PHH CORP
Form 10-K
February 29, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission File No. 1-7797

PHH CORPORATION
(Exact name of registrant as specified in its charter)

MARYLAND *(State or other jurisdiction of incorporation or organization)*	**52-0551284** *(I.R.S. Employer Identification Number)*
3000 LEADENHALL ROAD **MT. LAUREL, NEW JERSEY** *(Address of principal executive offices)*	**08054** *(Zip Code)*

856-917-1744
(Registrant s telephone number, including area code)

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED

Common Stock, par value $0.01 per share	The New York Stock Exchange
Preference Stock Purchase Rights	The New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o   No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Act. Yes o   No þ

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ   Accelerated filer o   Non-accelerated filer o (Do not check if a smaller reporting company)
Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o   No þ

The aggregate market value of our Common stock held by non-affiliates of the registrant as of June 30, 2007 was $1.669 billion.

As of February 15, 2008, there were 54,128,393 shares of PHH Common stock outstanding.

Documents Incorporated by Reference: Portions of the registrant s definitive Proxy Statement for the 2008 Annual Meeting of Stockholders, which will be filed by the registrant on or prior to 120 days following the end of the registrant s fiscal year ended December 31, 2007 are incorporated by reference in Part III of this Report.

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Except as expressly indicated or unless the context otherwise requires, the Company, PHH, we, our or us means Corporation, a Maryland corporation, and its subsidiaries. During 2006, our former parent company, Cendant Corporation, changed its name to Avis Budget Group, Inc. (see Note 1, Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for the year ended December 31, 2007 (Form 10-K)); however, within this Form 10-K, PHH s former parent company, now known as Avis Budget Group, Inc. (NYSE: CAR) is referred to as Cendant.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These forward-looking statements are subject to known and unknown risks, uncertainties and other factors and were derived utilizing numerous important assumptions that may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Investors are cautioned not to place undue reliance on these forward-looking statements.

Statements preceded by, followed by or that otherwise include the words believes, expects, anticipates, intends, projects, estimates, plans, may increase, may fluctuate and similar expressions or future or conditional verbs suc will, should, would, may and could are generally forward-looking in nature and are not historical facts. Forward-looking statements in this Form 10-K include, but are not limited to, the following: (i) our expectation that the cost of funding obtained through multi-seller conduits will be adversely impacted in 2008 compared to such costs prior to the disruption in the asset-backed securities market; (ii) the belief that we have developed an industry-leading technology infrastructure; (iii) the expectation that the unpaid principal balance of loans for which we sold the underlying mortgage servicing rights as of December 31, 2007 will be transferred to the purchaser s systems during the second quarter of 2008; (iv) the expectation that our mortgage loan originations from our Mortgage Production segment in the year ended December 31, 2008 will be comprised of a similar portion of mortgage loan originations arising out of our arrangements with Realogy Corporation (Realogy) as during the year ended December 31, 2007; (v) the expectation that our agreements and arrangements with Cendant and Realogy will continue to be material to our business; (vi) the beliefs that the restrictions under our loan agreements will not materially limit our operations or our ability to make dividend payments on our Common stock; (vii) our belief that any existing legal claims or proceedings would not have a material adverse effect on our business, financial position, results of operations or cash flows; (viii) our expectations regarding lower origination volumes, home sale volumes and increasing competition in the mortgage industry and our intention to take advantage of this environment by leveraging our existing mortgage origination services platform to enter into new outsourcing relationships; (ix) our expectations regarding our mortgage originations from refinance activity and our purchase originations during 2008; (x) our expectation that our new mortgage outsourcing relationships as of the filing date of this Form 10-K will result in approximately $1.3 billion of incremental mortgage origination volume in 2008; (xi) our expectation regarding delinquency and foreclosure rates during 2008 and the expected impact on our foreclosure losses; (xii) our expected savings during 2008 from cost-reducing initiatives implemented in our Mortgage Production and Mortgage Servicing segments; (xiii) our expectation that there will be little or no growth in the fleet management services market during 2008; (xiv) our belief that growth in our Fleet Management Services segment will be negatively impacted during 2008 by the terminated Merger (as defined in Item 1. Business Recent Developments); (xv) our expectation that the costs of issuing asset-backed commercial paper will be higher in 2008 compared to such costs prior to the disruption in the asset-backed securities market; (xvi) our expectation that the sale of mortgage servicing rights during 2007 will result in a proportionate decrease in our Net revenues for the Mortgage Servicing segment in 2008; (xvii) our belief that our sources of liquidity are adequate to fund operations for the next 12 months; (xviii) our expected capital expenditures for 2008; (xix) our expectation that the increase in the fee rates under certain of our vehicle management asset-backed debt arrangements during 2007 will increase Fleet interest expense without a corresponding increase in Fleet leasing revenue during the term of that arrangement; (xx) our belief that we would have various periods to cure an event of

default if one or more notices of default were to be given by our lenders or trustees under certain of our financing agreements; (xxi) our expectation that the London Interbank Offered Rate (LIBOR) and commercial paper, long-term United States (U.S.)

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Treasury and mortgage interest rates will remain our primary benchmark for market risk for the foreseeable future; (xxii) our expectations regarding the impact of the adoption of recently issued accounting pronouncements on our financial statements; (xxiii) our expectation that the amount of unrecognized income tax benefits will change in the next twelve months; (xxiv) the anticipated amounts of amortization expense for amortizable intangible assets for the next five fiscal years and (xxv) our expected contribution to our defined benefit pension plan during 2008.

The factors and assumptions discussed below and the risks and uncertainties described in Item 1A. Risk Factors could cause actual results to differ materially from those expressed in such forward-looking statements:

- § the effects of environmental, economic or political conditions on the international, national or regional economy, the outbreak or escalation of hostilities or terrorist attacks and the impact thereof on our businesses;
- § the effects of a decline in the volume or value of U.S. home sales, due to adverse economic changes or otherwise, on our Mortgage Production and Mortgage Servicing segments;
- § the effects of changes in current interest rates on our Mortgage Production and Mortgage Servicing segments and on our financing costs;
- § the effects of changes in spreads between mortgage rates and swap rates, option volatility and the shape of the yield curve, particularly on the performance of our risk management activities;
- § our ability to develop and implement operational, technological and financial systems to manage growing operations and to achieve enhanced earnings or effect cost savings;
- § the effects of competition in our existing and potential future lines of business, including the impact of competition with greater financial resources and broader product lines;
- § our ability to quickly reduce overhead and infrastructure costs in response to a reduction in revenue;
- § our ability to implement fully integrated disaster recovery technology solutions in the event of a disaster;
- § our ability to obtain financing on acceptable terms to finance our growth strategy, to operate within the limitations imposed by financing arrangements and to maintain our credit ratings;
- § our ability to maintain our relationships with our existing clients;
- § a deterioration in the performance of assets held as collateral for secured borrowings, a downgrade in our credit ratings below investment grade or any failure to comply with certain financial covenants under our financing agreements and
- § changes in laws and regulations, including changes in accounting standards, mortgage- and real estate-related regulations and state, federal and foreign tax laws.

Other factors and assumptions not identified above were also involved in the derivation of these forward-looking statements, and the failure of such other assumptions to be realized as well as other factors may also cause actual results to differ materially from those projected. Most of these factors are difficult to predict accurately and are generally beyond our control.

The factors and assumptions discussed above may have an impact on the continued accuracy of any forward-looking statements that we make. Except for our ongoing obligations to disclose material information under the federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless required by law. For any forward-looking statements contained in any document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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PART I

Item 1. *Business*

Recent Developments

On March 15, 2007, we entered into a definitive agreement (the Merger Agreement) with General Electric Capital Corporation (GE) and its wholly owned subsidiary, Jade Merger Sub, Inc. to be acquired (the Merger). In conjunction with the Merger, GE entered into an agreement (the Mortgage Sale Agreement) to sell our mortgage operations (the Mortgage Sale) to Pearl Mortgage Acquisition 2 L.L.C. (Pearl Acquisition), an affiliate of The Blackstone Group (Blackstone), a global investment and advisory firm.

On January 1, 2008, we gave a notice of termination to GE pursuant to the Merger Agreement because the Merger was not completed by December 31, 2007. On January 2, 2008, we received a notice of termination from Pearl Acquisition pursuant to the Mortgage Sale Agreement and on January 4, 2008, a Settlement Agreement (the Settlement Agreement) between us, Pearl Acquisition and Blackstone Capital Partners V L.P. (BCP V) was executed. Pursuant to the Settlement Agreement, BCP V paid us a reverse termination fee of $50 million and we agreed to pay BCP V up to $4.5 million for the reimbursement of certain fees for third-party consulting services incurred by BCP V and Pearl Acquisition in connection with the transactions contemplated by the Merger Agreement and the Mortgage Sale Agreement upon our receipt of invoices reflecting such fees from BCP V. As part of the Settlement Agreement, we are entitled to receive the work product that those consultants provided to BCP V and Pearl Acquisition. As of the filing date of this Form 10-K, we paid BCP V $4.5 million and received the work product.

The aggregate demand for mortgage loans in the U.S. is a primary driver of our Mortgage Production and Mortgage Servicing segments operating results. During the second half of 2007, developments in the market for many types of mortgage loans drove down the demand for these loans. In addition, there has also been a reduced demand for certain mortgage products and mortgage-backed securities (MBS) in the secondary market, which has reduced liquidity for these assets. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Mortgage Production and Mortgage Servicing Segments for more information regarding the mortgage industry.

Adverse conditions in the U.S. housing market, disruptions in the credit markets and corrections in certain asset-backed security market segments resulted in substantial valuation reductions during 2007, most significantly on mortgage backed securities. Market credit spreads have recently gone from historically tight to historically wide levels, and a further widening of credit spreads or worsening of credit market dislocations or sustained market downturns could have additional negative effects on the value of our mortgage loans held for sale (MLHS). The asset-backed securities market in general has experienced significant disruptions and deterioration, the effects of which have not been limited to MBS. As a result of the deterioration in the asset-backed securities market, the costs associated with asset-backed commercial paper (ABCP) issued by the multi-seller conduits, which fund the Chesapeake Funding LLC (Chesapeake) Series 2006-1 and Series 2006-2 notes, in particular, were negatively impacted beginning in the third quarter of 2007. See Item 1A. Risk Factors Risks Related to our Business Recent developments in the asset-backed securities market have negatively affected the value of our MLHS and our costs of funds, which could have a material and adverse effect on our business, financial position, results of operations or cash flows. , Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Fleet Management Services Segment and Indebtedness for more information.

History

For periods presented in this Form 10-K prior to February 1, 2005, we were a wholly owned subsidiary of Cendant (renamed Avis Budget Group, Inc.) that provided homeowners with mortgages, serviced mortgage loans, facilitated employee relocations and provided vehicle fleet management and fuel card services to commercial clients. On February 1, 2005, we began operating as an independent, publicly traded company pursuant to our spin-off from Cendant (the Spin-Off). In connection with the Spin-Off, we entered into several contracts with Cendant and Cendant s real estate services division to provide for the separation of our business from Cendant and the continuation of certain business arrangements with Cendant s real estate services division, including a separation agreement, a tax sharing agreement, a transition services agreement, a strategic relationship agreement, a marketing

agreement, trademark license agreements and the operating agreement for PHH Home Loans, LLC (together with its subsidiaries, PHH Home Loans or the Mortgage Venture) (collectively, the Spin-Off Agreements). Cendant spun-off its real estate services division, Realogy, including its relocation subsidiary, Cartus Corporation (formerly known as Cendant Mobility Services Corporation) (together with its subsidiaries, Cartus) into an independent, publicly traded company (the Realogy Spin-Off) effective July 31, 2006. On April 10, 2007, Realogy became a wholly owned subsidiary of Domus Holdings Corp., an affiliate of Apollo Management VI, L.P., following the completion of a merger and related transactions. (See Arrangements with Cendant and Arrangements with Realogy for more information.)

Prior to the Spin-Off, we underwent an internal reorganization whereby we distributed our former relocation business, Cartus, fuel card business, Wright Express LLC (together with its subsidiaries, Wright Express), and other subsidiaries that engaged in the relocation and fuel card businesses to Cendant, and Cendant contributed its former appraisal business, Speedy Title & Appraisal Review Services LLC (STARS), to us. Pursuant to Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations (SFAS No. 141), Cendant s contribution of STARS t us was accounted for as a transfer of net assets between entities under common control and, therefore, the financial position and results of operations for STARS are included in all periods presented. Pursuant to SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144), the financial position and results of operations of our former relocation and fuel card businesses have been segregated and reported as discontinued operations for all periods presented (see Note 24, Discontinued Operations in the Notes to Consolidated Financial Statements included in this Form 10-K for more information).

Overview

We are a leading outsource provider of mortgage and fleet management services. We conduct our business through three operating segments: a Mortgage Production segment, a Mortgage Servicing segment and a Fleet Management Services segment.

Our Mortgage Production segment originates, purchases and sells mortgage loans through PHH Mortgage Corporation and its subsidiaries (collectively, PHH Mortgage), which includes PHH Home Loans. PHH Home Loans is a mortgage venture that we maintain with Realogy that began operations in October 2005. PHH Mortgage and PHH Home Loans both conduct business throughout the U.S. Our Mortgage Production segment focuses on providing private-label mortgage services to financial institutions and real estate brokers.

Our Mortgage Servicing segment services mortgage loans that either PHH Mortgage or PHH Home Loans originated. Our Mortgage Servicing segment also purchases mortgage servicing rights (MSRs) and acts as a subservicer for certain clients that own the underlying MSRs. Mortgage loan servicing consists of collecting loan payments, remitting principal and interest payments to investors, managing escrow funds for the payment of mortgage-related expenses such as taxes and insurance and otherwise administering our mortgage loan servicing portfolio. The results of operations of our mortgage reinsurance business are also included in the Mortgage Servicing segment.

Our Fleet Management Services segment provides commercial fleet management services to corporate clients and government agencies throughout the U.S. and Canada through our wholly owned subsidiary, PHH Vehicle Management Services Group LLC (PHH Arval). PHH Arval is a fully integrated provider of fleet management services with a broad range of product offerings. These services include management and leasing of vehicles and other fee-based services for our clients vehicle fleets.

Available Information

Our principal offices are located at 3000 Leadenhall Road, Mt. Laurel, NJ 08054. Our telephone number is (856) 917-1744. Our corporate website is located at www.phh.com, and our filings pursuant to Section 13(a) of the Exchange Act are available free of charge on our website under the tabs Investor Relations SEC Reports as soon as reasonably practicable after such filings are electronically filed with the Securities and Exchange Commission (the SEC). Our Corporate Governance Guidelines, our Code of Business Ethics and the charters of the committees of our Board of Directors are also available on our corporate website and printed copies are available upon request. The information contained on our corporate website is not part of this Form 10-K.

Interested readers may also read and copy any materials that we file at the SEC s Public Reference Room at 100 F Street, N.E., Washington D.C., 20549. Readers may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site (www.sec.gov) that contains our reports.

OUR BUSINESS

Mortgage Production and Mortgage Servicing Segments

Mortgage Production Segment

Our Mortgage Production segment focuses on providing mortgage services, including private-label mortgage services, to financial institutions and real estate brokers through PHH Mortgage and PHH Home Loans, which conduct business throughout the U.S. Our Mortgage Production segment generated 9%, 14% and 21% of our Net revenues for the years ended December 31, 2007, 2006 and 2005, respectively. The following table sets forth the Net revenues, segment loss (as described in Note 23, Segment Information in the Notes to Consolidated Financial Statements included in this Form 10-K) and Assets for our Mortgage Production segment for each of the years ended and as of December 31, 2007, 2006 and 2005:

	Year Ended and As of December 31,		
	2007	2006	2005
		(In millions)	
Mortgage Production Net revenues	$ 205	$ 329	$ 524
Mortgage Production Segment loss	(225)	(152)	(17)
Mortgage Production Assets	1,840	3,226	2,640

The Mortgage Production segment principally generates revenue through fee-based mortgage loan origination services and sales of originated and purchased mortgage loans into the secondary market. PHH Mortgage generally sells all mortgage loans that it originates to investors (which include a variety of institutional investors) within 60 days of origination. For the year ended December 31, 2007, PHH Mortgage was the 8th largest retail originator of residential mortgages and the 13th largest overall residential mortgage originator, according to *Inside Mortgage Finance*. We are a leading outsource provider of mortgage loan origination services to financial institutions and the only mortgage company authorized to use the Century 21, Coldwell Banker and ERA brand names in marketing our mortgage loan products through the Mortgage Venture and other arrangements that we have with Realogy. See Arrangements with Realogy Mortgage Venture Between Realogy and PHH, Strategic Relationship Agreement and Marketing Agreements. For the year ended December 31, 2007, we originated mortgage loans for approximately 19% of the transactions in which real estate brokerages owned by Realogy represented the home buyer and approximately 3% of the transactions in which real estate brokerages franchised by Realogy represented the home buyer.

We originate mortgage loans through three principal business channels: financial institutions (on a private-label basis), real estate brokers (including brokers associated with brokerages owned or franchised by Realogy and Third-Party Brokers, as defined below) and relocation (mortgage services for clients of Cartus).

§ ***Financial Institutions Channel:*** We are a leading provider of private-label mortgage loan originations for financial institutions and other entities throughout the U.S. In this channel, we offer a complete outsourcing solution, from processing applications through funding for clients that wish to offer mortgage services to their customers, but are not equipped to handle all aspects of the process cost-effectively. Representative clients

include Merrill Lynch Credit Corporation (Merrill Lynch), TD Banknorth, N.A. and Charles Schwab Bank. This channel generated approximately 55%, 49% and 50% of our mortgage loan originations for the years ended December 31, 2007, 2006 and 2005, respectively. Approximately 20% of our mortgage loan originations for the year ended December 31, 2007 were from a single client, Merrill Lynch. (See Arrangements with Merrill Lynch for more information.)

§ ***Real Estate Brokers Channel:*** We work with real estate brokers to provide their customers with mortgage loans. Through our affiliations with real estate brokers, we have access to home buyers at

the time of purchase. In this channel, we work with brokers associated with NRT Incorporated, Realogy s owned real estate brokerage business (together with its subsidiaries, NRT), brokers associated with Realogy s franchised brokerages (Realogy Franchisees) and brokers that are not affiliated with Realogy (Third-Party Brokers). Realogy has agreed that the residential and commercial real estate brokerage business owned and operated by NRT and the title and settlement services business owned and operated by Title Resource Group LLC (formerly known as Cendant Settlement Services Group) (together with its subsidiaries, TRG) will exclusively recommend the Mortgage Venture as provider of mortgage loans to (i) the independent sales associates affiliated with Realogy Services Group LLC (formerly known as Cendant Real Estate Services Group, LLC) and Realogy Services Venture Partner, Inc. (formerly known as Cendant Real Estate Services Venture Partner, Inc.) (the Realogy Venture Partner and together with Realogy Services Group LLC and their respective subsidiaries, the Realogy Entities), excluding the independent sales associates of any Realogy Franchisee acting in such capacity, (ii) all customers of the Realogy Entities (excluding Realogy Franchisees or any employee or independent sales associate thereof acting in such capacity) and (iii) all U.S.-based employees of Cendant. (See Arrangements with Realogy Strategic Relationship Agreement for more information.) In general, our capture rate of mortgages where we are the exclusive recommended provider is much higher than in other situations. Realogy Franchisees, including Coldwell Banker Real Estate Corporation, Century 21 Real Estate LLC, ERA Franchise Systems, Inc. and Sotheby s International Affiliates, Inc. have agreed to recommend exclusively PHH Mortgage as provider of mortgage loans to their respective independent sales associates. (See Arrangements with Realogy Marketing Agreements for more information.) Additionally, for Realogy Franchisees and Third-Party Brokers, we endeavor to enter into separate marketing service agreements (MSAs) or other arrangements whereby we are the exclusive recommended provider of mortgage loans to each franchise or broker. We have entered into exclusive MSAs with 23% of Realogy Franchisees as of December 31, 2007. Following the Realogy Spin-Off, Realogy is a leading franchisor of real estate brokerage services in the U.S. In this channel, we primarily operate on a private-label basis, incorporating the brand name associated with the real estate broker, such as Coldwell Banker Mortgage, Century 21 Mortgage or ERA Mortgage. This channel generated approximately 40%, 46% and 45% of our mortgage loan originations from our Mortgage Production segment for the years ended December 31, 2007, 2006 and 2005, respectively, substantially all of which was originated from Realogy and the Realogy Franchisees. (See Arrangements with Realogy for more information.)

