, through share repurchase and two, through dividends.

We deployed a total of \$1.3 billion of cash, or \$756 million net of proceeds from option exercises, to repurchase common stock in 2004. \$430 million of that amount was to retire shares issued upon the conversion of the CODES in February, so net of the cash set aside to redeem the CODES we still invested \$326 million in share repurchase.

Dividend payments aggregated \$333 million for the year, reflecting the initial quarterly dividend of \$0.07 per share in the first half of the year, and the 29 percent increase to \$0.09 for the third and fourth quarters. As Henry noted, we plan to recommend to our Board a dividend increase after the Wright Express IPO closes.

For 2005, we're projecting to return to shareholders more than \$2 billion, made up of the \$1.2 billion of value from the PHH spin-off, the estimate of \$400 to \$480 million of dividends projected for 2005, and our baseline net share repurchases of \$400 to \$600 million, net of option exercise proceeds.

Moving into 2005, we expect to update you periodically on the progress of our new Travel Distribution businesses in the same way we provided periodic updates on the now completed integration of Budget. While we don't own ebookers or Gulliver's yet, integration planning for these two transactions is in high gear, and we're working closely with the management of these businesses to finalize implementation plans to integrate these businesses with our other product offerings and achieve the synergies we identified during due diligence.

Separately, Orbitz closed in November and in the two short months we've owned Orbitz we have achieved a number of important milestones.



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One, we hired Mitch Truwit, the former Chief Operating Officer of Priceline.com, a seasoned leader with experience in rationalizing and optimizing operations, developing products and working with multiple brands. Mitch will be responsible for all our domestic online operations.

Two, we have already renegotiated several supply contracts and began renewing partner marketing advertising deals. In the advertising and supply deals done to date, we have realized significant incremental benefits in both scale and pricing, and three we have made several headcount reductions, which have resulted in immediate savings.

In 2005, we're focused on delivering value by beginning to realize synergies against our consumer businesses. In the first quarter, we are already experiencing reductions in our fulfillment costs at Orbitz, reductions in fraudulent transactions in CheapTickets by utilizing Orbitz's sophisticated fraud engine, and later in the quarter we plan to realize further efficiencies in consolidating our online marketing approach.

As the year progresses we will execute even more meaningful projects such as providing consolidated access to our hotel inventory across all of our consumer businesses. Early in the third quarter we anticipate CheapTickets and Lodging.com will be migrated to the Orbitz technology platform. These steps will be key drivers in leveraging the value of the combined businesses and delivering on the synergy projections in our acquisition model.

In sum, a lot was done in a little while - consistent with, and maybe a little bit ahead of, our plan.

As to the outlook for our other businesses, we've been saying for several quarters, we expect the real estate market to "normalize" over 2005. We expect that our sides will be more or less flat and price up 4 to 5 percent, which is consistent with the average growth rate of existing home prices since World War II. Our outlook for the real estate market is consistent with that of Fannie Mae, NAR and other industry observers, which project that existing homesale volumes will decline in the low single-digits in 2005 and that pricing will increase in the mid single-digits. The reason that our projected volumes are better is that, in more moderate market environments, we're typically able to boost our growth rate through increased franchise sales and NRT brokerage acquisitions. We have modeled into our 2005 forecast that we will add franchisees with about \$600 million in gross commission income, which translates into almost \$30 million in royalty revenues on an annual run-rate basis, and \$300 to \$600 million in GCI from NRT brokerage acquisitions. We remind you that we will not be permitted to present our mortgage unit as a discontinued operation and consequently our comparisons for all of 2005 will be distorted by the inclusion of mortgage revenue and EBITDA from prior periods.

In the travel vertical we expect our businesses to continue to perform well in the current environment. Consumer confidence, which is a leading indicator for most travel businesses, rose for a second time in January and is currently at the second highest level

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it has achieved since mid-2002. All of our travel businesses are projecting solid organic growth for the year, either in line or above our long-term metrics.