§ ***Relocation Channel:*** In this channel, we work with Cartus, Realogy s relocation business, to provide mortgage loans to employees of Cartus clients. Cartus is the industry leader of outsourced corporate relocation services in the U.S. The relocation channel generated approximately 5% of our mortgage loan originations for each of the years ended December 31, 2007, 2006 and 2005, substantially all of which were from Cartus. (See Arrangements with Realogy for more information.)

Included in the Real Estate Brokers and Relocation Channels described above is the Mortgage Venture that we have with Realogy. The Mortgage Venture commenced operations in October 2005. At that time, we contributed assets and transferred employees that have historically supported originations from NRT and Cartus to the Mortgage Venture. The provisions of a strategic relationship agreement dated as of January 31, 2005, between PHH Mortgage, PHH Home Loans, PHH Broker Partner Corporation (PHH Broker Partner), Realogy, Realogy Venture Partner and Cendant (the Strategic Relationship Agreement) govern the manner in which the Mortgage Venture is recommended by Realogy. See Arrangements with Realogy Mortgage Venture Between Realogy and PHH and Strategic Relationship Agreement. The Mortgage Venture originates and sells mortgage loans primarily sourced through NRT and Cartus. All mortgage loans originated by the Mortgage Venture are sold to PHH Mortgage or unaffiliated third-party investors on a servicing-released basis. The Mortgage Venture does not hold any mortgage loans for investment purposes or retain MSRs for any loans it originates.

We own 50.1% of the Mortgage Venture through our wholly owned subsidiary, PHH Broker Partner, and Realogy owns the remaining 49.9% through its wholly owned subsidiary, Realogy Venture Partner. The Mortgage Venture is consolidated within our financial statements, and Realogy s ownership interest is presented in our financial statements as a minority interest. Subject to certain regulatory and financial covenant requirements, net income generated by the Mortgage Venture is distributed quarterly to its members pro rata based upon their

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respective ownership interests. The Mortgage Venture may also require additional capital contributions from us and Realogy under the terms of the operating agreement of the Mortgage Venture between PHH Broker Partner and Realogy Venture Partner (as amended, the Mortgage Venture Operating Agreement) if it is required to meet minimum regulatory capital and reserve requirements imposed by any governmental authority or any creditor of the Mortgage Venture or its subsidiaries. The termination of our Mortgage Venture with Realogy or of our exclusivity arrangement for the Mortgage Venture under the Strategic Relationship Agreement could have a material adverse effect on our business, financial position, results of operations and cash flows. (See Arrangements with Realogy Mortgage Venture Between Realogy and PHH and Strategic Relationship Agreement for more information.)

Our mortgage loan origination channels are supported by three distinct platforms:

§ ***Teleservices:*** We operate a teleservices operation (also known as our Phone In, Move In® program) that provides centralized processing along with consistent customer service. We utilize Phone In, Move In for all three origination channels described above. We also maintain multiple internet sites that provide online mortgage application capabilities for our customers.

§ ***Field Sales Professionals:*** Members of our field sales force are generally located in real estate brokerage offices or are affiliated with financial institution clients around the U.S., and are equipped to provide product information, quote interest rates and help customers prepare mortgage applications. Through our MyChoice™ program, certain of our mortgage advisors are assigned a dedicated territory for marketing efforts and customers are provided with the option of applying for mortgage loans over the telephone, in person or online through the internet.

§ ***Closed Mortgage Loan Purchases:*** We purchase closed mortgage loans from community banks, credit unions, mortgage brokers and mortgage bankers. We also acquire mortgage loans from mortgage brokers that receive applications from and qualify the borrowers.

The following table sets forth the composition of our mortgage loan originations by channel and platform for each of the years ended December 31, 2007, 2006 and 2005:

	Year Ended December 31,		
	2007	**2006**	**2005**
	(Dollars in millions)		
Loans closed to be sold	$ 29,207	$ 32,390	$ 36,219
Fee-based closings	10,338	8,872	11,966
Total closings	$ 39,545	$ 41,262	$ 48,185
Loans sold	$ 30,346	$ 31,598	$ 35,541
Total Mortgage Originations by Channel:			
Financial institutions	55%	49%	50%
Real estate brokers	40%	46%	45%
Relocation	5%	5%	5%
Total Mortgage Originations by Platform:			
Teleservices	54%	56%	57%
Field sales professionals	23%	23%	24%

Closed mortgage loan purchases	23%	21%	19%

Fee-based closings are comprised of mortgages originated for others (including brokered loans and loans originated through our financial institutions channel). Loans originated by us and purchased from financial institutions are included in loans closed to be sold while loans originated by us and retained by financial institutions are included in fee-based closings.

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The following table sets forth the composition of our mortgage loan originations by product type for each of the years ended December 31, 2007, 2006 and 2005:

	Year Ended December 31,		
	2007	2006	2005
Fixed rate	65%	57%	47%
Adjustable rate	35%	43%	53%
Purchase closings	65%	69%	67%
Refinance closings	35%	31%	33%
Conforming[1]	60%	56%	49%
Non-conforming:			
Jumbo[2]	24%	23%	31%
Alt-A[3]	4%	8%	5%
Second lien	9%	10%	11%
Other	3%	3%	4%
Total Non-conforming	40%	44%	51%

(1) Represents mortgages that conform to the standards of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) or the Government National Mortgage Association (Ginnie Mae) (collectively, Government Sponsored Enterprises or GSEs).

(2) Represents mortgage loans that have loan amounts exceeding the GSE guidelines.

(3) Represents mortgages that are made to borrowers with prime credit histories, but do not meet the documentation requirements of a GSE loan.

Appraisal Services Business

Our Mortgage Production segment includes our appraisal services business. In January 2005, Cendant contributed STARS, its appraisal services business, to us. STARS provides appraisal services utilizing a network of approximately 2,450 third-party professional licensed appraisers offering local coverage throughout the U.S. and also provides credit research, flood certification and tax services. The appraisal services business is closely linked to the processes by which our mortgage operations originate mortgage loans and derives substantially all of its business from our various channels. The results of operations and financial position of STARS are included in our Mortgage Production segment for all periods presented.

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Mortgage Servicing Segment

Our Mortgage Servicing segment consists of collecting loan payments, remitting principal and interest payments to investors, managing escrow funds for the payment of mortgage-related expenses such as taxes and insurance and otherwise administering our mortgage loan servicing portfolio. We principally generate revenue for our Mortgage Servicing segment through fees earned for servicing mortgage loans held by investors. (See Note 1, Summary of Significant Accounting Policies Revenue Recognition Mortgage Servicing in the Notes to Consolidated Financial Statements included in this Form 10-K for a discussion of our Loan servicing income.) We also generate revenue from reinsurance activities from our wholly owned subsidiary, Atrium Insurance Corporation (Atrium). Our Mortgage Servicing segment generated 8%, 6% and 10% of our Net revenues for the years ended December 31, 2007, 2006 and 2005, respectively. The following table sets forth the Net revenues, segment profit (as described in Note 23, Segment Information in the Notes to Consolidated Financial Statements included in this Form 10-K) and Assets for our Mortgage Servicing segment for each of the years ended and as of December 31, 2007, 2006 and 2005:

	Year Ended and As of December 31,		
	2007	2006	2005
	(In millions)		
Mortgage Servicing Net revenues	$ 176	$ 131	$ 236
Mortgage Servicing Segment profit	75	44	140
Mortgage Servicing Assets	2,498	2,641	2,555

PHH Mortgage typically retains the MSRs on the mortgage loans that it sells. MSRs are the rights to receive a portion of the interest coupon and fees collected from the mortgagors for performing specified mortgage servicing activities, as described above.

The following table sets forth summary data of our mortgage loan servicing activities for the years ended and as of December 31, 2007, 2006 and 2005:

	Year Ended and As of December 31,		
	2007	2006	2005
	(Dollars in millions, except average loan size)		
Average loan servicing portfolio	$ 163,107	$ 159,269	$ 147,304
Ending loan servicing portfolio[(1)(2)]	$ 159,183	$ 160,222	$ 154,843
Number of loans serviced[(2)(3)]	1,063,187	1,079,671	1,010,855
Average loan size[(3)]	$ 149,723	$ 148,399	$ 153,180
Weighted-average interest rate[(4)]	6.1%	6.1%	5.8%
Delinquent Mortgage Loans:[(5)(6)]			
30 days	1.93%	1.93%	1.75%
60 days	0.46%	0.38%	0.36%
90 days or more	0.41%	0.29%	0.38%
Total delinquencies	2.80%	2.60%	2.49%
Foreclosures/real estate owned/bankruptcies	0.87%	0.58%	0.67%
Major Geographical Concentrations:[(7)]			
California	11.4%	11.4%	11.4%
New Jersey	7.7%	8.5%	8.8%
Florida	7.3%	7.4%	7.4%
New York	7.0%	7.3%	7.4%
Texas	4.7%	4.8%	5.0%
Illinois	4.7%	4.1%	4.0%
Other	57.2%	56.5%	56.0%

(1) Prior to June 30, 2006, certain home equity loans subserviced for others were excluded from the disclosed portfolio activity. As a result of a systems conversion during the second quarter of 2006, these loans subserviced for others are included in the portfolio balance as of December 31, 2007 and 2006. The amount of home equity loans subserviced for others and excluded from the portfolio balance as of December 31, 2005 was approximately $2.5 billion.

(2) Includes approximately 130,000 loans with an unpaid principal balance of $19.3 billion for which the underlying MSRs have been sold as of December 31, 2007. The Company is subservicing these loans until the MSRs are transferred from our systems to the purchaser s systems, which is expected to occur in the second quarter of 2008.

(3) Excludes certain home equity loans subserviced for others as of December 31, 2005. Had these 20,155 loans been excluded from the number of loans serviced as of December 31, 2007, the average loan size would have increased from $149,723 to $151,261. Had these 39,335 loans been excluded from the number of loans serviced as of December 31, 2006, the average loan size would have increased from $148,399 to $152,296.

(4) Certain home equity loans subserviced for others described above were excluded from the weighted-average interest rate calculation as of December 31, 2005, but are included in the weighted-average interest rate calculation as of December 31, 2007 and 2006. Had these loans been excluded from the December 31, 2007 and

2006 weighted-average interest rate calculations, the weighted-average interest rates would have remained 6.1% and 6.1%, respectively.

(5) Represents the loan servicing portfolio delinquencies as a percentage of the total unpaid balance of the portfolio.

(6) Certain home equity loans subserviced for others described above were excluded from the delinquency calculations as of December 31, 2005, but are included in the delinquency calculations as of December 31, 2007 and 2006. Had these loans been excluded from the December 31, 2007 delinquency calculation, total delinquencies would have increased from 2.80% to 2.82%. Had these loans been excluded from the December 31, 2006 delinquency calculation, total delinquencies would have remained 2.60%. In addition, the percentages in foreclosure/real estate owned/bankruptcy as of December 31, 2007 and 2006 would have remained 0.87% and 0.58%, respectively.

(7) Certain home equity loans subserviced for others described above were excluded from the geographical concentrations calculations as of December 31, 2005, but are included in the geographical concentrations calculations as of December 31, 2007 and 2006. Had these loans been excluded from the December 31, 2007 geographical concentrations calculations, the

percentage of loans serviced that are located in New Jersey and Florida would have decreased from 7.7% to 7.6% and from 7.3% to 7.2%, respectively, the percentage of loans serviced that are located in Illinois and other states would have increased from 4.7% to 4.8% and from 57.2% to 57.3%, respectively, and the percentage of loans serviced that are located in California, New York and Texas would have remained 11.4%, 7.0% and 4.7%, respectively. Had these loans been excluded from the December 31, 2006 geographical concentrations calculations, the percentage of loans serviced that are located in California would have decreased from 11.4% to 11.3%, the percentage of loans serviced that are located in Texas would have increased from 4.8% to 4.9% and the percentage of loans serviced that are located in New Jersey, Florida, New York, Illinois and other states would have remained 8.5%, 7.4%, 7.3%, 4.1% and 56.5%, respectively.

Mortgage Guaranty Reinsurance Business

Our Mortgage Servicing segment also includes our mortgage reinsurance business, Atrium, a wholly owned subsidiary and a New York domiciled monoline mortgage guaranty insurance company. We provide mortgage reinsurance to certain third-party insurance companies that provide primary mortgage insurance (PMI) on loans originated in our Mortgage Production segment, which generally includes conventional loans with an original loan amount in excess of 80% of the property s original appraised value. PMI benefits mortgage lenders as well as investors in asset-backed securities and/or pools of whole loans that are backed by insured mortgages. While we do not underwrite PMI directly, we provide reinsurance that covers losses in excess of a specified percentage of the principal balance of a given pool of mortgage loans, subject to a contractual limit. In exchange for assuming a portion of the risk of loss related to the reinsured loans, Atrium receives premiums from the third-party insurance companies. As of December 31, 2007, the unpaid principal balance of mortgage loans covered by such mortgage reinsurance was approximately $10.0 billion, and a liability of $32 million was included in Other liabilities in the accompanying Consolidated Balance Sheet for estimated losses associated with our mortgage reinsurance activities. As of December 31, 2007, Atrium had restricted cash of $222 million, which is available to cover the payment of claims on policies in force. See Item 7A. Quantitative and Qualitative Disclosures About Market Risk Consumer Credit Risk Mortgage Reinsurance and Item 1A. Risk Factors Risks Related to our Business Downward trends in the real estate market could adversely impact our business, profitability or results of operations. for more information.

Competition

The principal factors for competition for our Mortgage Production and Mortgage Servicing segments are service, quality, products and price. Competitive conditions also can be impacted by shifts in consumer preference between variable-rate mortgages and fixed-rate mortgages, depending on the interest rate environment. In our Mortgage Production segment, we work with our clients to develop new and competitive loan products that address their specific customer needs. In our Mortgage Servicing segment, we focus on customer service while working to enhance the efficiency of our servicing platform. Excellent customer service is also a critical component of our competitive strategy to win new clients and maintain existing clients. Within every process in our Mortgage Production and Mortgage Servicing segments, employees are trained to provide high levels of customer service. We, along with our clients, consistently track and monitor customer service levels and look for ways to improve customer service.

According to *Inside Mortgage Finance*, PHH Mortgage was the 8th largest retail mortgage loan originator in the U.S. with a 2.9% market share as of December 31, 2007 and the 11th largest mortgage loan servicer with a 1.5% market share as of December 31, 2007. Some of our largest competitors include Countrywide Financial, Wells Fargo Home Mortgage, Washington Mutual, Chase Home Finance, CitiMortgage and Bank of America. Many of our competitors are larger than we are and have access to greater financial resources than we do, which can place us at a competitive disadvantage.

We expect that the competitive pricing environment in the mortgage industry will continue during 2008 as excess origination capacity and lower origination volumes put pressure on production margins and ultimately result in further industry consolidation. We intend to take advantage of this environment by leveraging our existing mortgage origination services platform to enter into new outsourcing relationships as more companies determine that it is no longer economically feasible to compete in the industry. As of the filing date of this Form 10-K, we signed 14 new mortgage outsourcing relationships in 2007 and 2008, which we expect will result in approximately $1.3 billion of incremental mortgage origination volume in 2008. However, there can be no assurance that we will

be successful in continuing to enter into new outsourcing relationships or will realize the expected incremental origination volume. See Our Business Mortgage Production and Mortgage Servicing Segments Mortgage Production Segment for more information.

We are party to the Strategic Relationship Agreement, which, among other things, restricts us and our affiliates, subject to limited exceptions, from engaging in certain residential real estate services, including any business conducted by Realogy (formerly Cendant s real estate services division). The Strategic Relationship Agreement also provides that we will not directly or indirectly sell any mortgage loans or mortgage loan servicing to certain competitors in the residential real estate brokerage franchise businesses in the U.S. (or any company affiliated with them). See Arrangements with Realogy Strategic Relationship Agreement below for more information.

See Item 1A. Risk Factors Risks Related to our Business The industries in which we operate are highly competitive and, if we fail to meet the competitive challenges in our industries, it could have a material adverse effect on our business, financial position, results of operations or cash flows. for more information.

Seasonality

Our Mortgage Production segment is generally subject to seasonal trends. These seasonal trends reflect the pattern in the national housing market. Home sales typically rise during the spring and summer seasons and decline during the fall and winter seasons. Seasonality has less of an effect on mortgage refinancing activity, which is primarily driven by prevailing mortgage rates. Our Mortgage Servicing segment is generally not subject to seasonal trends; however, delinquency rates typically rise temporarily during the winter months, driven by the mortgagor payment patterns.

Trademarks and Intellectual Property

The trade names and related logos of our financial institutions clients are material to our Mortgage Production and Mortgage Servicing segments. Our financial institution clients license the use of their names to us in connection with our private-label business. These trademark licenses generally run for the duration of our origination services agreements with such financial institution clients and facilitate the origination services that we provide to them. Realogy s brand names and related items, such as logos and domain names, of its owned and franchised residential real estate brokerages are material to our Mortgage Production and Mortgage Servicing segments. Realogy licenses its real estate brands and related items, such as logos and domain names, to us for use in our mortgage loan origination services that we provide to Realogy s owned real estate brokerage, relocation and settlement services businesses. In connection with the Spin-Off, TM Acquisition Corp., Coldwell Banker Real Estate Corporation, ERA Franchise Systems, Inc. and PHH Mortgage entered into a trademark license agreement (the PHH Mortgage Trademark License Agreement) pursuant to which PHH Mortgage was granted a license to use certain of Realogy s real estate brand names and related items, such as domain names, in connection with our mortgage loan origination services on behalf of Realogy s franchised real estate brokerage business. PHH Mortgage was granted a license to use brand names and related items, such as domain names, in connection with Realogy s real estate brokerage business owned and operated by NRT, the relocation business owned and operated by Cartus and the settlement services business owned and operated by TRG; however this license terminated upon PHH Home Loans commencing operations. PHH Home Loans is party to its own trademark license agreement (the Mortgage Venture Trademark License Agreement) with TM Acquisition Corp., Coldwell Banker Real Estate Corporation and ERA Franchise Systems, Inc. pursuant to which PHH Home Loans was granted a license to use certain of Realogy s real estate brand names and related items, such as domain names, in connection with our mortgage loan origination services on behalf of Realogy s owned real estate brokerage business owned and operated by NRT, the relocation business owned and operated by Cartus and the settlement services business owned and operated by TRG. See Arrangements with Realogy Trademark License Agreements for more information about the PHH Mortgage Trademark License Agreement and the Mortgage Venture Trademark License Agreement (collectively, the Trademark License Agreements).

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Mortgage Regulation

Our Mortgage Production and Mortgage Servicing segments are subject to numerous federal, state and local laws and regulations and may be subject to various judicial and administrative decisions imposing various requirements and restrictions on our business. These laws, regulations and judicial and administrative decisions to which our Mortgage Production and Mortgage Servicing segments are subject include those pertaining to: real estate settlement procedures; fair lending; fair credit reporting; truth in lending; compliance with net worth and financial statement delivery requirements; compliance with federal and state disclosure requirements; the establishment of maximum interest rates, finance charges and other charges; secured transactions; collection, foreclosure, repossession and claims-handling procedures and other trade practices and privacy regulations providing for the use and safeguarding of non-public personal financial information of borrowers. By agreement with our financial institution clients, we are required to comply with additional requirements that our clients may be subject to through their regulators. The Home Mortgage Disclosure Act requires us to disclose certain information about the mortgage loans we originate and purchase, such as the race and gender of our customers, the disposition of mortgage applications, income levels and interest rate (i.e. annual percentage rate) information. We believe that publication of such information may lead to heightened scrutiny of all mortgage lenders loan pricing and underwriting practices. The federal Real Estate Settlement Procedures Act (RESPA) and state real estate brokerage laws restrict the payment of fees or other consideration for the referral of real estate settlement services. The establishment of PHH Home Loans and the continuing relationships between and among PHH Home Loans, Realogy and us are subject to the anti-kickback requirements of RESPA. There can be no assurance that more restrictive laws, rules and regulations will not be adopted in the future or that existing laws, rules and regulations will be applied in a manner that may adversely impact our business or make regulatory compliance more difficult or expensive. During 2007, the majority of states regulating mortgage lending adopted, through statute, regulation or otherwise, some version of the guidance on non-traditional mortgage loans issued by the federal financial regulatory agencies in 2006 and 2007. These requirements address issues relating to certain non-traditional mortgage products and lending practices, including interest-only loans and reduced documentation programs, and impact certain of our disclosure, qualification and documentation practices with respect to these programs. (See Item 1A. Risk Factors Risks Related to our Business The businesses in which we engage are complex and heavily regulated, and changes in the regulatory environment affecting our businesses could have a material adverse effect on our financial position, results of operations or cash flows. for more information.)

Insurance Regulation

Atrium, our wholly owned insurance subsidiary, is subject to insurance regulations in the State of New York relating to, among other things: standards of solvency that must be met and maintained; the licensing of insurers and their agents; the nature of and limitations on investments; premium rates; restrictions on the size of risks that may be insured under a single policy; reserves and provisions for unearned premiums, losses and other obligations; deposits of securities for the benefit of policyholders; approval of policy forms and the regulation of market conduct, including the use of credit information in underwriting as well as other underwriting and claims practices. The New York State Insurance Department also conducts periodic examinations and requires the filing of annual and other reports relating to the financial condition of companies and other matters.

As a result of our ownership of Atrium, we are subject to New York s insurance holding company statute, as well as certain other laws, which, among other things, limit Atrium s ability to declare and pay dividends except from restricted cash in excess of the aggregate of Atrium s paid-in capital, paid-in surplus and contingency reserve. Additionally, anyone seeking to acquire, directly or indirectly, 10% or more of Atrium s outstanding common stock, or otherwise proposing to engage in a transaction involving a change in control of Atrium, will be required to obtain the prior approval of the New York Superintendent of Insurance. (See Item 1A. Risk Factors Risks Related to our Business The businesses in which we engage are complex and heavily regulated, and changes in the regulatory

environment affecting our businesses could have a material adverse effect on our financial position, results of operations or cash flows. for more information.)

Fleet Management Services Segment

We provide fleet management services to corporate clients and government agencies through PHH Arval throughout the U.S. and Canada. We are a fully integrated provider of these services with a broad range of product offerings. We are the second largest provider of outsourced commercial fleet management services in the U.S. and Canada, combined, according to the *Automotive Fleet 2007 Fact Book*. We focus on clients with fleets of greater than 500 vehicles (the Large Fleet Market) and clients with fleets of between 75 and 500 vehicles (the National Fleet Market). As of December 31, 2007, we had more than 341,000 vehicles leased, primarily consisting of cars and light trucks and, to a lesser extent medium and heavy trucks, trailers and equipment and approximately 290,000 additional vehicles serviced under fuel cards, maintenance cards, accident management services arrangements and/or similar arrangements. We purchase more than 80,000 vehicles annually. Our Fleet Management Services segment generated 83%, 80%, and 69% of our Net revenues for the years ended December 31, 2007, 2006 and 2005, respectively. The following table sets forth the Net revenues, segment profit (as described in Note 23, Segment Information in the Notes to Consolidated Financial Statements included in this Form 10-K) and Assets for our Fleet Management Services segment for each of the years ended and as of December 31, 2007, 2006 and 2005:

	Year Ended and As of December 31,		
	2007	2006	2005
		(In millions)	
Fleet Management Services Net revenues	$ 1,861	$ 1,830	$ 1,711
Fleet Management Services Segment profit	116	102	80
Fleet Management Services Assets	5,023	4,868	4,716

We offer fully integrated services that provide solutions to clients subject to their business objectives. We place an emphasis on customer service and focus on a consultative approach with our clients. Our employees support each client in achieving the full benefits of outsourcing fleet management, including lower costs and better operations. We offer 24-hour customer service for the end-users of our products and services. We believe we have developed an industry-leading technology infrastructure. Our data warehousing, information management and online systems provide clients access to customized reports to better monitor and manage their corporate fleets.

We provide corporate clients and government agencies the following services and products:

§ ***Fleet Leasing and Fleet Management Services.*** These services include vehicle leasing, fleet policy analysis and recommendations, benchmarking, vehicle recommendations, ordering and purchasing vehicles, arranging for vehicle delivery and administration of the title and registration process, as well as tax and insurance requirements, pursuing warranty claims and remarketing used vehicles. We also offer various leasing plans, financed primarily through the issuance of variable-rate notes and borrowings through an asset-backed structure. For the year ended December 31, 2007, we averaged 342,000 leased vehicles. Substantially all of the residual risk on the value of the vehicle at the end of the lease term remains with the lessee for approximately 96% of the vehicles financed by us in the U.S. and Canada. These leases typically have a minimum lease term of 12 months and can be continued after that at the lessee s election for successive monthly renewals. At the appropriate replacement period, we typically sell the vehicle into the secondary market and the client receives a credit or pays the difference between the sale proceeds and the book value. For the remaining 4% of the vehicles financed by us, we retain the residual risk of the value of the vehicle at the end of the lease term. We maintain rigorous standards with respect to the creditworthiness of our clients. Net credit losses as a percentage of the ending balance of Net investment in fleet leases have not exceeded 0.03% in any of the last three years. During the years ended December 31, 2007, 2006 and 2005 our fleet

leasing and fleet management servicing generated approximately 88%, 89% and 88%, respectively, of our Net revenues for our Fleet Management Services segment.

§ ***Maintenance Services.*** We offer clients vehicle maintenance service cards that are used to facilitate payment for repairs and maintenance. We maintain an extensive network of third-party service providers in the U.S. and Canada to ensure ease of use by the clients drivers. The vehicle maintenance service cards provide customers with the following benefits: (i) negotiated discounts off of full retail prices through our convenient supplier network; (ii) access to our in-house team of certified maintenance experts that monitor transactions for policy compliance, reasonability and cost-effectiveness and (iii) inclusion of vehicle

maintenance transactions in a consolidated information and billing database, which assists clients with the evaluation of overall fleet performance and costs. For the year ended December 31, 2007, we averaged 326,000 maintenance service cards outstanding in the U.S. and Canada. We receive a fixed monthly fee for these services from our clients as well as additional fees from service providers in our third-party network for individual maintenance services.

§ ***Accident Management Services.*** We provide our clients with comprehensive accident management services such as immediate assistance upon receiving the initial accident report from the driver (e.g., facilitating emergency towing services and car rental assistance), an organized vehicle appraisal and repair process through a network of third-party preferred repair and body shops and coordination and negotiation of potential accident claims. Our accident management services provide our clients with the following benefits: (i) convenient, coordinated 24-hour assistance from our call center; (ii) access to our relationships with the repair and body shops included in our preferred supplier network, which typically provide clients with favorable terms and (iii) expertise of our damage specialists, who ensure that vehicle appraisals and repairs are appropriate, cost-efficient and in accordance with each client s specific repair policy. For the year ended December 31, 2007, we averaged 334,000 vehicles that were participating in accident management programs with us in the U.S. and Canada. We receive fees from our clients for these services as well as additional fees from service providers in our third-party network for individual incident services.

§ ***Fuel Card Services.*** We provide our clients with fuel card programs that facilitate the payment, monitoring and control of fuel purchases through PHH Arval. Fuel is typically the single largest fleet-related operating expense. By using our fuel cards, our clients receive the following benefits: access to more fuel brands and outlets than other private-label corporate fuel cards, point-of-sale processing technology for fuel card transactions that enhances clients ability to monitor purchases and consolidated billing and access to other information on fuel card transactions, which assists clients with the evaluation of overall fleet performance and costs. Our fuel card offered through a relationship with Wright Express in the U.S. and through a proprietary card in Canada offers expanded fuel management capabilities on one service card. For the year ended December 31, 2007, we averaged 330,000 fuel cards outstanding in the U.S. and Canada. We receive both monthly fees from our fuel card clients and additional fees from fuel providers.

The following table sets forth the Net revenues attributable to our domestic and foreign operations for our Fleet Management Services segment for each of the years ended December 31, 2007, 2006 and 2005:

	Year Ended December 31,		
	2007	**2006**	**2005**
		(In millions)	
Net revenues:			
Domestic	$ 1,781	$ 1,751	$ 1,654
Foreign	80	79	57

The following table sets forth our Fleet Management Services segment s Assets located domestically and in foreign countries as of December 31, 2007, 2006 and 2005:

	As of December 31,		
	2007	**2006**	**2005**
		(In millions)	

Assets:			
Domestic	$ 4,699	$ 4,678	$ 4,529
Foreign	324	190	187

Leases

We lease vehicles to our clients under both open-end and closed-end leases. The majority of our leases are to corporate clients and are open-end leases, a form of lease in which the customer bears substantially all of the vehicle s residual value risk.

Our open-end operating lease agreements provide for a minimum lease term of 12 months. At any time after the end of the minimum term, the client has the right to terminate the lease for a particular vehicle at which point, we generally sell the vehicle into the secondary market. If the net proceeds from the sale are greater than the vehicle s book value, the client receives the difference. If the net proceeds from the sale are less than the vehicle s book value, the client pays us substantially all of the difference. Closed-end leases, on the other hand, are generally entered into for a designated term of 24, 36 or 48 months. At the end of the lease, the client returns the vehicle to us. Except for excess wear and tear or excess mileage, for which the client is required to reimburse us, we then bear the risk of loss upon resale.

Open-end leases may be classified as operating leases or direct financing leases depending upon the nature of the residual guarantee. For operating leases, lease revenues, which contain a depreciation component, an interest component and a management fee component, are recognized over the lease term of the vehicle, which encompasses the minimum lease term and the month-to-month renewals. For direct financing leases, lease revenues contain an interest component and a management fee component. The interest component is recognized using the effective interest method over the lease term of the vehicle, which encompasses the minimum lease term and the month-to-month renewals. Amounts charged to the lessees for interest are determined in accordance with the pricing supplement to the respective lease agreement and are generally calculated on a variable-rate basis that varies month-to-month in accordance with changes in the variable-rate index. Amounts charged to the lessees for interest may also be based on a fixed rate that would remain constant for the life of the lease. Amounts charged to the lessees for depreciation are based on the straight-line depreciation of the vehicle over its expected lease term. Management fees are recognized on a straight-line basis over the life of the lease. Revenue for other services is recognized when such services are provided to the lessee.

We originate certain of our truck and equipment leases with the intention of syndicating to banks and other financial institutions. When we sell operating leases, we sell the underlying assets and assign any rights to the leases, including future leasing revenues, to the banks or financial institutions. Upon the transfer and assignment of the rights associated with the operating leases, we record the proceeds from the sale as revenue and recognize an expense for the undepreciated cost of the asset sold. Upon the sale or transfer of rights to direct financing leases, the net gain or loss is recorded. Under certain of these sales agreements, we retain a portion of the residual risk in connection with the fair value of the asset at lease termination.

Trademarks and Intellectual Property

The service mark PHH and related trademarks and logos are material to our Fleet Management Services segment. All of the material marks used by us are registered (or have applications pending for registration) with the U.S. Patent and Trademark Office. All of the material marks used by us are also registered in Canada, and the PHH mark and logo are registered (or have applications pending) in those major countries where we have strategic partnerships with local providers of fleet management services. Except for the Arval mark, which we license from a third party so that we can do business as PHH Arval, we own the material marks used by us in our Fleet Management Services segment.

Competition

We differentiate ourselves from our competitors primarily on three factors: the breadth of our product offering; customer service and technology. Unlike certain of our competitors that focus on selected elements of the fleet management process, we offer fully integrated services. In this manner, we are able to offer customized solutions to clients regardless of their needs. We believe we have developed an industry-leading technology infrastructure. Our data warehousing, information management and online systems enable clients to download customized reports to better monitor and manage their corporate fleets. Our competitors in the U.S. and Canada include GE Commercial Finance Fleet Services, Wheels Inc., Automotive Resources International, Lease Plan International and other local and

regional competitors, including numerous competitors who focus on one or two products. Certain of our competitors are larger than we are and have access to greater financial resources than we do. (See Item 1A. Risk Factors Risks Related to our Business The businesses in which we engage are complex and heavily regulated, and changes in the regulatory environment affecting our businesses could have a material adverse effect on our financial position, results of operations or cash flows. for more information.)

Seasonality

The revenues generated by our Fleet Management Services segment are generally not seasonal.

Commercial Fleet Leasing Regulation

We are subject to federal, state and local laws and regulations including those relating to taxing and licensing of vehicles and certain consumer credit and environmental protection. Our Fleet Management Services segment could be liable for damages in connection with motor vehicle accidents under the theory of vicarious liability in certain jurisdictions in which we do business. Under this theory, companies that lease motor vehicles may be subject to liability for the tortious acts of their lessees, even in situations where the leasing company has not been negligent. Our Fleet Management Services segment is subject to unlimited liability as the owner of leased vehicles in one major province in Canada and is subject to limited liability (e.g. in the event of a lessee s failure to meet certain insurance or financial responsibility requirements) in two major provinces, Ontario and British Columbia, and as many as fifteen jurisdictions in the U.S. Although our lease contracts require that each lessee indemnifies us against such liabilities, in the event that a lessee lacks adequate insurance coverage or financial resources to satisfy these indemnity provisions, we could be liable for property damage or injuries caused by the vehicles that we lease.

On August 10, 2005, a federal law was enacted in the U.S. which preempted state vicarious liability laws that imposed unlimited liability on a vehicle lessor. This law, however, does not preempt existing state laws that impose limited liability on a vehicle lessor in the event that certain insurance or financial responsibility requirements for the leased vehicles are not met. Prior to the enactment of this law, our Fleet Management Services segment was subject to unlimited liability in the District of Columbia, Maine and New York. It is unclear at this time whether any of these three jurisdictions will enact legislation imposing limited or an alternative form of liability on vehicle lessors. In addition, the scope, application and enforceability of this federal law have not been fully tested. For example, a state trial court in New York has ruled that the law is unconstitutional. On February 1, 2008, the intermediate New York Court of Appeals reversed the trial court and upheld the constitutionality of the federal law. The ultimate disposition of this New York case and cases that are pending in other jurisdictions and their impact on the federal law are uncertain at this time.

Additionally, a law was enacted in the Province of Ontario setting a cap of $1 million on a lessor s liability for personal injuries for accidents occurring on or after March 1, 2006. A similar law went into effect in the Province of British Columbia effective November 8, 2007. The British Columbia law also includes a cap of $1 million on a lessor s liability. In December 2007, the Province of Alberta legislature adopted a vicarious liability bill with provisions similar to the Ontario and British Columbia statutes, including a cap of $1 million on a lessor s liability, but an effective date has not yet been established. The scope, application and enforceability of these provincial laws have not been fully tested. (See Item 1A. Risk Factors Risks Related to our Business The businesses in which we engage are complex and heavily regulated, and changes in the regulatory environment affecting our businesses could have a material adverse effect on our financial position, results of operations or cash flows. and Unanticipated liabilities of our Fleet Management Services segment as a result of damages in connection with motor vehicle accidents under the theory of vicarious liability could have a material adverse effect on our business, financial position, results of operations or cash flows. for more information.)

Employees

As of December 31, 2007, we employed a total of approximately 5,460 persons, including approximately 4,120 persons in our Mortgage Production and Mortgage Servicing segments, approximately 1,300 persons in our Fleet Management Services segment and approximately 40 corporate employees. Management considers our employee relations to be satisfactory. As of December 31, 2007, none of our employees were covered under collective

bargaining agreements.

ARRANGEMENTS WITH CENDANT

For all periods presented in this Form 10-K prior to February 1, 2005, we were a wholly owned subsidiary of Cendant and provided homeowners with mortgages, serviced mortgage loans, facilitated employee relocations and

provided vehicle fleet management and fuel card services to commercial clients. On February 1, 2005, we began operating as an independent, publicly traded company pursuant to the Spin-Off. We entered into several contracts with Cendant in connection with the Spin-Off to provide for our separation from Cendant and the transition of our business as an independent company, including a separation agreement (the Separation Agreement), a tax sharing agreement (as amended and restated, the Amended Tax Sharing Agreement) and a transition services agreement (the Transition Services Agreement).

Separation Agreement

In connection with the Spin-Off, we and Cendant entered into the Separation Agreement that provided for our internal reorganization whereby we distributed our former relocation and fuel card businesses to Cendant, and Cendant contributed its former appraisal business, STARS, to us. The Separation Agreement also provided for the allocation of the costs of the Spin-Off, the establishment of our pension, 401(k) and retiree medical plans, our assumption of certain Cendant stock options and restricted stock awards (as adjusted and converted into awards relating to our Common stock), our assumption of certain pension obligations and certain other provisions customary for agreements of its type.

Following the Spin-Off, the Separation Agreement requires us to exchange information with Cendant, resolve disputes in a particular manner, maintain the confidentiality of certain information and preserve available legal privileges. The Separation Agreement also provides for a mutual release of claims by Cendant and us, indemnification rights between Cendant and us and the non-solicitation of employees by Cendant and us.

Allocation of Costs and Expenses Related to the Transaction

Pursuant to the Separation Agreement, all out-of-pocket fees and expenses incurred by us or Cendant directly related to the Spin-Off (other than taxes, which are allocated pursuant to the Amended Tax Sharing Agreement discussed below) are to be paid by Cendant; provided, however, Cendant is not obligated to pay any such expenses incurred by us unless such expenses have had the prior written approval of an officer of Cendant. Additionally, we are responsible for our own internal fees, costs and expenses, such as salaries of personnel, incurred in connection with the Spin-Off.

Release of Claims

Under the Separation Agreement, we and Cendant release one another from all liabilities that occurred, failed to occur or were alleged to have occurred or failed to occur or any conditions existing or alleged to have existed on or before the date of the Spin-Off. The release of claims, however, does not affect Cendant s or our rights or obligations under the Separation Agreement, the Amended Tax Sharing Agreement or the Transition Services Agreement.