At Investor Day we modeled into our projections some \$60 million of acquired EBITDA in 2005, and with the subsequent acquisitions of e-bookers and Gulliver's we have substantially hit that target already. In fact, our revised guidance for 2005 does not factor into it any share repurchases beyond the baseline of \$500 million; and by the time we close on e-bookers and Gullivers, and assuming we hit our target proceeds on the IPO of WEX and the sale of Marketing Services, we will have more than \$1.5 billion of proceeds remaining to either repurchase shares, make additional acquisitions or both. The point of this is that those proceeds will be available to create additional upside to our current guidance range.

A word about proceeds: A recent article in one of the New York papers noted that we are expecting proceeds approximating \$3 billion from the sale of our Marketing Services Division. While we would be pleasantly surprised if that were the case, the normalized level of EBITDA for that unit on a stand-alone basis is in the mid - \$200 million range, after adjusting for the items this year that I discussed earlier in my remarks and, with expected trading multiples, you should be aware that we have not adjusted our expectations from the \$2 billion or more in proceeds that we articulated in December.

Now, let me turn to our projections for 2005 and 2006. As we discussed at Investor Day, 2005 will be a transitional year in terms of reported EPS growth, as we begin to redeploy the proceeds from our non-core divestitures and our free cash flow. Results will be distorted by integration costs, discontinued operations, treatment of some divested businesses but not Mortgage, gains on sale of the Wright Express and Marketing Services, non-cash charges resulting from the PHH spin-off, and transaction related charges. Again, we encourage you to focus on the growth of revenue and EBITDA from reportable segments on a comparable basis, rather than EPS.

We do expect EPS from Continuing Operations to be between \$1.35 and \$1.43 for the year, and \$0.21 and \$0.23 for the first quarter. These projections do not reflect the non-cash charge to Continuing Operations related to the PHH spin-off, which we currently expect will be \$0.15 to \$0.17 cents and will be booked entirely in the first quarter, and \$0.03 per share in restructuring activities charges, which we also anticipate booking in the first quarter, although a penny or so may extend into later quarters. We also expect to record a benefit in the interest expense line in the first quarter of about \$0.04 cents a share, based on anticipated developments related to the CUC matters, which was generally included in our earlier guidance. As you may recall, on Investor Day we noted the possibility of certain tax, interest and litigation issues which could have an impact on 2004 and 2005 earnings positively and negatively; certain of these have been resolved and certain have not. Apart from this first quarter item, however, our guidance assumes a neutral effect on 2005 earnings from the remainder of these items. In other words, any additional impact from litigation or tax matters will accordingly affect our results up or down, depending on the outcome.

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We will also have a portion of the non-cash charges related to the PHH spin recorded in discontinued operations, which should be partially offset by the gain on sale of Wright Express. We expect the Wright Express IPO to price and close later this month as the road show began last week.

In 2006, we expect EPS from continuing operations to grow by 13 to 27 percent versus our 2005 estimate, excluding charges of \$1.62 to \$1.72, as we begin to reap benefits from cash redeployment in addition to organic growth.

With that, Henry and I would be pleased to take your questions.

Operator: Jeff Kessler, Lehman Brothers.

Jeff Kessler: First, with regard to your Travel Distribution business, your off-line bookings were off 20 percent in the fourth quarter while your online bookings were up 13 percent and a very strong 34 percent, excluding Orbitz. Obviously CheapTickets had a very good quarter, like it had the last quarter. Is there a major channel shift going on inside of Cendant that you are managing; and how is this impacting your margins, particularly given that you are about to take on e-bookers and Gullivers?

Ron Nelson: I think that is exactly the case. As you know, we have de-emphasized the call center operations of CheapTickets and are shifting as many of the bookings as we can to the online service. And in fact, that helps the margins and it is what has resulted in CheapTickets and the travel services group turning around pretty significantly in the full year 2004.

Jeff Kessler: Okay. I know you got on Hospitality and tried to pre-empt the questions in this, talking about it two or three times, yet the 4Q weakness appears to be largely focused on that vacation cottage rental acquisition area and some litigation costs. Nevertheless, the EBITDA numbers were still lower than what we figured and what we heard in the December Investor Day. Were there some extra costs or was there some more margin pressure due to seasonality factors in the vacation cottage rental area in the hospitality segment than you expected originally back in November or December?