Indemnification

Pursuant to the Separation Agreement, we agree to indemnify Cendant for any losses (other than losses relating to taxes, indemnification for which is provided in the Amended Tax Sharing Agreement) that any party seeks to impose upon Cendant or its affiliates that relate to, arise or result from:

§ any of our liabilities, including, among other things:

(i) all liabilities reflected in our pro forma balance sheet as of September 30, 2004 or that would be, or should have been, reflected in such balance sheet,

(ii) all liabilities relating to our business whether before or after the date of the Spin-Off,

(iii) all liabilities that relate to, or arise from any performance guaranty of Avis Group Holdings, Inc. in connection with indebtedness issued by Chesapeake Funding LLC (which changed its name to Chesapeake Finance Holdings LLC effective March 7, 2006),

(iv) any liabilities relating to our or our affiliates employees and

(v) all liabilities that are expressly allocated to us or our affiliates, or which are not specifically assumed by Cendant or any of its affiliates, pursuant to the Separation Agreement, the Amended Tax Sharing Agreement or the Transition Services Agreement;

§ any breach by us or our affiliates of the Separation Agreement, the Amended Tax Sharing Agreement or the Transition Services Agreement and

§ any liabilities relating to information in the registration statement on Form 8-A filed with the SEC on January 18, 2005 (the Form 8-A), the information statement (the Information Statement) filed by us as an exhibit to our Current Report on Form 8-K filed on January 19, 2005 (the January 19, 2005 Form 8-K) or the investor presentation (the Investor Presentation) filed as an exhibit to the January 19, 2005 Form 8-K, other than portions thereof provided by Cendant.

Cendant is obligated to indemnify us for any losses (other than losses relating to taxes, indemnification for which is provided in the Amended Tax Sharing Agreement described below under Tax Sharing Agreement) that any party seeks to impose upon us or our affiliates that relate to:

§ any liabilities other than liabilities we have assumed or any liabilities relating to the Cendant business;

§ any breach by Cendant or its affiliates of the Separation Agreement, the Amended Tax Sharing Agreement or the Transition Services Agreement and

§ any liabilities relating to information in the Form 8-A, the Information Statement or the Investor Presentation provided by Cendant.

In addition, we and our pension plan have agreed to indemnify Cendant and its pension plan, and Cendant and its pension plan have agreed to indemnify us and our pension plan, with respect to any liabilities involving eligible participants in our and Cendant s pension plans, respectively.

Tax Sharing Agreement

In connection with the Spin-Off, we and Cendant entered into a tax sharing agreement that contains provisions governing the allocation of liabilities for taxes between Cendant and us, indemnification for certain tax liabilities and responsibility for preparing and filing tax returns and defending tax contests, as well as other tax-related matters including the sharing of tax information and cooperating with the preparation and filing of tax returns. On December 21, 2005, we and Cendant entered into the Amended Tax Sharing Agreement which clarifies that Cendant shall be responsible for tax liabilities and potential tax benefits for certain tax returns and time periods.

Allocation of Liability for Taxes

Pursuant to the Amended Tax Sharing Agreement, Cendant is responsible for all federal, state and local income taxes of or attributable to any affiliated or similar group filing a consolidated, combined or unitary income tax return of which any of Cendant or its affiliates (other than us or our subsidiaries) is the common parent for any taxable period beginning on or before January 31, 2005, except, in certain cases, for taxes resulting from the failure of the Spin-Off or transactions relating to the internal reorganization to qualify as tax-free as described more fully below. Cendant is responsible for all other income taxes and all non-income taxes attributable to Cendant and its subsidiaries (other than us or our subsidiaries), and, except for certain separate income taxes attributable to years prior to 2004 as noted below, which are Cendant s responsibility, we are responsible for all other income taxes and all non-income taxes attributable

to us and our subsidiaries. As a result of the resolution of any tax contingencies that relate to audit adjustments due to taxing authorities review of prior income tax returns and any effects of current year income tax returns, our tax basis in certain of our assets may be adjusted in the future. We are responsible for any corporate-level taxes resulting from the failure of the Spin-Off or transactions relating to the internal reorganization to qualify as tax-free, which failure was the result of our or our subsidiaries actions, misrepresentations or omissions. We also are responsible for 13.7% of any corporate-level taxes resulting from the failure of the Spin-Off or transactions relating to the internal reorganization to qualify as tax-free, which failure is not due to the actions, misrepresentations or omissions of Cendant or us or our respective subsidiaries. Such percentage was based on the relative pro forma net book values of Cendant and us as of September 30, 2004, without

giving effect to any adjustments to the book values of certain long-lived assets that may be required as a result of the Spin-Off and the related transactions. We have agreed to indemnify Cendant and its subsidiaries and Cendant has agreed to indemnify us and our subsidiaries for any taxes for which the other is responsible.

The Amended Tax Sharing Agreement, dated as of December 21, 2005, clarifies that Cendant is solely responsible for separate state taxes on a significant number of our income tax returns for years 2003 and prior. We will cooperate with Cendant on any federal and state audits for these years, but Cendant is contractually obligated to bear the cost of any liabilities that may result from such audits. Cendant disclosed in its Annual Report on Form 10-K for the year ended December 31, 2006 (filed on March 1, 2007 under Avis Budget Group, Inc.) that it settled the Internal Revenue Service audit for the taxable years 1998 through 2002 that included us.

Preparing and Filing Tax Returns

Cendant has the right and obligation to prepare and file all tax returns reporting tax liabilities for the payment of which Cendant is responsible as described above. We are required to provide information and to cooperate with Cendant in the preparation and filing of these tax returns. We have the right and obligation to prepare and file all other tax returns relating to us and our subsidiaries.

Tax Contests

Cendant has the right to control all administrative, regulatory and judicial proceedings relating to federal, state and local income tax returns for which it has preparation and filing responsibility, as described above, and all proceedings relating to taxes resulting from the failure of the Spin-Off or transactions relating to the internal reorganization to qualify as tax-free. We have the right to control all administrative, regulatory and judicial proceedings relating to other taxes attributable to us and our subsidiaries.

Transition Services Agreement

In connection with the Spin-Off, we entered into the Transition Services Agreement with Cendant and Cendant Operations, Inc. that governed certain continuing arrangements between us and Cendant to provide for our orderly transition from a wholly owned subsidiary to an independent, publicly traded company.

Pursuant to the Transition Services Agreement, Cendant, through its subsidiary Cendant Operations, Inc., provided us, and we provided to Cendant, various services including services relating to human resources and employee benefits, payroll, financial systems management, treasury and cash management, accounts payable services, external reporting, telecommunications services and information technology services. Prior to the Spin-Off, Cendant provided these and other services to us and allocated certain corporate costs to us which, in the aggregate, were approximately $3 million during the year ended December 31, 2005. During 2006 and 2005, we increased our internal capabilities to reduce our reliance on Cendant for these services. Additionally, we continued to purchase certain information technology services through Cendant through March 31, 2007 under their current contracts on terms consistent with our historic cost from Cendant. The Transition Services Agreement also contained agreements relating to indemnification, access to information and certain other provisions customary for agreements of this type. We have the right to receive reasonable information with respect to charges for transition services provided by Cendant.

The cost of each transition service under the Transition Services Agreement generally reflected the same payment terms and was calculated using the same cost-allocation methodologies for the particular service as those associated with historic costs for the equivalent services, and at a rate intended to approximate an arm s-length pricing negotiation as if there were no pre-existing cost-allocation methodology; however, the agreement was negotiated in the context of a parent-subsidiary relationship and in the context of the Spin-Off. (See Item 1A. Risk Factors Risks Related to the

Spin-Off Our agreements with Cendant and Realogy may not reflect terms that would have resulted from arm s-length negotiations between unaffiliated parties. for more information.) The Transition Services Agreement expired March 31, 2007. With respect to the outsourced information technology services provided to us under the Transition Services Agreement, we entered into our own independent relationship with the existing third-party service provider for these services effective April 1, 2007.

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Prior to the Spin-Off, we provided Cendant and certain Cendant affiliates, subsidiaries and business units with certain information technology support, equipment and services at or from our data center and certain PC desktop support for approximately 100 Cendant personnel, located at our facility in Sparks, Maryland. During 2005, we provided these services to Cendant and applicable affiliates, subsidiaries and business units under the Transition Services Agreement. Cendant terminated the provision of these services as of January 1, 2006.

ARRANGEMENTS WITH REALOGY

In connection with the Spin-Off, we entered into several contracts with Cendant s real estate services division to provide for the continuation of certain business arrangements, including the Mortgage Venture Operating Agreement, the Strategic Relationship Agreement, a marketing agreement (the Marketing Agreement), and the Trademark License Agreements. Cendant s real estate services division, Realogy, became an independent, publicly traded company pursuant to the Realogy Spin-Off effective July 31, 2006. On April 10, 2007, Realogy became a wholly owned subsidiary of Domus Holdings Corp., an affiliate of Apollo Management VI, L.P., following the completion of a merger and related transactions. Following the Realogy Spin-Off, Realogy is a leading franchisor of real estate brokerages, the largest owner and operator of residential real estate brokerages in the U.S. and the largest U.S. provider of relocation services. (See Item 1A. Risk Factors Risks Related to the Spin-Off Our agreements with Cendant and Realogy may not reflect terms that would have resulted from arm s-length negotiations between unaffiliated parties. for more information.)

Mortgage Venture Between Realogy and PHH

Realogy, through its subsidiary Realogy Venture Partner, and we, through our subsidiary, PHH Broker Partner, are parties to the Mortgage Venture for the purpose of originating and selling mortgage loans primarily sourced through Realogy s owned residential real estate brokerage and corporate relocation businesses, NRT and Cartus, respectively. In connection with the formation of the Mortgage Venture, we contributed assets and transferred employees to the Mortgage Venture that have historically supported originations from NRT and Cartus. The Mortgage Venture Operating Agreement has a 50-year term, subject to earlier termination as described below under Termination or non-renewal by PHH Broker Partner after 25 years subject to delivery of notice between January 31, 2027 and January 31, 2028. In the event that PHH Broker Partner does not deliver a non-renewal notice after the 25th year, the Mortgage Venture Operating Agreement will be renewed for an additional 25-year term subject to earlier termination as described below under Termination.

The Mortgage Venture commenced operations in October 2005 and is licensed, where applicable, to conduct loan origination, loan sales and related operations in those jurisdictions in which it is doing business. All mortgage loans originated by the Mortgage Venture are sold to PHH Mortgage or to unaffiliated third-party investors on arm s-length terms. The Mortgage Venture Operating Agreement provides that the members of the Mortgage Venture intend that at least 15% of the total number of all mortgage loans originated by the Mortgage Venture be sold to unaffiliated third-party investors. The Mortgage Venture does not hold any mortgage loans for investment purposes or retain MSRs for any loans it originates. As discussed under Marketing Agreements, PHH Mortgage entered into interim marketing agreements with NRT and Cartus pursuant to which Cendant, NRT and Cartus agreed that PHH Mortgage was the exclusive recommended provider of mortgage products and services promoted by NRT to its independent contractor sales associates and by Cartus to its customers and clients. The interim marketing services agreements terminated following the commencement of the Mortgage Venture. Thereafter, the provisions of the Strategic Relationship Agreement, as discussed in more detail below, began to govern the manner in which the Mortgage Venture is recommended.

Ownership and Distributions

We own 50.1% of the Mortgage Venture through PHH Broker Partner, and Realogy owns the remaining 49.9% of the Mortgage Venture, through Realogy Venture Partner. The Mortgage Venture is consolidated within our financial statements, and Realogy s ownership interest is presented in our financial statements as a minority interest. Subject to certain regulatory and financial covenant requirements, net income generated by the Mortgage Venture is distributed quarterly to its members pro rata based upon their respective ownership interests. The Mortgage Venture

may also require additional capital contributions from us and Realogy under the terms of the Mortgage Venture Operating Agreement if it is required to meet minimum regulatory capital and reserve requirements imposed by any governmental authority or any creditor of the Mortgage Venture or its subsidiaries.

Management

We manage the Mortgage Venture through PHH Broker Partner with the exception of certain specified actions that are subject to approval by Realogy through the Mortgage Venture s board of advisors, which consists of representatives of Realogy and PHH. The Mortgage Venture s board of advisors has no managerial authority, and its primary purpose is to provide a means for Realogy to exercise its approval rights over those specified actions of the Mortgage Venture for which Realogy s approval is required.

Termination

Pursuant to the Mortgage Venture Operating Agreement, Realogy Venture Partner has the right to terminate the Mortgage Venture and the Strategic Relationship Agreement in the event of:

§ a Regulatory Event (defined below) continuing for six months or more; provided that PHH Broker Partner may defer termination on account of a Regulatory Event for up to six additional one-month periods by paying Realogy Venture Partner a $1 million fee at the beginning of each such one-month period;

§ a change in control of us, PHH Broker Partner or any other affiliate of ours with a direct or indirect ownership interest in PHH Home Loans involving certain specified parties;

§ a material breach, not cured within the requisite cure period, by us or our affiliates of the representations, warranties, covenants or other agreements (discussed below) under any of the Mortgage Venture Operating Agreement, the Strategic Relationship Agreement (described below under Strategic Relationship Agreement), the Marketing Agreement (described below under Marketing Agreements), the Trademark License Agreements (described below under Trademark License Agreements), a management services agreement (the Management Services Agreement) (described below under Management Services Agreement) and certain other agreements entered into in connection with the Spin-Off;

§ the failure by the Mortgage Venture to make scheduled distributions pursuant to the Mortgage Venture Operating Agreement;

§ the bankruptcy or insolvency of us or PHH Mortgage or

§ any act or omission by us or our subsidiaries that causes or would reasonably be expected to cause material harm to the reputation of Cendant or any of its subsidiaries.

As defined in the Mortgage Venture Operating Agreement, a Regulatory Event is a situation in which (i) PHH Mortgage or the Mortgage Venture becomes subject to any regulatory order, or any governmental entity initiates a proceeding with respect to PHH Mortgage or the Mortgage Venture and (ii) such regulatory order or proceeding prevents or materially impairs the Mortgage Venture s ability to originate mortgage loans for any period of time in a manner that adversely affects the value of one or more quarterly distributions to be paid by the Mortgage Venture pursuant to the Mortgage Venture Operating Agreement; provided, however, that a Regulatory Event does not include (a) any order, directive or interpretation or change in law, rule or regulation, in any such case that is applicable generally to companies engaged in the mortgage lending business such that PHH Mortgage or such affiliate or the Mortgage Venture is unable to cure the resulting circumstances described in (ii) above or (b) any regulatory order or

proceeding that results solely from acts or omissions on the part of Cendant or its affiliates.

The representations, warranties, covenants and other agreements in the Strategic Relationship Agreement, the Marketing Agreement, the Trademark License Agreements and the Management Services Agreement include, among others: (i) customary representations and warranties made by us or our affiliated party to such agreements, (ii) our confidentiality agreements in the Mortgage Venture Operating Agreement and the Strategic Relationship Agreement with respect to Realogy information, (iii) our obligations under the Mortgage Venture Operating Agreement, (iv) our indemnification obligations under the Mortgage Venture Operating Agreement, the Strategic Relationship Agreement and the Trademark License Agreements, (v) our non-competition agreements in the

Strategic Relationship Agreement and (vi) our termination assistance agreements in the Strategic Relationship Agreement in the event that the Mortgage Venture is terminated.

Upon a termination of the Mortgage Venture Operating Agreement by Realogy Venture Partner, Realogy Venture Partner will have the right either (i) to require that PHH Mortgage or PHH Broker Partner purchase all of its interest in the Mortgage Venture or (ii) to cause PHH Broker Partner to sell its interest in the Mortgage Venture to an unaffiliated third party designated by Realogy Venture Partner.

The exercise price at which PHH Mortgage or PHH Broker Partner would be required to purchase Realogy Venture Partner s interest in the Mortgage Venture would be the sum of the following: (i) the capital account balance for Realogy Venture Partner s interest in the Mortgage Venture as of the closing date of the purchase; (ii) the aggregate amount of all past due quarterly distributions to Realogy Venture Partner and any unpaid distribution in respect of the most recently completed fiscal quarter as of the closing date of the purchase and (iii) any amount equal to 49.9% of the net income, if any, realized by the Mortgage Venture at any time after the end of the fiscal quarter most recently completed as of the closing date of the purchase attributable to mortgage loans in process at any time prior to the closing date of the purchase. The exercise price would also include a liquidated damages payment equal to the sum of (i) two times the Mortgage Venture s trailing 12 months net income (except that, in the case of a termination by Realogy Venture Partner following a change in control of us, PHH Broker Partner or an affiliate of ours, PHH Broker Partner may be required to make a cash payment to Realogy Venture Partner in an amount equal to the Mortgage Venture s trailing 12 months net income multiplied by (a) if the Mortgage Venture Operating Agreement is terminated prior to its twelfth anniversary, the number of years remaining in the first 12 years of the term of the Mortgage Venture Operating Agreement or (b) if the Mortgage Venture Operating Agreement is terminated after its tenth anniversary, two years) and (ii) all costs reasonably incurred by Cendant and its subsidiaries in unwinding its relationship with us pursuant to the Mortgage Venture Operating Agreement and the related agreements, including the Strategic Relationship Agreement, the Marketing Agreement and the Trademark License Agreements.

The sale price at which PHH Broker Partner would be required to sell its interest in the Mortgage Venture would be the sum of (i) the fair value of PHH Broker Partner s interest as of the closing date of the sale, (ii) the aggregate amount of all past due quarterly distributions to PHH Broker Partner and any unpaid distribution in respect of the most recently completed fiscal quarter as of the closing date of the sale and (iii) any amount equal to 50.1% of the net income, if any, realized by the Mortgage Venture at any time after the end of the fiscal quarter most recently completed as of the closing date of the sale attributable to mortgage loans in process at any time prior to the closing date of the sale. The fair value of PHH Broker Partner s interest would be equal to PHH Broker Partner s proportionate share of the Mortgage Venture s earnings before interest, taxes, depreciation and amortization (EBITDA) for the 12 months prior to the closing date of the sale, multiplied by a then-current average market EBITDA multiple for mortgage banking companies.

Two-Year Termination

Beginning on February 1, 2015, the tenth anniversary of the Mortgage Venture Operating Agreement, Realogy Venture Partner may terminate the Mortgage Venture Operating Agreement at any time by giving two years prior written notice to us (a Two-Year Termination). Upon a Two-Year Termination of the Mortgage Venture Operating Agreement by Realogy Venture Partner, Realogy Venture Partner will have the option either (i) to require that PHH Broker Partner purchase all of Realogy Venture Partner s interest in the Mortgage Venture or (ii) to cause PHH Broker Partner to sell its interest in the Mortgage Venture to an unaffiliated third party designated by Realogy Venture Partner.

The exercise price at which PHH Broker Partner would be required to purchase Realogy Venture Partner s interest in the Mortgage Venture would be the sum of the following: (i) the fair value of Realogy Venture Partner s interest in the

Mortgage Venture as of the closing date of the purchase; (ii) the aggregate amount of all past due quarterly distributions to Realogy Venture Partner and any unpaid distribution in respect of the most recently completed fiscal quarter as of the closing date of the purchase and (iii) any amount equal to 49.9% of the net income, if any, realized by the Mortgage Venture at any time after the end of the fiscal quarter most recently completed as of the closing date of the purchase attributable to mortgage loans in process at any time prior to the closing date of the

purchase. The fair value of Realogy Venture Partner s interest would be determined through business valuation experts selected by each of PHH Broker Partner and Realogy Venture Partner. These business valuation experts would then prepare two valuations of the interest in the Mortgage Venture in light of the relevant facts and circumstances, including the consequences of the Two-Year Termination and PHH Broker Partner s purchase of Realogy Venture Partner s interest. In the event that the difference between the two valuations is equal to or less than 10%, then the average of the two valuations would be used as the fair value of Realogy Venture Partner s interest in the Mortgage Venture. In the event that the difference between the two valuations is greater than 10%, then the two business valuation experts would select another business valuation expert to perform a third valuation which would be used as the fair value of Realogy Venture Partner s interest in the Mortgage Venture.

The sale price at which PHH Broker Partner would be required to sell its interest in the Mortgage Venture would be the sum of (i) the fair value of PHH Broker Partner s interest as of the closing date of the sale, (ii) the aggregate amount of all past due quarterly distributions to PHH Broker Partner and any unpaid distribution in respect of the most recently completed fiscal quarter as of the closing date of the sale and (iii) any amount equal to 50.1% of the net income, if any, realized by the Mortgage Venture at any time after the end of the fiscal quarter most recently completed as of the closing date of the sale attributable to mortgage loans in process at any time prior to the closing date of the sale. The fair value of PHH Broker Partner s interest would be determined in a similar manner as the fair value of Realogy Venture Partner s interest is determined above.

Special Termination

In the event that, as a result of any change in the law, (i) any provision of the Mortgage Venture Operating Agreement or the related agreements (including the Strategic Relationship Agreement, the Marketing Agreement and the Trademark License Agreements) is not compliant with applicable law or (ii) the financial terms of the Mortgage Venture Operating Agreement or any of the related agreements, taken as a whole, become inconsistent with the then-current market, the members shall use commercially reasonable efforts to restructure our business and to amend the Mortgage Venture Operating Agreement in a manner that complies with such law and, to the extent possible, most closely reflects the original intention of the members as to the economics of their relationship. In the case of a law that renders the financial terms of the Mortgage Venture Operating Agreement to become inconsistent with the then-current market, Realogy Venture Partner may also request that PHH Broker Partner and PHH Mortgage enter into good faith negotiations to renegotiate the terms of the Mortgage Venture Operating Agreement within 30 days following the request. During such 30-day period, Realogy Venture Partner may solicit proposals from PHH Broker Partner and other persons for the provision of mortgage services substantially similar to those provided under the Mortgage Venture Operating Agreement and the related agreements. If Realogy Venture Partner receives a proposal from a third party that Realogy Venture Partner determines, taken as a whole, is superior to PHH Broker Partner s proposal, then Realogy Venture Partner may elect to terminate the Mortgage Venture Operating Agreement. Upon a termination of the Mortgage Venture Operating Agreement by Realogy Venture Partner, PHH Broker Partner would be required to purchase Realogy Venture Partner s interest in the Mortgage Venture at a price calculated in the same manner as the price at which Realogy Venture Partner could cause PHH Broker Partner to purchase its interest in the Mortgage Venture upon a Two-Year Termination. The closing of the purchase would be completed within 90 days of the termination of the Mortgage Venture Operating Agreement by Realogy Venture Partner.

PHH Termination

PHH Broker Partner has the right to terminate the Mortgage Venture Operating Agreement either upon a material breach, not cured within the requisite cure period by Realogy Venture Partner of a material provision of the Mortgage Venture Operating Agreement or the related agreements, including the Strategic Relationship Agreement, the Marketing Agreement and the Trademark License Agreements, or the bankruptcy or insolvency of Cendant. Upon a termination of the Mortgage Venture Operating Agreement by PHH Broker Partner, PHH Broker Partner has the right

to purchase Realogy Venture Partner s interest in the Mortgage Venture at a price equal to the sum of the following: (i) the fair value of Realogy Venture Partner s interest in the Mortgage Venture as of the date PHH Broker Partner exercises its purchase right; (ii) the aggregate amount of all past due quarterly distributions to Realogy Venture Partner and any unpaid distribution in respect of the most recently completed fiscal quarter as of

the date PHH Broker Partner exercises its purchase right and (iii) any amount equal to 49.9% of the net income, if any, realized by the Mortgage Venture at any time after the end of the fiscal quarter most recently completed as of the date PHH Broker Partner exercises its purchase right attributable to mortgage loans in process at any time prior to the date PHH Broker Partner exercises its purchase right. The fair value of Realogy Venture Partner s interest would be equal to Realogy Venture Partner s proportionate share of the Mortgage Venture s trailing 12 month EBITDA multiplied by a then-current average EBITDA multiple for mortgage banking companies. PHH Broker Partner s right would be exercisable for two months following a termination event by delivering written notice to Cendant. The closing of the purchase would not be completed prior to the one-year anniversary of PHH Broker Partner s exercise notice to Realogy Venture Partner.

PHH Non-Renewal

As discussed above, PHH Broker Partner may elect not to renew the Mortgage Venture Operating Agreement for an additional 25-year term by delivering a notice to Realogy Venture Partner between January 31, 2027 and January 31, 2028. Upon a non-renewal of the Mortgage Venture Operating Agreement by PHH Broker Partner, PHH Broker Partner has the right either (i) to purchase Realogy Venture Partner s interest in the Mortgage Venture at a price calculated in the same manner as the price at which Realogy Venture Partner could cause PHH Broker Partner to purchase its interest in the Mortgage Venture upon a Two-Year Termination or (ii) to sell PHH Broker Partner s interest in the Mortgage Venture to an unaffiliated third party designated by Realogy Venture Partner at a price calculated in the same manner as the price at which Realogy Venture Partner could cause PHH Broker Partner to sell its interest in the Mortgage Venture upon a Two-Year Termination. The closing of this transaction would not be completed prior to January 31, 2030.

Effects of Termination or Non-Renewal

Upon termination of the Mortgage Venture by Realogy Venture Partner or PHH Broker Partner as described above, the Mortgage Venture Operating Agreement and related agreements will terminate automatically (excluding certain privacy, non-competition, venture-related transition provisions and other general provisions, which shall survive the termination of such agreements), and Realogy Venture Partner and its affiliates will be released from any restrictions under the agreements entered into in connection with the Mortgage Venture Operating Agreement (including the Strategic Relationship Agreement, the Marketing Agreement, the Trademark License Agreements and the Management Services Agreement) that may restrict its ability to pursue a partnership, joint venture or another arrangement with any third-party mortgage operation.

Management Services Agreement

PHH Mortgage operates under the Management Services Agreement with the Mortgage Venture pursuant to which PHH Mortgage provides certain mortgage origination processing and administrative services for the Mortgage Venture. The mortgage origination processing services that PHH Mortgage provides the Mortgage Venture include seasonal call center staffing beyond the Mortgage Venture s permanent staff, secondary mortgage marketing, pricing and, for certain channels, underwriting, credit scoring and document review. Administrative services that PHH Mortgage provides the Mortgage Venture include payroll, financial systems management, treasury, information technology services, telecommunications services and human resources and employee benefits services. In exchange for such services, the Mortgage Venture pays PHH Mortgage a fee per service and a fee per loan, subject to a minimum amount. The Management Services Agreement terminates automatically upon the termination of the Strategic Relationship Agreement.

Strategic Relationship Agreement

We and Realogy are parties to the Strategic Relationship Agreement. The Strategic Relationship Agreement contains detailed covenants regarding the relationship of Realogy and us with respect to the operation of the Mortgage Venture and its origination channels, which are discussed below:

Exclusive Recommended Provider of Mortgage Loans

Under the Strategic Relationship Agreement, Realogy agreed that the residential and commercial real estate brokerage business owned and operated by NRT, the title and settlement services business owned and operated by TRG, and the relocation business owned and operated by Cartus will exclusively recommend the Mortgage Venture as provider of mortgage loans to (i) the independent sales associates affiliated with the Realogy Entities (excluding the independent sales associates of any Realogy Franchisee acting in such capacity), (ii) all customers of the Realogy Entities (excluding Realogy Franchisees or any employee or independent sales associate thereof acting in such capacity) and (iii) all U.S.-based employees of Cendant. Realogy, however, is not required under the terms of the Strategic Relationship Agreement to condition doing business with a customer on such customer obtaining a mortgage loan from the Mortgage Venture or contacting or being contacted by the Mortgage Venture. Realogy has the right to terminate the exclusivity arrangement of the Strategic Relationship Agreement under certain circumstances, including (i) if we materially breach any representation, warranty, covenant or other agreement contained in any of the agreements entered into in connection with the Mortgage Venture Operating Agreement (described generally above under Mortgage Venture Between Realogy and PHH Termination) and such breach is not cured within the required cure period and (ii) if a Regulatory Event occurs and is not cured within the required time period. In addition, if the Mortgage Venture is prohibited by law, rule, regulation, order or other legal restriction from performing its mortgage origination function in any jurisdiction, and such prohibition has not been cured within the applicable cure period, Realogy has the right to terminate exclusivity in the affected jurisdiction.

Subsequent Mortgage Company Acquisitions

If Realogy acquires or enters into an agreement to acquire, directly or indirectly, a residential real estate brokerage business that also directly or indirectly owns or conducts a mortgage loan origination business, then we will work together with Realogy and the Mortgage Venture to formulate a plan for the sale of such mortgage loan origination business to the Mortgage Venture pursuant to pricing perimeters specified in the Strategic Relationship Agreement. If the parties do not reach an agreement with respect to the terms of the sale within 30 days after we or the Mortgage Venture receive notice of the proposed acquisition, Realogy has the option either (i) to sell the mortgage loan origination business to a third party (provided that the Mortgage Venture has a right of first refusal if the purchase price for the proposed sale to the third party is less than a specified amount with respect to the purchase price calculated under the formulas specified in the Strategic Relationship Agreement or, if no formula is applicable, the price proposed by Realogy) or (ii) to retain and operate the mortgage loan origination business of such residential real estate brokerage business, and, in either case, described under clauses (i) or (ii), at the option of Realogy, under certain circumstances, the exclusivity provisions described above will terminate with respect to each county in which the mortgage loan origination business of such acquired residential real estate brokerage conducts its operations. If the parties reach agreement with respect to the terms of the sale but the Mortgage Venture defaults on its obligation to complete the sale transaction in a timely manner, the Mortgage Venture is required to make a damages payment to Realogy within 30 days after the acquisition was scheduled to close. If the damages payment is not made by such date, at the option of Realogy, under certain circumstances, the exclusivity provisions described above will terminate with respect to each county in which the mortgage loan origination business of the acquired residential real estate brokerage conducts its operations.

Non-Competition

The Strategic Relationship Agreement provides that, subject to limited exceptions, we will not engage in (i) the title, closing, escrow or search-related services for residential real estate transactions and all other mortgage-related transactions or provide any services or products which were otherwise offered or provided by TRG as of January 31, 2005, (ii) the residential real estate brokerage business, commercial real estate brokerage business or corporate relocation services business, or become or operate as a broker, owner or franchisor in any such business, or

otherwise, directly or indirectly, assist or facilitate the purchase or sale of residential or commercial real estate (other than through STARS or through the Mortgage Venture s origination and servicing of mortgage loans) or (iii) any other business conducted by Realogy as of January 31, 2005. Our non-competition covenant will survive for up to two years following termination of the Strategic Relationship Agreement. To the extent that Realogy expands into new business and, at the time of such expansion, we are engaged in the same business, we will not be prohibited from continuing to conduct such business. The Strategic Relationship Agreement also provides that (i) neither we nor our subsidiaries will directly or indirectly sell any mortgage loans or MSRs to any of the 20 largest residential real estate brokerage firms in the U.S. or any of the 10 largest residential real estate brokerage franchisors in the U.S. and (ii) neither we nor our affiliates will knowingly solicit any such competitors for mortgage loans other than through the Mortgage Venture, as provided in the Strategic Relationship Agreement and the Mortgage Venture Operating Agreement.

Other Exclusivity Arrangements

The Strategic Relationship Agreement also provides for additional exclusivity arrangements with PHH, including the following:

- We will use Realogy Services Group LLC on all of our commercial real estate transactions where a Realogy commercial real estate agent is available.
- We will recommend TRG as the provider of title, closing, escrow and search-related services and
- We will utilize TRG on an exclusive basis whenever we have the option to choose the title or escrow agent and TRG either provides such services or receives compensation in connection with such services in the applicable jurisdiction.

Indemnification

Pursuant to the Strategic Relationship Agreement, we have agreed to indemnify Realogy for all losses arising out of or resulting from (i) any violation or material breach by us of any representation, warranty, or covenant in the agreement or (ii) our negligent or willful misconduct in connection with the agreement. We have also agreed to indemnify the Mortgage Venture for all losses incurred or sustained by it (i) for any damages paid by the Mortgage Venture in connection with an acquisition of a mortgage loan origination business under the Strategic Relationship Agreement or (ii) any interest paid by the Mortgage Venture for any failure to make scheduled distributions for any fiscal quarter pursuant to the Mortgage Venture Operating Agreement. (See Subsequent Mortgage Company Acquisitions and Mortgage Venture Between Realogy and PHH Termination above for more information).

PHH Guarantee

We guarantee all representations, warranties, covenants, agreements and other obligations of our subsidiaries and affiliates (other than the Mortgage Venture) in the full and timely performance of their respective obligations under the Strategic Relationship Agreement and the other agreements entered into in connection with the Mortgage Venture Operating Agreement.

Termination

The Strategic Relationship Agreement terminates upon termination of the Mortgage Venture Operating Agreement. (See Mortgage Venture Between Realogy and PHH Termination and Effects of Termination or Non-Renewal for more information about termination of the Mortgage Venture Operating Agreement.) Following termination of the Strategic Relationship Agreement, we are required to provide certain transition services to Realogy for up to one year

following termination.

Trademark License Agreements

PHH Mortgage, TM Acquisition Corp., Coldwell Banker Real Estate Corporation and ERA Franchise Systems, Inc. are parties to the PHH Mortgage Trademark License Agreement pursuant to which PHH Mortgage was granted a license to use certain of Realogy s real estate brand names, trademarks and service marks and related

items, such as logos and domain names in its origination of mortgage loans on behalf of customers of Realogy s franchised real estate brokerage business. PHH Mortgage also was granted a license to use certain of Realogy s real estate brand names and related items in connection with its mortgage loan origination services for Realogy s real estate brokerage business owned and operated by NRT, the relocation business owned and operated by Cartus and the settlement services business owned and operated by TRG; however, this license terminated upon PHH Home Loans commencing operations. We pay a fixed licensing fee to the licensors on a quarterly basis. PHH Mortgage agreed to indemnify the licensors and their affiliates for all damages from third-party claims directly or indirectly arising out of our use of the licensed marks. The PHH Mortgage Trademark License Agreement terminates upon the completion of either PHH Broker Partner s purchase of Realogy Venture Partner s interest in PHH Home Loans, or PHH Broker Partner s sale of its interest in PHH Home Loans upon a termination of the Mortgage Venture Operating Agreement or the dissolution of PHH Home Loans. (See Mortgage Venture Between Realogy and PHH Termination and Effects of Termination or Non-Renewal for more information about termination of the Mortgage Venture Operating Agreement.) PHH Mortgage or the licensor may also terminate the PHH Mortgage Trademark License Agreement for the other party s breach or default of any material obligation under the PHH Mortgage Trademark License Agreement that is not cured within 60 days after receipt of written notice of the breach. Upon termination of the PHH Mortgage Trademark License Agreement, PHH Mortgage loses all rights to use the licensed marks and must destroy all materials containing or in any way using the licensed marks.

PHH Home Loans is party to the Mortgage Venture Trademark License Agreement with TM Acquisition Corp., Coldwell Banker Real Estate Corporation and ERA Franchise Systems, Inc. pursuant to which PHH Home Loans was granted a license to use certain of Realogy s real estate brand names, trademarks and service marks and related items, such as domain names, in connection with its mortgage loan origination services for Realogy s real estate brokerage business owned and operated by NRT, the relocation business owned and operated by Cartus and the settlement services business owned and operated by TRG. The license granted to PHH Home Loans is royalty-free, non-exclusive, non-assignable, non-transferable and non-sublicensable. PHH Home Loans agrees to indemnify the licensors and their affiliates for all damages from third-party claims directly or indirectly arising out of PHH Home Loan s use of the licensed marks. The Mortgage Venture Trademark License Agreement terminates upon the completion of either PHH Broker Partner s purchase of Realogy Venture Partner s interest in PHH Home Loans, or PHH Broker Partner s sale of its interests in PHH Home Loans upon a termination of the Mortgage Venture Operating Agreement or the dissolution of PHH Home Loans. (See Mortgage Venture Between Realogy and PHH Termination and Effects of Termination or Non-Renewal for more information about termination of the Mortgage Venture Operating Agreement.) PHH Home Loans or the licensors may also terminate the Mortgage Venture Trademark License Agreement for the other party s breach or default of any material obligation under the Mortgage Venture Trademark License Agreement that is not cured within 60 days after receipt of written notice of the breach. Upon termination of the Mortgage Venture Trademark License Agreement, PHH Home Loans loses all rights to use the licensed marks and must destroy all materials containing or in any way using the licensed marks.

Marketing Agreements

Coldwell Banker Real Estate Corporation, Century 21 Real Estate LLC, ERA Franchise Systems, Inc., Sotheby s International Affiliates, Inc. and PHH Mortgage are parties to the Marketing Agreement. Pursuant to the terms of the Marketing Agreement, Coldwell Banker Real Estate Corporation, Century 21 Real Estate LLC, ERA Franchise Systems, Inc. and Sotheby s International Affiliates, Inc. have each agreed to recommend exclusively PHH Mortgage as provider of mortgage loans to their respective independent sales associates. In addition, Coldwell Banker Real Estate Corporation, Century 21 Real Estate LLC, ERA Franchise Systems, Inc. and Sotheby s International Affiliates, Inc. agree under the Marketing Agreement to actively promote our products and services to their franchisees and the sales agents of their franchisees, which includes, among other things, promotion of PHH through mail inserts, brochures and advertisements as well as articles in company newsletters and permitting PHH Mortgage presentations during sales meetings. Under the Marketing Agreement, we pay Coldwell Banker Real Estate Corporation, Century 21

Real Estate LLC, ERA Franchise Systems, Inc. and Sotheby s International Affiliates, Inc. a marketing fee for conducting such promotions based upon the fair market value of the services to be provided. The Marketing Agreement terminates upon termination of the Strategic Relationship Agreement.

Prior to entering into the Marketing Agreement, NRT and Cartus each entered into separate interim marketing agreements with PHH Mortgage. Pursuant to the interim marketing agreement between NRT and PHH Mortgage, NRT agreed to provide access to PHH Mortgage and to market PHH Mortgage s various mortgage programs and services to NRT s customers and real estate agents in NRT s company-owned offices. Cartus agreed under its interim marketing agreement with PHH Mortgage to provide access to PHH Mortgage and to market PHH Mortgage s various mortgage programs and services to the customers and clients of Cartus. In addition, NRT and Cartus each agreed under both interim marketing agreements to provide certain additional marketing and promotional services for PHH Mortgage. Such services during 2005 included mail inserts, brochures and advertisements as well as placement in company newsletters and permitting PHH Mortgage presentations during sales meetings and, with respect to NRT, also included the posting of PHH Mortgage banners and signs throughout NRT offices. Under both interim marketing agreements, NRT and Cartus each agreed not to enter into similar arrangements with any other person or entity. PHH Mortgage paid each of NRT and Cartus monthly marketing fees under the interim marketing agreements, which were based upon the fair market value of the services to be provided. The NRT interim marketing agreement and the Cartus interim marketing agreement terminated following the commencement of the Mortgage Venture. The provisions of the Strategic Relationship Agreement and the Marketing Agreement described above now govern the manner in which the Mortgage Venture and PHH Mortgage, respectively, are recommended.