Ron Nelson: I don't think the seasonality is any different. I do think that there were some expenses written off from prior acquisitions which impacted the margins. We closed a call center in Knoxville in our lodging unit which was probably a 70 or 80 percent ROI which we will see the benefit of next year and there was a litigation in time-share.

I think the one major trend that we're seeing at VRG is the bookings appear to be coming later, meaning that the time before arrival instead of being six months or five, is now booking closer to the arrival date of two or three months. So I think that had an impact on VRG. And I think overall, frankly, the European travel economy has been fairly soft all year. And if you look at VRG on an organic basis its growth was not where we would want it to be.

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So I think all those things combined together is affecting the results. I think if you go through and figure out what a normalized margin the group ought to be, and what we are short on the EBITDA lines from that normalized margin, you can tick through all these things that I mentioned, and you can see there is just a lot of little items up and down, but in the main the group is doing quite well.

Jeff Kessler: Can you elaborate on some recent reports about Cendant's Car Rental group introducing a private-label booking engine that offers other travel suppliers, i.e. airlines and hotels, an enhancement to their own website? It appears that America West is going to, basically, have a Budget and Avis choice on its website. Is this going to be exclusive or are you going to expand this to a bunch of different other suppliers? And how do you transition your own third-party distribution operations if you do intend to expand this?

Henry Silverman: I think you know more about this than we do, so we'll have to look into this and get back to you. You may have a scoop there, Jeff.

Jeff Kessler: One final question, Henry. I'm glad I am at least on top of the research here. One of the things that really interested me at your analyst day was your ability to start talking, at least, about Travelink. I realize we're only talking two or three months later, but can you tell us any progress that's gone on with Travelink? Are you still making money with it? How profitable can it be? More importantly, what can it do for your travel business?

Ron Nelson: It's hard to quantify because I think as we showed you on analyst day, if we just increase our share of the wallet by 1 percent it's got about \$118 million pre-tax impact on our Hospitality group.

We are still in the process of collating all of the customer data from the various and sundry databases across all of our travel units in order to put together packages. We continue to make great progress on call transfer. We continue to make good progress on e-mail marketing. A lot of the targeted pop-up advertising is doing quite well. And I hesitate to throw this out because it's going to sound great, but I can tell you that our estimate for profits in Travelink was profitable in 2004, and it's going to more than double its profitability in 2005.

That said, it's still a small number, and I think we're still experimenting to find out exactly which is the highest reward avenue to pursue in the cross-marketing initiatives.

Henry Silverman: I would add, Jeff, that our travel businesses are going to evolve over time. I will give you an example of something which right now we couldn't do, but which obviously once we change our UFOC we will be able to.

There may be hotels and markets where we are better off saying to the hotel owner, "Don't pay us a royalty; simply give us a merchant hotel rate on 25 rooms every night." That's how the model will change over time. And I think that we are well positioned

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because of the integrated supply, content and distribution assets we have to realize on those types of evolving synergies.

Jeff Kessler: My final question is how are you doing in being able to identify dark nights in your time-share business for use by Cendant overall?

Henry Silverman: We actually just had a capital expenditure review at the time-share group just last week, and that project is underway. It's scheduled to be completed in Trendwest later this year, and then following that Fairfield probably towards the end of '05 - and this is really a more sophisticated property management. It not only allows us to identify the dark room nights, but allows us to understand exactly what the availability is and will allow us to interact with the other online services and be able to transfer inventory to them for availability in packages. So we're making good progress. It is on schedule and on budget, but it's going to be probably a year before it's done and then it will take some time after that to season meaningful results.

Jeff Kessler: So you would not expect until perhaps 2006 to see meaningful improvement, for you from filling up some of these empty time-share?

Henry Silverman: I think the key word there is meaningful. We do some of this manually now, but it's very time-consuming and it's very hard to get enough timely data to transfer to the online services in time to include in the package. So it's not that we're not doing it's just that it really is a process in need of a system.

Jeff Kessler: Thank you very much for taking all my questions.