ARRANGEMENTS WITH MERRILL LYNCH

Approximately 20% of our mortgage loan originations for the year ended December 31, 2007 were from Merrill Lynch, pursuant to certain agreements between us and Merrill Lynch as described in more detail below.

Origination Assistance Agreement

We are party to the Origination Assistance Agreement, dated as of December 15, 2000, with Merrill Lynch, as amended (the OAA). Pursuant to the OAA, we assist Merrill Lynch in originating certain mortgage loans on a private-label basis. We also provide certain origination-related services for Merrill Lynch on a private-label basis in connection with Merrill Lynch s wholesale loan program for correspondent lenders and mortgage brokers. The mortgage loan origination services that we perform for Merrill Lynch include receiving and processing applications for certain mortgage loan products offered by Merrill Lynch, preparing documentation for mortgage loans that meet Merrill Lynch s applicable underwriting guidelines, closing mortgage loans, maintaining certain files with respect to mortgage loans and providing daily interest rate sheets to correspondent lenders and mortgage brokers. We also assist Merrill Lynch in making bulk purchases of certain mortgage loan products from correspondent lenders. Under the terms of the OAA, we are the exclusive provider of mortgage loans for mortgage loan borrowers (other than borrowers who borrow indirectly through a correspondent lender or mortgage broker) who either (i) have a relationship with, or are referred by, a Merrill Lynch Financial Advisor in the Global Private Client Group or (ii) are clients of the Merrill Lynch investor services group. We are required to provide all services under the OAA in accordance with the service standards specified therein. The OAA obligates us to make certain liquidated damage payments to Merrill Lynch if we do not maintain specified levels of customer satisfaction with respect to the services that we provide on behalf of Merrill Lynch. In addition, our breach of the service standards in certain circumstances (a PHH Performance Failure) may result in termination of the OAA. The initial term of the OAA expires on December 31, 2010, unless earlier terminated. Upon expiration of the initial term, the OAA will automatically renew for a five-year extension term; provided that, if there shall have been a PHH Performance Failure or Merrill Lynch shall not have met certain specified obligations under the OAA prior to December 31, 2010, then the OAA shall not automatically extend unless the non-breaching party gives notice to the other party that it is willing to extend the OAA. We and Merrill Lynch each have the right to terminate the OAA for the other party s uncured material breach of any representation, warranty or covenant of the OAA or bankruptcy or insolvency. In addition, Merrill Lynch may also terminate the OAA upon notice to us if (i) we lose good standing with the U.S. Department of Housing and Urban Development (HUD) or both Fannie Mae and Freddie Mac revoke our good standing for cause and we do not have our

good standing reinstated within 30 days, (ii) we experience a change of control under certain circumstances or (iii) we breach the terms of a trademark use agreement with Merrill Lynch without curing such a breach within the applicable cure period. During the one-year

period following the termination of the OAA, we are obligated to assist Merrill Lynch in transitioning the business back to it or a third-party service provider designated by Merrill Lynch.

Portfolio Servicing Agreement

We are also party to the Portfolio Servicing Agreement, dated as of January 28, 2000, with Merrill Lynch, as amended (the Portfolio Servicing Agreement). Pursuant to the Portfolio Servicing Agreement, we service certain mortgage loans originated or otherwise held in a portfolio by Merrill Lynch and maintain electronic files related to the servicing functions that we perform. Mortgage loan servicing under the Portfolio Servicing Agreement includes collecting loan payments from borrowers, remitting principal and interest payments to the owner of each mortgage loan and managing escrow funds for the payment of mortgage loan-related expenses, such as property taxes and homeowner s insurance. We also assist Merrill Lynch in managing funds relating to properties acquired by Merrill Lynch in foreclosure, which may include the disposition of such properties. We may not terminate the Portfolio Servicing Agreement without the consent of Merrill Lynch. Merrill Lynch, however, may terminate the Portfolio Servicing Agreement at any time upon notice to us in the event of (i) any uncured material breach of any representation, warranty or covenant by us under certain agreements, including the Portfolio Servicing Agreement, a trademark use agreement with Merrill Lynch, and the Loan Purchase and Sale Agreement (as defined below), (ii) our bankruptcy or insolvency, (iii) the loss of our eligibility to sell or service mortgage loans for Fannie Mae, Freddie Mac or Ginnie Mae if we cease to be a HUD-approved mortgagee, (iv) we experience a change in control under certain circumstances or (v) our failure to meet certain service standards specified in the Portfolio Servicing Agreement, which is not cured within the applicable cure period. If the Portfolio Servicing Agreement is terminated due to our failure to meet certain specified service standards, then we and Merrill Lynch will retain an arbitrator to determine the fair market value of the MSRs. Upon determination of the fair market value of such MSRs by the arbitrator, Merrill Lynch may elect to terminate the Portfolio Servicing Agreement and purchase such MSRs from us.

Loan Purchase and Sale Agreement

We are party to the Loan Purchase and Sale Agreement, dated as of December 15, 2000, with Merrill Lynch, as amended (the Loan Purchase and Sale Agreement). Pursuant to the Loan Purchase and Sale Agreement, we are required to purchase from Merrill Lynch certain mortgage loans that have been originated under the OAA, including the MSRs with respect to such loans (other than alternative mortgage loans). We and Merrill Lynch agree upon mortgage loans constituting alternative mortgage loans from time-to-time, but generally these loans include three- and five-year adjustable-rate and variable-rate mortgage loans and construction loans. While not required, we may elect to purchase alternative mortgage loans from Merrill Lynch, including the MSRs associated with such loans, upon mutual agreement of Merrill Lynch. The initial term of the Loan Purchase and Sale Agreement expires on the earlier of December 31, 2010 or the date the OAA is terminated. If the OAA is renewed in accordance with its terms, then the Loan Purchase and Sale Agreement will automatically renew for a concurrent extension term. Both we and Merrill Lynch have the right to terminate the Loan Purchase and Sale Agreement for the other party s uncured material breach of any representation, warranty or covenant of the Loan Purchase and Sale Agreement or bankruptcy or insolvency. In addition, Merrill Lynch may also terminate the Loan Purchase and Sale Agreement upon notice to us if (i) we lose our good standing with HUD or both Fannie Mae and Freddie Mac revoke our good standing for cause and we do not have our good standing reinstated within 30 days, (ii) we experience a change of control under certain circumstances or (iii) we breach the terms of our trademark use agreement with Merrill Lynch without curing such breach within the applicable cure period. Following the termination of the Loan Purchase and Sale Agreement, we are no longer required to purchase any mortgage loans originated under the OAA.

Servicing Rights Purchase and Sale Agreement

We are party to the Servicing Rights Purchase and Sale Agreement, dated as of January 28, 2000, with Merrill Lynch, as amended (the SRPSA). Pursuant to the SRPSA, we are required to purchase from Merrill Lynch the MSRs for certain mortgage loans that have been originated under the OAA (alternative mortgage loans). We purchase the MSRs at quarterly bulk offering sales and on a flow basis. We will not purchase MSRs for loans that are (i) 60 days or more past due as of the sale date, (ii) in litigation or (iii) in bankruptcy. The SRPSA expires upon the

earlier of December 31, 2010 or the date upon which the OAA is terminated. If the OAA is extended, the SRPSA shall be automatically extended for the same extension term. Both we and Merrill Lynch have the right to terminate the SRPSA for the other party s uncured material breach of any representation, warranty or covenant of the SRPSA or bankruptcy or insolvency. In addition, either party may terminate the SRPSA if the other party loses its good standing with HUD, Fannie Mae, Freddie Mac, or Ginnie Mae. Following the termination of the SRPSA, we are no longer required to purchase the MSRs and no further flow offerings or quarterly bulk offerings shall take place.

Equity Access and Omega Loan Subservicing Agreement

We are party to the Equity Access and Omega Loan Subservicing Agreement, dated as of June 6, 2002, with Merrill Lynch, as amended (the EA Agreement). Merrill Lynch services certain revolving line of credit loans secured by marketable securities, as well as certain securitized and non-securitized residential first and second lien equity line of credit loans pursuant to applicable pooling and servicing agreements and private investor agreements. Pursuant to this agreement, we agree to subservice such loans for Merrill Lynch. The EA Agreement expires upon the earlier of June 1, 2009 or the date upon which the OAA is terminated. With respect to services to be provided by us pursuant to the EA Agreement, we agree to indemnify Merrill Lynch for all losses resulting from our failure to comply with the terms of any private investor agreement or pooling and servicing agreement. Merrill Lynch may terminate the EA Agreement at any time upon notice to us in the event of (i) any uncured material breach of any representation, warranty or covenant by us including failure to make pass-through payments, (ii) our bankruptcy or insolvency, (iii) the loss of our eligibility to sell or service mortgage loans for Fannie Mae, Freddie Mac or Ginnie Mae, or if we cease to be a HUD-approved mortgagee or (iv) if we fail to perform in accordance with the applicable service standards and do not cure the failure within 90 days.

Item 1A. *Risk Factors*

Risks Related to our Business

The termination of our status as the exclusive recommended provider of mortgage products and services promoted by the residential and commercial real estate brokerage business owned and operated by Realogy s affiliate, NRT, the title and settlement services business owned and operated by Realogy s affiliate, TRG and the relocation business owned and operated by Realogy s affiliate, Cartus, could have a material adverse effect on our business, financial position, results of operations or cash flows.

Under the terms of the Strategic Relationship Agreement, we are the exclusive recommended provider of mortgage loans to the independent sales associates affiliated with the residential and commercial real estate brokerage business owned and operated by Realogy s affiliate, NRT, certain customers of Realogy and all U.S.-based employees of Cendant. The Marketing Agreement similarly provides that we are the exclusive recommended provider of mortgage loans and related products to the independent sales associates of Realogy s real estate brokerage franchisees, which include Coldwell Banker Real Estate Corporation, Century 21 Real Estate LLC, ERA Franchise Systems, Inc. and Sotheby s International Affiliates, Inc. See Item 1. Business Arrangements with Realogy Mortgage Venture Between Realogy and PHH, Strategic Relationship Agreement and Marketing Agreements in this Form 10-K for more information. For the year ended December 31, 2007, approximately 44% of loans originated by our Mortgage Production segment were derived from NRT and Cartus. We anticipate that a similar portion of mortgage loan originations from our Mortgage Production segment during 2008 will be comprised of business arising out of our arrangements with Realogy.

Pursuant to the terms of the Mortgage Venture Operating Agreement, beginning on February 1, 2015, Realogy will have the right at any time upon two years notice to us to terminate its interest in the Mortgage Venture. A termination of the Mortgage Venture could have a material adverse effect on our business, financial position, results of operations

or cash flows. In addition, the Strategic Relationship Agreement provides that Realogy has the right to terminate the covenant requiring it to exclusively recommend us as the provider of mortgage loans to the independent sales associates affiliated with the residential and commercial real estate brokerage business owned

and operated by Realogy s affiliate, NRT, certain customers of Realogy, and all U.S.-based employees of Cendant, following notice and a cure period, if:

§ we materially breach any representation, warranty, covenant or other agreement contained in the Strategic Relationship Agreement, the Marketing Agreement, the Trademark License Agreements or certain other related agreements;

§ we or the Mortgage Venture become subject to any regulatory order or governmental proceeding and such order or proceeding prevents or materially impairs the Mortgage Venture s ability to originate mortgage loans for any period of time (which order or proceeding is not generally applicable to companies in the mortgage lending business) in a manner that adversely affects the value of one or more of the quarterly distributions to be paid by the Mortgage Venture pursuant to the Mortgage Venture Operating Agreement;

§ the Mortgage Venture otherwise is not permitted by law, regulation, rule, order or other legal restriction to perform its origination function in any jurisdiction, but in such case exclusivity may be terminated only with respect to such jurisdiction or

§ the Mortgage Venture does not comply with its obligations to complete an acquisition of a mortgage loan origination company under the terms of the Strategic Relationship Agreement.

If Realogy were to terminate its exclusivity obligations with respect to the Mortgage Venture, it could have a material adverse effect on our business, financial position, results of operations or cash flows.

Adverse developments in general business, economic, environmental and political conditions could have a material adverse effect on our business, financial position, results of operations or cash flows.

Our businesses and operations are sensitive to general business and economic conditions in the U.S. These conditions include short-term and long-term interest rates, inflation, fluctuations in debt and equity capital markets, including the secondary market for mortgage loans, and the general condition of the U.S. economy and housing market, both nationally and in the regions in which we conduct our businesses. A significant portion of our mortgage loan originations are made in a small number of geographical areas which include: California, New Jersey, Florida, New York, Texas and Pennsylvania. An economic downturn in one or more of these geographical areas could have a material adverse effect on our business, financial position, results of operations or cash flows.

A host of factors beyond our control could cause fluctuations in these conditions, including political events, such as civil unrest, war or acts or threats of war or terrorism and environmental events, such as hurricanes, earthquakes and other natural disasters. Adverse developments in these conditions and resulting general business and economic conditions, including through recession, downturn or otherwise, either in the economy generally or in those regions in which a large portion of our business is conducted, could have a material adverse effect on our business, financial position, results of operations or cash flows.

Our business is significantly affected by monetary and related policies of the federal government, its agencies and government-sponsored entities. We are particularly affected by the policies of the Federal Reserve Board, which regulates the supply of money and credit in the U.S. The Federal Reserve Board s policies affect the size of the mortgage origination market, the pricing of our interest-earning assets and the cost of our interest-bearing liabilities. Changes in any of these policies are beyond our control, difficult to predict and could have a material adverse effect on our business, financial position, results of operations or cash flows.

We might be prevented from selling and/or securitizing our mortgage loans at opportune times and prices, if at all, which could have a material adverse effect on our business, financial position, results of operations or cash flows.

We rely on selling or securitizing our mortgage loan production to generate cash for the repayment of our financing facilities, production of new mortgage loans and general working capital purposes. We bear the risk of being unable to sell or securitize our mortgage loans at advantageous times and prices or in a timely manner. If it is not possible or economical for us to complete the sale or securitization of a substantial portion of our mortgage loans, our growth may be limited by available capacity under our credit facilities, and therefore, we may be unable

to fund future loan commitments, which could have a material adverse effect on our profitability. There can be no assurances that we will continue to be successful in securitizing mortgage loans on terms favorable to us, if at all.

The securitization market and our ability to complete securitizations of our mortgage loans depends upon a number of factors, many of which are beyond our control, including general economic conditions, conditions in the securities markets generally, conditions in the asset-backed securities market specifically and the availability of credit enhancements and the performance of our mortgage loans. Demand in the secondary mortgage market for non-conforming loans was adversely impacted during the second half of 2007 and through the filing date of this Form 10-K. The deterioration of liquidity in the secondary market for these non-conforming loan products, including jumbo, Alt-A and second lien products and loans with origination flaws or performance issues (Scratch and Dent Loans), negatively impacted the price which could be obtained for such products in the secondary market. These loans experienced both a reduction in overall investor demand and discounted pricing which negatively impacted the value of the underlying loans as well as the execution of related secondary market loan sales. The valuation of Mortgage loans held for sale, net as of December 31, 2007 reflected this discounted pricing, with the most significant pricing discounts related to Scratch and Dent Loans and closed-end second lien loans. The unpaid principal balance of Scratch and Dent Loans and closed-end second lien loans decreased from $355 million as of September 30, 2007 to $86 million as of December 31, 2007, primarily due to the sale or securitization of these loans during the fourth quarter of 2007. The lack of investor demand for these mortgage loan products has also adversely affected banks willingness to lend money secured by such mortgages, which may reduce the funds available to us for the origination of mortgage loan products or increase our cost of funds. Although we have been able to continually access the secondary mortgage market through the filing date of this Form 10-K, further disruptions in the secondary mortgage market may reduce our ability to generate sufficient liquidity from loan sales in the future to continue our operations and manage our exposure to interest rate risk. Any of the foregoing could have a material adverse effect on our business, financial position, results of operations or cash flows.

Recent developments in the secondary mortgage market could have a material adverse effect on our business, financial position, results of operations or cash flows.

The deterioration in the secondary mortgage market discussed above has caused a number of mortgage loan originators to take one or more of the following actions: revise their underwriting guidelines for Alt-A and non-conforming products, increase the interest rates charged on these products, impose more restrictive credit standards on borrowers or decrease permitted loan-to-value ratios. We expect that this shift in production efforts to more traditional prime loan products by these originators will result in increased competition in the mortgage industry, which could have a negative impact on profit margins for our Mortgage Production segment during 2008. While we have adjusted pricing and margin expectations for new mortgage loan originations to reflect current secondary mortgage market conditions, market developments negatively impacted Gain on sale of mortgage loans, net in 2007, and may continue to have a negative impact during 2008.

As a result of these changes, many non-conforming loan products have become more costly for potential borrowers or, in some cases, unavailable. This has in turn limited the ability of some borrowers to refinance out of existing mortgages, leading to further delinquency, default and foreclosure. These factors, among others, have weakened the housing market by making borrowing more expensive and restrictive while the number of units for sale has grown, resulting in a supply-demand imbalance. Based on home sale trends during 2007 and through the filing date of this Form 10-K, we expect that home sale volumes and our purchase originations will decrease during 2008.

As a result of these factors, we expect that the competitive pricing environment in the mortgage industry will continue during 2008 as excess origination capacity and lower origination volumes put pressure on production margins and ultimately result in further industry consolidation. This could negatively affect our revenues and margins on new originations, and our access to the secondary mortgage market may be reduced, restricted or less profitable than in the

current industry environment. Any of the foregoing could have a material adverse effect on our business, financial position, results of operations or cash flows.

Downward trends in the real estate market could adversely impact our business, profitability or results of operations.

The residential real estate market in the U.S. has experienced a significant downturn due to substantially declining mortgage loan origination volumes, declining real estate values and the disruption in the credit markets, including a significant contraction in available liquidity globally. These factors have continued into the beginning of 2008 and, combined with rising oil prices, declining business and consumer confidence and increased unemployment, have precipitated an economic slowdown. Further declines in real estate values in the U.S., continuing credit and liquidity tightening and a continuing economic slowdown could negatively impact our mortgage loan originations and the performance of the underlying loans in our loan servicing portfolio.

During 2007, we experienced an increase in foreclosure losses and related credit reserves primarily due to an increase in loss severity due to a decline in housing prices in 2007 compared to 2006 and increased foreclosure frequency due to higher mortgage loan delinquencies. Foreclosure losses during 2007 were $20 million compared to $17 million during 2006. During 2007, foreclosure related reserves increased by $13 million to $49 million as of December 31, 2007. We expect delinquency and foreclosure rates to remain high during 2008, and, as a result, we expect that we will continue to experience higher foreclosure losses in 2008 as compared to prior periods. These developments could also have a negative impact on our reinsurance business as further declines in real estate values and a continued negative economic outlook could adversely impact borrowers ability to repay mortgage loans. During 2007, reinsurance related reserves increased by $15 million to $32 million, which is reflective of these recent trends, and we expect reinsurance related reserves to continue to increase during 2008.

These factors could have a material adverse effect on our business, financial position, results of operations or cash flows.

Recent developments in the asset-backed securities market have negatively affected the value of our MLHS and our costs of funds, which could have a material and adverse effect on our business, financial position, results of operations or cash flows.

The adverse conditions in the U.S. housing market, dislocations in the credit markets and corrections in certain asset-backed security market segments resulted in substantial valuation reductions in the past fiscal year, most significantly on mortgage backed securities. Market credit spreads have recently gone from historically tight to historically wide levels, and a further widening of credit spreads or worsening of credit market dislocations or sustained market downturns could have additional negative effects on the value of our MLHS.

The asset-backed securities market in general has experienced significant disruptions and deterioration, the effects of which have not been limited to MBS. As a result of the deterioration in the asset-backed securities market, the costs associated with ABCP issued by the multi-seller conduits, which fund the Chesapeake Series 2006-1 and Series 2006-2 notes, in particular, were negatively impacted beginning in the third quarter of 2007. Accordingly, we anticipate that the costs of funding through multi-seller conduits, including conduit fees and relative spreads of ABCP to broader market indices will be adversely impacted in 2008 compared to such costs prior to the disruption in the asset-backed securities market. Increases in conduit fees and the relative spreads of ABCP to broader market indices are components of Fleet interest expense which are currently not fully recovered through billings to the clients of our Fleet Management Services segment. As a result we expect that these costs may adversely impact the results of operations for our Fleet Management Services segment. Any of the foregoing could have a material adverse effect on our business, financial position, liquidity or results of operations both for our Fleet Management Services segment and our Company as a whole.

Our business is affected by fluctuations in interest rates, and if we fail to manage our exposure to changes in interest rates effectively, our business, financial position, results of operations or cash flows could be adversely affected.

Our principal market exposure is to interest rate risk, specifically long-term U.S. Treasury (Treasury) and mortgage interest rates due to their impact on mortgage-related assets and commitments. We also have exposure to LIBOR and commercial paper interest rates due to their impact on variable-rate borrowings, other interest rate-sensitive liabilities and net investment in variable-rate lease assets. The level and volatility of interest rates significantly affect the mortgage lending industry. A decline in mortgage interest rates generally increases the

demand for home loans as more potential homeowners seek mortgage loans and more borrowers seek to refinance existing loans, but also generally leads to accelerated payoffs in our mortgage servicing portfolio, which negatively impacts the value of our MSRs. Historically, as interest rates increase, mortgage loan production decreases, particularly production from loan refinancing. An environment of gradual interest rate increases may, however, signify an improving economy or increasing real estate values, which in turn may stimulate increased home buying activity. Generally, in periods of reduced mortgage loan production, the associated profit margins also decline due to increased competition among mortgage loan originators and higher unit costs, thus further reducing our mortgage production revenues. Conversely, in a rising interest rate environment, mortgage loan servicing revenues generally increase because mortgage prepayment rates tend to decrease, extending the average life of our servicing portfolio and increasing the value of our MSRs. We attempt to manage our interest rate risk, in part, through the use of derivatives, including swap contracts, forward delivery commitments, futures and options contracts to manage and reduce this risk. Our main objective in managing interest rate risk is to moderate the impact of changes in interest rates on our earnings over time. Our interest rate risk management strategies may result in significant earnings volatility in the short term. The success of our interest rate risk management strategy is largely dependent on our ability to predict the earnings sensitivity of our loan servicing and loan production activities in various interest rate environments, which is inherently uncertain. Significant changes in current market conditions and/or the assumptions used (including the relationship of the change in the value of the MSRs to the change in the value of derivatives) in developing our estimates of borrower behavior and future interest rates could result in a material adverse effect on our business, financial position, results of operations or cash flows.

Certain hedging strategies that we use to manage interest rate risk associated with our MSRs and other mortgage-related assets and commitments may not be effective in mitigating those risks.

We employ various economic hedging strategies to attempt to mitigate the interest rate and prepayment risk inherent in many of our assets, including our MLHS, interest rate lock commitments (IRLCs) and our MSRs. We use various derivative and other financial instruments to provide a level of protection against interest rate risks, but no hedging strategy can protect us completely. Our hedging activities may include entering into interest rate swaps, caps and floors, options to purchase these items, futures and forward contracts and/or purchasing or selling Treasury securities. Our hedging decisions in the future will be determined in light of the facts and circumstances existing at the time and may differ from our current hedging strategy. We also seek to manage interest rate risk in our Mortgage Production and Mortgage Servicing segments partially by monitoring and seeking to maintain an appropriate balance between our loan production volume and the size of our mortgage servicing portfolio, as the value of MSRs and the income they provide tend to be counter-cyclical to the changes in production volumes and gain or loss on sale of loans that result from changes in interest rates.

Our hedging strategies may not be effective in mitigating the risks related to changes in interest rates. Poorly designed strategies or improperly executed transactions could actually increase our risk and losses. There have been periods, and it is likely that there will be periods in the future, during which we incur losses after accounting for our hedging strategies. As stated earlier, the success of our interest rate risk management strategy is largely dependent on our ability to predict the earnings sensitivity of our loan servicing and loan production activities in various interest rate environments. Our hedging strategies also rely on assumptions and projections regarding our assets and general market factors. If these assumptions and projections prove to be incorrect or our hedges do not adequately mitigate the impact of changes in interest rates or prepayment speeds, we may incur losses that could have a material adverse effect on our business, financial position, results of operations or cash flows.

We are exposed to counterparty credit risk and there can be no assurances that we will manage or mitigate this risk effectively.

We are exposed to counterparty credit risk in the event of non-performance by counterparties to various agreements and sales transactions. The insolvency or other inability of a significant counterparty to perform its obligations under an agreement or transaction, including, without limitation, as a result of the rejection of an agreement or transaction by a counterparty in bankruptcy proceedings, could have a material adverse effect on our business, financial position, results of operations or cash flows. We manage such risk by evaluating the financial position and creditworthiness of such counterparties and/or requiring collateral, typically cash, in instances in which financing is provided. We mitigate counterparty credit risk associated with our derivative contracts by

monitoring the amount for which we are at risk with each counterparty to such contracts, requiring collateral posting, typically cash, above established credit limits, periodically evaluating counterparty creditworthiness and financial position, and where possible, dispersing the risk among multiple counterparties. There can be no assurances, however, that we will be effective in managing or mitigating our counterparty credit risk, which could have a material adverse effect on our financial position.

Our business relies on various sources of funding, including unsecured credit facilities and other unsecured debt, as well as secured funding arrangements, including asset-backed securities, mortgage repurchase facilities and other secured credit facilities. If any of our funding arrangements are terminated or not renewed, we may be unable to find replacement financing on commercially favorable terms, if at all, which could have a material adverse effect on our business, financial position, results of operations or cash flows.

Our business relies on various sources of funding, including unsecured credit facilities and other unsecured debt, as well as secured funding arrangements, including asset-backed securities, mortgage repurchase facilities and other secured credit facilities to fund mortgage loans and vehicle acquisitions, a significant portion of which is short-term. The availability of asset-backed debt for vehicle acquisitions for our Fleet Management Services segment s leasing operations, in particular, could suffer in the event of: (i) the deterioration of the assets underlying the asset-backed debt arrangement; (ii) our inability to access the asset-backed debt market to refinance maturing debt or (iii) termination of our role as servicer of the underlying lease assets in the event that we default in the performance of our servicing obligations or we declare bankruptcy or become insolvent. In addition, the availability of the mortgage asset-backed debt could suffer in the event of: (i) the deterioration in the performance of the mortgage loans underlying the asset-backed debt arrangement; (ii) our failure to maintain sufficient levels of eligible assets or credit enhancements; (iii) our inability to access the asset-backed debt market to refinance maturing debt; (iv) our inability to access the secondary market for mortgage loans or (v) termination of our role as servicer of the underlying mortgage assets in the event that (a) we default in the performance of our servicing obligations or (b) we declare bankruptcy or become insolvent. If any of our warehouse, repurchase or other credit facilities are terminated, including as a result of our breach, or are not renewed, we may be unable to find replacement financing on commercially favorable terms, if at all, which could have a material adverse effect on our business, financial position, results of operations or cash flows. Finally, our access to the unsecured debt markets is subject to prevailing market conditions.

The recent disruption in the asset-backed securities market and the resulting impact on the availability of funding generally for financial services companies may limit our access to one or more of the funding sources discussed above, and may result in more restrictive covenants, which could have a material adverse effect on our business, financial position, results of operations or cash flows. In addition, as a result of the deterioration in the credit markets, the costs associated with our warehouse and repurchase facilities were negatively impacted beginning in the third quarter of 2007. Accordingly, the costs associated with our warehouse, repurchase and other credit facilities, including relative spreads and conduit fees, will be adversely impacted in 2008 compared to such costs prior to the disruption in the credit market, which could have a material adverse effect on our business, financial position, results of operations or cash flows.

The industries in which we operate are highly competitive and, if we fail to meet the competitive challenges in our industries, it could have a material adverse effect on our business, financial position, results of operations or cash flows.

We operate in highly competitive industries that could become even more competitive as a result of economic, legislative, regulatory and technological changes. Certain of our competitors are larger than we are and have access to greater financial resources than we do. Competition for mortgage loans comes primarily from large commercial banks and savings institutions, which typically have lower funding costs and are less reliant than we are on the sale of mortgages into the secondary markets to maintain their liquidity. In addition, technological advances and heightened

e-commerce activity have generally increased consumers access to products and services. This has intensified competition among banking, as well as non-banking companies, in offering financial products and services, with or without the need for a physical presence. If competition in the mortgage services industry continues to increase, it could have a material adverse effect on our business, financial position, results of operations or cash flows.

The deterioration in the secondary mortgage market has caused a number of mortgage loan originators to take one or more of the following actions: revise their underwriting guidelines for Alt-A and non-conforming products, increase the interest rates charged on these products, impose more restrictive credit standards on borrowers or decrease permitted loan-to-value ratios. We expect that this shift in production efforts to more traditional prime loan products by these originators will result in increased competition in the mortgage industry, which could have a negative impact on profit margins for our Mortgage Production segment during 2008. As a result of these factors, we expect that the competitive pricing environment in the mortgage industry will continue during 2008 as excess origination capacity and lower origination volumes put pressure on production margins and ultimately result in further industry consolidation.

The fleet management industry in which we operate is highly competitive. We compete against large national competitors, such as GE Commercial Finance Fleet Services, Wheels, Inc., Automotive Resources International, Lease Plan International and other local and regional competitors, including numerous competitors who focus on one or two products. Competitive pressures could adversely affect our revenues and results of operations by decreasing our market share or depressing the prices that we can charge.

Changes in existing U.S. government-sponsored mortgage programs could materially and adversely affect our business, financial position, results of operations or cash flows.

Our ability to generate revenues through mortgage loan sales to institutional investors depends to a significant degree on programs administered by government-sponsored enterprises such as Fannie Mae, Freddie Mac, Ginnie Mae and others that facilitate the issuance of MBS in the secondary market. These government-sponsored enterprises play a powerful role in the residential mortgage industry, and we have significant business relationships with them. Proposals are being considered in Congress and by various regulatory authorities that would affect the manner in which these government-sponsored enterprises conduct their business, including proposals to establish a new independent agency to regulate the government-sponsored enterprises, to require them to register their stock with the SEC, to reduce or limit certain business benefits that they receive from the U.S. government and to limit the size of the mortgage loan portfolios that they may hold. Any discontinuation of, or significant reduction in, the operation of these government-sponsored enterprises could materially and adversely affect our business, financial position, results of operations or cash flows. Also, any significant adverse change in the level of activity in the secondary market or the underwriting criteria of these government-sponsored enterprises could materially and adversely affect our business, financial position, results of operations or cash flows.

The businesses in which we engage are complex and heavily regulated, and changes in the regulatory environment affecting our businesses could have a material adverse effect on our financial position, results of operations or cash flows.

We are subject to numerous federal, state and local laws, rules and regulations that affect our business, including mortgage- and real estate-related regulations such as RESPA, which restricts the payment of fees or other consideration for the referral of real estate settlement services, including mortgage loans, as well as rules and regulations related to taxation, vicarious liability, insurance and accounting. Our Mortgage Production and Mortgage Servicing segments, in general, are heavily regulated by mortgage lending laws at the federal, state and local levels, and proposals for further regulation of the financial services industry, including recently proposed and enacted regulations addressing borrowers with blemished credit and non-traditional mortgage products, are continually being introduced. The establishment of the Mortgage Venture and the continuing relationships between and among the Mortgage Venture, Realogy and us are subject to the anti-kickback requirements of RESPA.

The Home Mortgage Disclosure Act requires us to disclose certain information about the mortgage loans we originate and purchase, such as the race and gender of our customers, the disposition of mortgage applications, income levels

and interest rate (i.e. annual percentage rate) information. We believe that publication of such information may lead to heightened scrutiny of all mortgage lenders loan pricing and underwriting practices.

During 2007, the majority of states regulating mortgage lending adopted, through statute, regulation or otherwise, some version of the guidance on non-traditional mortgage loans issued by the federal financial regulatory agencies in 2006 and 2007. These requirements address issues relating to certain non-traditional mortgage products and lending practices, including interest-only loans and reduced documentation programs, and impact certain of our

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disclosure, qualification and documentation practices with respect to these programs. Any violation of these guidelines could materially and adversely impact our reputation or our business, financial position, results of operations or cash flows.

We are also subject to privacy regulations. We manage highly sensitive non-public personal information in all of our operating segments, which is regulated by law. Problems with the safeguarding and proper use of this information could result in regulatory actions and negative publicity, which could materially and adversely affect our reputation, business, financial position, results of operations or cash flows.

With respect to our Fleet Management Services segment, we could be subject to unlimited liability as the owner of leased vehicles in one major province in Canada and are subject to limited liability in two major provinces, Ontario and British Columbia, and as many as fifteen jurisdictions in the U.S. under the legal theory of vicarious liability.

Congress, state legislatures, federal and state regulatory agencies and other professional and regulatory entities review existing laws, rules, regulations and policies and periodically propose changes that could significantly affect or restrict the manner in which we conduct our business. It is possible that one or more legislative proposals may be adopted or one or more regulatory changes, changes in interpretations of laws and regulations, judicial decisions or governmental enforcement actions may be implemented that could have a material adverse effect on our business, financial position, results of operations or cash flows. For example, certain trends in the regulatory environment could result in increased pressure from our clients for us to assume more residual risk on the value of the vehicles at the end of the lease term. If this were to occur, it could have a material adverse effect on our results of operations.

Our failure to comply with such laws, rules or regulations, whether actual or alleged, could expose us to fines, penalties or potential litigation liabilities, including costs, settlements and judgments, any of which could have a material adverse effect on our financial position, results of operations or cash flows.

Our Fleet Management Services business contracts with various government agencies, which may be subject to audit and potential reduction of costs and fees.

Contracts with federal, state and local government agencies may be subject to audits, which could result in the disallowance of certain fees and costs. These audits may be conducted by government agencies and can result in the disallowance of significant costs and expenses if the auditing agency determines, in its discretion, that certain costs and expenses were not warranted or were excessive. Disallowance of costs and expenses, if pervasive or significant, could have a material adverse effect on our business.

If certain change in control transactions occur, some of our mortgage loan origination arrangements with financial institutions could be subject to termination at the election of such institutions.

For the year ended December 31, 2007, approximately 55% of our mortgage loan originations were derived from our financial institutions channel, pursuant to which we provide outsourced mortgage loan services for customers of our financial institution clients such as Merrill Lynch, TD Banknorth, N.A. and Charles Schwab Bank. Our agreements with some of these financial institutions provide the applicable financial institution with the right to terminate its relationship with us prior to the expiration of the contract term if we complete a change in control transaction with certain third-party acquirers. Accordingly, if we are unable to obtain consents to or waivers of certain rights of certain of our clients in connection with certain change in control transactions, it could have a material adverse effect on our business, financial position, results of operations or cash flows. Although in some cases these contracts would require the payment of liquidated damages in such an event, such amounts may not fully compensate us for all of our actual or expected loss of business opportunity for the remaining duration of the contract term. The existence of these termination provisions could discourage third parties from seeking to acquire us or could reduce the amount of

consideration they would be willing to pay to our stockholders in an acquisition transaction.

Unanticipated liabilities of our Fleet Management Services segment as a result of damages in connection with motor vehicle accidents under the theory of vicarious liability could have a material adverse effect on our business, financial position, results of operations or cash flows.

Our Fleet Management Services segment could be liable for damages in connection with motor vehicle accidents under the theory of vicarious liability in certain jurisdictions in which we do business. Under this theory, companies that lease motor vehicles may be subject to liability for the tortious acts of their lessees, even in situations where the leasing company has not been negligent. Our Fleet Management Services segment is subject to unlimited liability as the owner of leased vehicles in one major province in Canada and is subject to limited liability (e.g., in the event of a lessee s failure to meet certain insurance or financial responsibility requirements) in two major provinces, Ontario and British Columbia, and as many as fifteen jurisdictions in the U.S. Although our lease contracts require that each lessee indemnifies us against such liabilities, in the event that a lessee lacks adequate insurance coverage or financial resources to satisfy these indemnity provisions, we could be liable for property damage or injuries caused by the vehicles that we lease.

On August 10, 2005, a federal law was enacted in the U.S. which preempted state vicarious liability laws that imposed unlimited liability on a vehicle lessor. This law, however, does not preempt existing state laws that impose limited liability on a vehicle lessor in the event that certain insurance or financial responsibility requirements for the leased vehicles are not met. Prior to the enactment of this law, our Fleet Management Services segment was subject to unlimited liability in the District of Columbia, Maine and New York. It is unclear at this time whether any of these three jurisdictions will enact legislation imposing limited or an alternative form of liability on vehicle lessors. In addition, the scope, application and enforceability of this federal law have not been fully tested. For example, a state trial court in New York has ruled that the law is unconstitutional. On February 1, 2008, the intermediate New York Court of Appeals reversed the trial court and upheld the constitutionality of the federal law. The ultimate disposition of this New York case and cases that are pending in other jurisdictions and their impact on the federal law are uncertain at this time.

Additionally, a law was enacted in the Province of Ontario setting a cap of $1 million on a lessor s liability for personal injuries for accidents occurring on or after March 1, 2006. A similar law went into effect in the Providence of British Columbia effective November 8, 2007. The British Columbia law also includes a cap of $1 million on a lessor s liability. In December 2007, the Province of Alberta legislature adopted a vicarious liability bill with provisions similar to the Ontario and British Columbia statutes, including a cap of $1 million on a lessor s liability, but an effective date has not yet been established. The scope, application and enforceability of these provincial laws have not been fully tested.

A failure to maintain our investment grade ratings could impact our ability to obtain financing on favorable terms and could negatively impact our business.

In the event our credit ratings were to drop below investment grade, our access to the public debt markets may be severely limited. The cut-off for investment grade is generally considered to be a long-term rating of Baa3, BBB- and BBB- for Moody s Investors Service, Standard & Poor s and Fitch Ratings, respectively. As of February 25, 2008, our senior unsecured long-term debt credit ratings from Moody s Investors Service, Standard & Poor s and Fitch Ratings were Baa3, BBB- and BBB+, respectively, and our short-term debt credit ratings were P-3, A-3 and F-2, respectively. Also as of February 25, 2008, the ratings outlooks on our unsecured debt provided by both Moody s Investors Service and Fitch Ratings were Negative and Standard & Poor s was on CreditWatch with developing implications. In the event of a ratings downgrade below investment grade, we may be required to rely upon alternative sources of financing, such as bank lines and private debt placements (secured and unsecured). Declines in our credit ratings would also increase our cost of borrowing under our credit facilities. Furthermore, we may be unable to retain all of our existing bank credit commitments beyond the then-existing maturity dates. As a consequence, our cost of financing could rise significantly, thereby negatively impacting our ability to finance some of our capital-intensive activities, such as our ongoing investment in MSRs and other retained interests. Among other things, maintenance of our investment grade ratings requires that we demonstrate high levels of liquidity, including access to alternative

sources of funding such as committed bank stand-by lines of credit, as well as a capital structure, leverage and maturities for indebtedness appropriate for companies in our industry.