Operator: Bradley Safalow, J.P. Morgan.

Bradley Safalow: I just wanted to ask a question on the utilization rates at Budget. You guys had a very strong (the back half of the year) growth in terms of rental days and I just want to see where you are on that front.

Henry Silverman: We now manage the fleet, as you probably know, on a combined basis. And so we don't break out internally utilization of Budget or Avis because it's the same fleet of cars. We're running in the mid-70s on the car side and in the high-50s on the truck side.

Bradley Safalow: To switch gears, on Trendwest, I think you guys were able to turn that around maybe more quickly than some of us were expecting. I was hoping maybe you could provide a little more detail on exactly how you changed your marketing program there? I know you have tried to model it after Fairfield, but was there something else beyond that that you can give us that gives us a sense for how quickly that could improve?

Henry Silverman: Let me try to put it in context. Trendwest is not doing, or was not doing, as well as our expectations, but was still performing well compared to the prior

year or its prior year. So I think our disappointment in '04 was the rate of growth as opposed to anything else. We have basically tried to replace most of the outbound telemarketing with a variety of other techniques such as mini-vacations, marketing on-site, and a number of the other sales and marketing methods that are used by Fairfield. And it seems to be, as Ron said, the first quarter is going the tough because we had a huge first quarter at Trendwest last year, but for the year we do expect the results to be up relatively materially over 2004 for TRG.

Bradley Safalow: And the shift in the marketing strategy, are the margins still being relatively similar going forward?

Henry Silverman: The margins are a bit lower than we would like, but they're getting better. I think after 1Q05 you will see a sequential improvement in TRG over the balance of 2005.

Bradley Safalow: On the TDS side of the house, there's been some headlines of late of a lawsuit in California and the state of Massachusetts for some legislation regarding the tax rate on merchant hotel rooms. I was wondering if you guys had any comments on how that could impact your business; how you think that could evolve in terms of escalating through the legislature; and how you guys are looking at a potential change in the economics on who encouraged incremental tax burden.

Henry Silverman: There is a trade association which we and Interactive, and Saber and others are members of that is actually pursuing that litigation, or opposing that legislation, as the case may be. And I think it would be inappropriate to comment on that beyond that which the association has already been quite fulsome in their commentary.

Bradley Safalow: Thanks a lot guys. I'll turn it over.

Operator: Michael Millman, Soleil Securities.

Michael Millman: First, looking I guess long-term, could you give us an idea of what you see as the top and bottom line growth for real estate and for car rental? And sort of related, is truck a core value? What you're doing with truck?

Henry Silverman: We read your research, Mike, and we know you're encouraging us to change our long-term organic growth targets. But frankly, we're not sure that that makes any sense, because, as you know, I said earlier we manage the Company in two-year cycles. I think that projecting outwards is kind of silly. Who knows what the world will be like in five or ten years.

Specifically as to truck, we do think the truck business is a keeper. The distinction between where we were two years ago and now is that we were able to turn the truck business into the same economic model as the car business in that we now buy trucks with a put-back option in roughly four years, primarily to GM, which means that basically 25 percent of the fleet comes in every year as new trucks and within another 24

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months or so we will have only a new fleet. As long as we're not in the used truck business, which we're not anymore, it's very good business. We really have only one nationwide competitor which is U-Haul and one somewhat regional competitor in Penske which is the former Hertz truck business and that's it. And it's quite profitable. We don't break it out separately but it is a quite profitable segment in our vehicle services business. So there would be no reason to do anything but to continue to grow that business. The key was getting out of the used truck side of the equation which we've been able to do.

Michael Millman: Switching to the TDS, now that the substantial change in regulation was over when you bought Galileo, and at that time were interested in Worldspan, could you talk about what you see happening in terms of consolidation in this industry and what it's going to mean for whomever is not part of the consolidation?

Henry Silverman: There have been two events recently. The owners of Worldspan refinanced their balance sheet and took all their cash out, which has made the Company highly leveraged. And as you know Amadeus was being acquired by two UK-based private equity firms. Beyond that, we have no knowledge. There's no special sauce that we're aware of that would call for either the EU or the Department of Justice here to say you guys can all get together, because I would expect the travel agents would have something to say about that. So we're not aware of anything else that's going on in that industry beyond that which I just commented on.

Michael Millman: Would you be interested in doing something if you could?

Henry Silverman: I think that goes into the area of we don't comment on rumors, speculation or hypotheticals.

Michael Millman: Could you talk a little bit about what your '05 TDS pricing looks like?

Henry Silverman: Again, we'd rather have that discussion with the airlines than have it on this conference call.

Operator: Chris Gutek, Morgan Stanley.

Chris Gutek: With the real estate brokerage business, looking at the industry-wide data, we were expecting somewhere in the mid to high single digits for transaction volume growth, and by contrast the fee businesses were down slightly. To what extent is that explained by the hurricanes? It wouldn't seem to be the full explanation. And what would be the rest of explanation in that context?

Henry Silverman: The hurricanes were part of it. There's some timing issues, as Ron indicated, open contracts at NRT, which is our best lead indicator, are up 12 percent January 31 versus a year ago, which was the record year for real estate.

I don't think it means anything. Richard Smith who runs the business would tell you to look at it on an annual basis; that any given quarter could have some -- just like the

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second quarter last year was up 35 percent, any given quarter could be frankly just when a bunch of agents wanted to get their deals done so they can get their commissions paid. It may be that our agents made so much money last year it wasn't that important for them to get it done at the end of the year as opposed to the first week of January, because January results are stronger than we had expected on the sides area. So I don't think it means anything.

Chris Gutek: Ron, I hate to drag you through the weeds on this, but just to connect the dots with these nonrecurring items, if we are looking at the income statement, which is Table 2, litigation and related charges was a source of income of \$51 million, which presumably includes a \$25 million charge in the Marketing Services division. Therefore, the net offsetting gain there is on the order of \$75 million. Is that all the tax reversal? And if so, why was the tax rate also lower on the income statement?

Ron Nelson: Why don't I start at the beginning? The \$51 million that you've seen on the income statement only includes litigation, as well as the CUC-related items that we spoke about in our third-quarter call and that we talked about earlier today. So that's what you're seeing there. The \$25 million charge is booked above EBITDA. It's in Progeny.

Chris Gutek: And then the lower tax rate as well is an independent issue?

Ron Nelson: Yes, the tax rate is an independent issue. We spent the better part of the year working with D&T, as has every public Company in America, documenting their deferred tax assets. There's been a lot of give and take and ins and outs in that category, and it really was just simply a fourth quarter true-up in the tax rate for the full year.

Chris Gutek: Finally, Ron, you talked about the \$0.03 cent per share charge that will be mostly in the first quarter of '05. What exactly will be the restructuring activities the Company will undertake post these divestitures?

Ron Nelson: Broadly speaking, it's the severance and facilities that are no longer being used that we are terminating and closing. If you sort of step back a little bit, as Henry pointed out, we're divesting some \$3 billion of revenue and \$600 to \$700 million of EBITDA. And I think it is incumbent upon us as a management team to re-look at our overhead and at all of our fixed charges and sort of adjust to a lower base of business that we call restructuring charges; they are properly going to be recorded above the EBITDA line wherever the charge occurs; they're not going to be a separate item. So that's what in there. As we get closer to the end of the quarter, we will have better information on exactly what's in it.

Chris Gutek: That's helpful. Thank you.

Operator: The does conclude today's question-and-answer session. At this time I will turn things back to our speakers for any closing comments.



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Henry Silverman: I don't know if Jeff Kessler is still on the line, but I commend you for reading an Avis press release yesterday which did talk about (it was front page story in Travel Weekly, which I neglected to read) the Cendant car rental private-label program booking engine that Jeff just mentioned, which is now used by America West. So if you have any further questions about that, Jeff, I suggest you call Scott Deaver or Bob Salerno over at Avis. But that's a good pick up.

At this time we would like to say thank you for joining us this morning. We will speak with you again at our next conference call after the first quarter. Thank you very much.

Operator: That does conclude today's conference call. Again, thank you all for your participation and have a great day.