Our accounting policies and methods are fundamental to how we record and report our financial position and results of operations, and they require management to make assumptions and estimates about matters that are inherently uncertain.

Our accounting policies and methods are fundamental to how we record and report our financial position and results of operations. We have identified several accounting policies as being critical to the presentation of our financial position and results of operations because they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be recorded under different conditions or using different assumptions. Because of the inherent uncertainty of the estimates and assumptions associated with these critical accounting policies, we cannot provide any assurance that we will not make subsequent significant adjustments to the related amounts recorded in this Form 10-K. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies for more information on our critical accounting policies.

Changes in accounting standards issued by the Financial Accounting Standards Board (the FASB) or other standard-setting bodies may adversely affect our reported revenues, profitability or financial position.

Our financial statements are subject to the application of accounting principles generally accepted in the U.S. (GAAP), which are periodically revised and/or expanded. The application of accounting principles is also subject to varying interpretations over time. Accordingly, we are required to adopt new or revised accounting standards or comply with revised interpretations that are issued from time-to-time by recognized authoritative bodies, including the FASB and the SEC. Those changes could adversely affect our reported revenues, profitability or financial position. In addition, new or revised accounting standards may impact certain of our leasing or lending products, which could adversely affect our profitability.

We depend on the accuracy and completeness of information provided by or on behalf of our customers and counterparties.

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We also may rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. Our financial position and results of operations could be negatively impacted to the extent we rely on financial statements that do not comply with GAAP or are materially misleading.

An interruption in or breach of our information systems may result in lost business, regulatory actions or litigation or may otherwise have an adverse effect on our reputation, business, business prospects, financial condition, results of operations or cash flows.

We rely heavily upon communications and information systems to conduct our business. Any failure or interruption of our information systems or the third-party information systems on which we rely could cause underwriting or other delays and could result in fewer loan applications being received, slower processing of applications and reduced efficiency in loan servicing in our Mortgage Production and Mortgage Servicing segments, as well as business interruptions in our Fleet Management Services segment. We are required to comply with significant federal, state and foreign laws and regulations in various jurisdictions in which we operate, with respect to the handling of consumer information, and a breach in the security of our information systems could result in regulatory actions and litigation against us. If a failure, interruption or breach occurs, it may not be adequately addressed by us or the third parties on which we rely. Such a failure, interruption or breach could have a material adverse effect on our reputation, business, business prospects, financial condition, results of operations or cash flows.

The success and growth of our business may be adversely affected if we do not adapt to and implement technological changes.

Our business is dependent upon technological advancement, such as the ability to process loan applications over the internet, accept electronic payments and provide immediate status updates to our clients and customers. To the extent that we become reliant on any particular technology or technological solution, we may be harmed if the technology or technological solution:

§ becomes non-compliant with existing industry standards or is no longer supported by vendors;

- § fails to meet or exceed the capabilities of our competitors corresponding technologies or technological solutions;
- § becomes increasingly expensive to service, retain and update; or
- § becomes subject to third-party claims of copyright or patent infringement.

Our failure to acquire necessary technologies or technological solutions could limit our ability to remain competitive and could also limit our ability to increase our cost efficiencies, which could have a material adverse effect on our business, financial position, results of operations or cash flows.

Risks Related to the Spin-Off

Our agreements with Cendant and Realogy may not reflect terms that would have resulted from arm s-length negotiations between unaffiliated parties.

The agreements related to our separation from Cendant and the continuation of certain business arrangements with Cendant and Realogy, including the Separation Agreement, the Transition Services Agreement, the Strategic Relationship Agreement, the Marketing Agreement and other agreements, were not the result of arm s-length negotiations and thus may not reflect terms that would have resulted from arm s-length negotiations between two unaffiliated parties. This could include, among other things, the allocation of assets, liabilities, rights, indemnities and other obligations between Cendant, Realogy and us. See Item 1. Business Arrangements with Cendant and Arrangements with Realogy for more information.

In connection with the Spin-Off, we entered into several contracts with Cendant s real estate services division to provide for the continuation of certain business arrangements, including the Mortgage Venture Operating Agreement, the Strategic Relationship Agreement, the Marketing Agreement, and the Trademark License Agreements. Cendant s real estate services division, Realogy, became an independent, publicly traded company pursuant to the Realogy Spin-Off effective July 31, 2006. On April 10, 2007, Realogy became a wholly owned subsidiary of Domus Holdings Corp., an affiliate of Apollo Management VI, L.P., following the completion of a merger and related transactions. As a result of the Realogy Spin-Off, we determined that certain amendments to our agreements with Realogy may be necessary or appropriate. There can be no assurances that we will be able to obtain any required amendments we believe may be necessary or appropriate or that if obtained, that these amendments will be on terms favorable to us.

We may be required to satisfy certain indemnification obligations to Cendant or Realogy, or we may not be able to collect on indemnification rights from Cendant or Realogy.

In connection with the Spin-Off, we and Cendant and our respective affiliates have agreed to indemnify each other for certain liabilities and obligations. Our indemnification obligations could be significant. We are required to indemnify Cendant for any taxes incurred by it and its affiliates as a result of any action, misrepresentation or omission by us or one of our subsidiaries that causes the distribution of our Common stock by Cendant or transactions relating to the internal reorganization to fail to qualify as tax-free. We are also responsible for 13.7% of any taxes resulting from the failure of the Spin-Off or transactions relating to the internal reorganization to qualify as tax-free, which failure is not due to the actions, misrepresentations or omissions of Cendant or us or our respective subsidiaries. Such percentage was based on the relative pro forma net book values of Cendant and us as of September 30, 2004, without giving effect to any adjustments to the book values of certain long-lived assets that may be required as a result of the Spin-Off and the related transactions. We cannot determine whether we will have to indemnify Cendant or its current or former affiliates for any substantial obligations in the future. There also can be no assurance that if Cendant or

Realogy is required to indemnify us for any substantial obligations, they will be able to satisfy those obligations.

Certain arrangements and agreements that we have entered into with Cendant in connection with the Spin-Off could impact our tax and other assets and liabilities in the future, and our financial statements are subject to future adjustments as a result of our obligations under those arrangements and agreements.

In connection with the Spin-Off, we entered into certain arrangements and agreements with Cendant that could impact our tax and other assets and liabilities in the future. See Item 1. Business Arrangements with Cendant for

more information. For example, we are party to the Amended Tax Sharing Agreement with Cendant that contains provisions governing the allocation of liabilities for taxes between Cendant and us, indemnification for certain tax liabilities and responsibility for preparing and filing tax returns and defending contested tax positions, as well as other tax-related matters including the sharing of tax information and cooperating with the preparation and filing of tax returns. Pursuant to the Amended Tax Sharing Agreement, our tax assets and liabilities may be affected by Cendant s future tax returns and may also be impacted by the results of audits of Cendant s prior tax years, including the settlement of any such audits. See Note 17, Commitments and Contingencies in the Notes to Consolidated Financial Statements included in this Form 10-K. Consequently, our financial statements are subject to future adjustments which may not be fully resolved until the audits of Cendant s prior years returns are completed.

Our historical financial information may not be representative of results we would have achieved as an independent company or will achieve in the future.

Because our business has changed substantially due to the internal reorganization in connection with the Spin-Off and we now conduct our business as an independent, publicly traded company, our historical financial information does not reflect what our results of operations, financial position or cash flows would have been had we been an independent, publicly traded company during all of the periods presented. For this reason, as well as the inherent uncertainties of our business, the historical financial information for such periods is not indicative of what our results of operations, financial position or cash flows will be in the future. See Note 24, Discontinued Operations in the Notes to Consolidated Financial Statements included in this Form 10-K.

Risks Related to our Common Stock

There may be a limited public market for our Common stock and our stock price may experience volatility.

Prior to the Spin-Off, there was no public market for our Common stock. In connection with the Spin-Off, our Common stock was listed on the New York Stock Exchange (the NYSE) under the symbol PHH. From February 1, 2005 through February 15, 2008, the closing trading price for our Common stock has ranged from $15.08 to $31.40. However, there can be no assurance that an active trading market for our Common stock will be sustained in the future. In addition, the stock market has from time-to-time experienced extreme price and volume fluctuations that often have been unrelated to the operating performance of particular companies. Changes in earnings estimates by analysts and economic and other external factors may have a significant impact on the market price of our Common stock. Fluctuations or decreases in the trading price of our Common stock may adversely affect the liquidity of the trading market for our Common stock and our ability to raise capital through future equity financing.

Provisions in our charter documents, the Maryland General Corporation Law (the MGCL) and our stockholder rights plan may delay or prevent our acquisition by a third party.

Our charter and by-laws contain several provisions that may make it more difficult for a third party to acquire control of us without the approval of our Board of Directors. These provisions include, among other things, a classified Board of Directors, advance notice for raising business or making nominations at meetings and blank check preferred stock. Blank check preferred stock enables our Board of Directors, without stockholder approval, to designate and issue additional series of preferred stock with such dividend, liquidation, conversion, voting or other rights, including the right to issue convertible securities with no limitations on conversion, as our Board of Directors may determine, including rights to dividends and proceeds in a liquidation that are senior to the Common stock.

We are also subject to certain provisions of the MGCL which could delay, prevent or deter a merger, acquisition, tender offer, proxy contest or other transaction that might otherwise result in our stockholders receiving a premium over the market price for their Common stock or may otherwise be in the best interest of our stockholders. These

include, among other provisions:

§ The business combinations statute which prohibits transactions between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder becomes an interested stockholder and

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§ The control share acquisition statute which provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter.

Our by-laws contain a provision exempting any share of our capital stock from the control share acquisition statute to the fullest extent permitted by the MGCL. However, our Board of Directors has the exclusive right to amend our by-laws and, subject to their fiduciary duties, could at any time in the future amend the by-laws to remove this exemption provision.

In addition, we entered into the Rights Agreement, dated as of January 28, 2005, with The Bank of New York, as rights agent (the Rights Agreement). This agreement entitles our stockholders to acquire shares of our Common stock at a price equal to 50% of the then-current market value in limited circumstances when a third party acquires beneficial ownership of 15% or more of our outstanding Common stock or commences a tender offer for at least 15% of our Common stock, in each case, in a transaction that our Board of Directors does not approve. Because, under these limited circumstances, all of our stockholders would become entitled to effect discounted purchases of our Common stock, other than the person or group that caused the rights to become exercisable, the existence of these rights would significantly increase the cost of acquiring control of our company without the support of our Board of Directors. The existence of the Rights Agreement could therefore deter potential acquirers and reduce the likelihood that stockholders receive a premium for our Common stock in an acquisition.

Certain provisions of the Mortgage Venture Operating Agreement and the Strategic Relationship Agreement that we have with Realogy could discourage third parties from seeking to acquire us or could reduce the amount of consideration they would be willing to pay our stockholders in an acquisition transaction.

Pursuant to the terms of the Mortgage Venture Operating Agreement, Realogy has the right to terminate the Mortgage Venture, at its election, at any time on or after February 1, 2015 by providing two years notice to us. In addition, under the Mortgage Venture Operating Agreement, Realogy may terminate the Mortgage Venture if we effect a change in control transaction involving certain competitors or other third parties. In connection with such termination, we would be required to make a liquidated damages payment in cash to Realogy of an amount equal to the sum of (i) two times the Mortgage Venture s trailing 12 months net income (except that, in the case of a termination by Realogy following a change in control of us, we may be required to make a cash payment to Realogy in an amount equal to the Mortgage Venture s trailing 12 months net income multiplied by (a) if the Mortgage Venture Operating Agreement is terminated prior to its twelfth anniversary, the number of years remaining in the first 12 years of the term of the Mortgage Venture Operating Agreement, or (b) if the Mortgage Venture Operating Agreement is terminated on or after its tenth anniversary, two years), and (ii) all costs reasonably incurred by Cendant and its subsidiaries in unwinding its relationship with us pursuant to the Mortgage Venture Operating Agreement and the related agreements, including the Strategic Relationship Agreement, the Marketing Agreement and the Trademark License Agreements. Pursuant to the terms of the Strategic Relationship Agreement, we are subject to a non-competition provision, the breach of which could result in Realogy having the right to terminate the Strategic Relationship Agreement, seek an injunction prohibiting us from engaging in activities in breach of the non-competition provision or result in our liability for damages to Realogy. The existence of these provisions could discourage certain third parties from seeking to acquire us or could reduce the amount of consideration they would be willing to pay to our stockholders in an acquisition transaction. See Item 1. Business Arrangements with Realogy Mortgage Venture Between Realogy and PHH for more information.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Our principal offices are located at 3000 Leadenhall Road, Mt. Laurel, New Jersey 08054.

Mortgage Production and Mortgage Servicing Segments

Our Mortgage Production and Mortgage Servicing segments have centralized operations in approximately 730,000 square feet of shared leased office space in the Mt. Laurel, New Jersey area. We have a second area of centralized offices that are shared by our Mortgage Production and Mortgage Servicing segments in Jacksonville, Florida, where approximately 150,000 square feet is occupied. In addition, our Mortgage Production segment leases 22 smaller offices located throughout the U.S. and our Mortgage Servicing segment leases one additional office located in the state of New York.

Fleet Management Services Segment

Our Fleet Management Services segment maintains a headquarters office in a 210,000 square-foot office building in Sparks, Maryland. Our Fleet Management Services segment also leases office space and marketing centers in five locations in Canada and has six smaller regional locations throughout the U.S.

Item 3. *Legal Proceedings*

We are party to various claims and legal proceedings from time-to-time related to contract disputes and other commercial, employment and tax matters. We are not aware of any pending legal proceedings that we believe could have, individually or in the aggregate, a material adverse effect on our business, financial position, results of operations or cash flows.

In March and April 2006, several purported class actions were filed against us, our Chief Executive Officer and our former Chief Financial Officer in the U.S. District Court for the District of New Jersey. The plaintiffs sought to represent an alleged class consisting of all persons (other than our officers and Directors and their affiliates) who purchased our Common stock during certain time periods beginning March 15, 2005 in one case and May 12, 2005 in the other cases and ending March 1, 2006. The plaintiffs alleged, among other matters, that the defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. Each of these purported class actions has since been voluntarily dismissed by the plaintiffs. Additionally, two derivative actions were filed in the U.S. District Court for the District of New Jersey against us, our former Chief Financial Officer and each member of our Board of Directors. Both of these derivative actions have since been voluntarily dismissed by the plaintiffs.

Following the announcement of the Merger in March 2007, two purported class actions were filed against us and each member of our Board of Directors in the Circuit Court for Baltimore County, Maryland (the Court). The first of these actions also named GE and Blackstone as defendants. The plaintiffs sought to represent an alleged class consisting of all persons (other than our officers and Directors and their affiliates) holding our Common stock. In support of their request for injunctive and other relief, the plaintiffs alleged, among other matters, that the members of the Board of Directors breached their fiduciary duties by failing to maximize stockholder value in approving the Merger Agreement. On or about April 10, 2007, the claims against Blackstone were dismissed without prejudice. On May 11, 2007, the Court consolidated the two cases into one action. On July 27, 2007, the plaintiffs filed a consolidated amended complaint. This pleading did not name GE or Blackstone as defendants. It essentially repeated the allegations previously made against the members of our Board of Directors and added allegations that the disclosures made in the preliminary proxy statement filed with the SEC on June 18, 2007 omitted certain material facts. On August 7, 2007, the Court dismissed the consolidated amended complaint on the ground that the plaintiffs were seeking to assert their claims directly, whereas, as a matter of Maryland law, claims that directors have breached their fiduciary duties can only be asserted by a stockholder derivatively. The plaintiffs have the right to appeal this decision.

Item 4. *Submission of Matters to a Vote of Security Holders*

None.

Executive Officers

Our executive officers are set forth in the table below. All executive officers are appointed by and serve at the pleasure of the Board of Directors.

Name	Age	Position(s)
Terence W. Edwards	52	President and Chief Executive Officer President and Chief Executive Officer PHH Mortgage
Clair M. Raubenstine	66	Executive Vice President and Chief Financial Officer
George J. Kilroy	60	President and Chief Executive Officer PHH Arval
Mark R. Danahy	48	Senior Vice President and Chief Financial Officer PHH Mortgage
William F. Brown	50	Senior Vice President, General Counsel and Corporate Secretary Senior Vice President, General Counsel and Secretary PHH Mortgage
Mark E. Johnson	48	Vice President and Treasurer
Michael D. Orner	40	Vice President and Controller

Terence W. Edwards serves as our President and Chief Executive Officer, a position he has held since February 2005 and President and Chief Executive Officer of PHH Mortgage, a position he has held since August 2005. Prior to the Spin-Off, Mr. Edwards served as President and Chief Executive Officer of Cendant Mortgage Corporation (Cendant Mortgage, now known as PHH Mortgage) since February 1996, and as such, was responsible for overseeing its entire mortgage banking operations. From 1995 to 1996, Mr. Edwards served as Vice President of Investor Relations and Treasurer and was responsible for investor, banking and rating agency relations, financing resources, cash management, pension investment management and internal financial structure. Mr. Edwards joined us in 1980 as a treasury operations analyst and has held positions of increasing responsibility, including Director, Mortgage Finance and Senior Vice President, Secondary Marketing.

Clair M. Raubenstine serves as our Executive Vice President and Chief Financial Officer, a position he has held since February 2006. From October 1998 through June 2002, Mr. Raubenstine served as a national independence consulting partner with PricewaterhouseCoopers LLP (PricewaterhouseCoopers). He also previously served as an Accounting, Auditing and SEC consulting partner and as an assurance and business advisory services partner to various public and private companies. Mr. Raubenstine s career at PricewaterhouseCoopers spanned 39 years until his retirement in June 2002. From July 2002 through February 2006, Mr. Raubenstine provided accounting and financial advisory services to various charitable and educational organizations.

George J. Kilroy serves as President and Chief Executive Officer of PHH Arval, a position he has held since March 2001. Mr. Kilroy is responsible for the management of PHH Arval. From May 1997 to March 2001, Mr. Kilroy served as Senior Vice President, Business Development and was responsible for new client sales, client relations and marketing for PHH Arval s United States operations. Mr. Kilroy joined PHH Arval in 1976 as an Account Executive in the Truck and Equipment Division and has held positions of increasing responsibility, including head of Diversified Services and Financial Services.

Mark R. Danahy serves as Senior Vice President and Chief Financial Officer of PHH Mortgage, a position he has held since April 2001. Mr. Danahy is responsible for directing the mortgage accounting and financial planning teams, which include financial reporting, asset valuation and capital markets accounting, planning and forecasting. Mr. Danahy joined Cendant Mortgage in December 2000 as Controller. From 1999 to 2000, Mr. Danahy served as Senior Vice President, Capital Market Operations for GE Capital Market Services, Inc.

William F. Brown serves as our Senior Vice President, General Counsel and Corporate Secretary, a position he has held since February 2005 and Senior Vice President, General Counsel and Secretary of PHH Mortgage. Mr. Brown

has served as Senior Vice President and General Counsel of Cendant Mortgage since June 1999 and oversees its legal, contract, licensing and regulatory compliance functions. From June 1997 to June 1999, Mr. Brown served as Vice President and General Counsel of Cendant Mortgage. From January 1995 to June 1997, Mr. Brown served as Counsel in the PHH Corporate Legal Department.

Mark E. Johnson serves as our Vice President and Treasurer, a position he has held since February 2005. Prior to the Spin-Off, Mr. Johnson served as Vice President, Secondary Marketing of Cendant Mortgage since May 2003 and was responsible for various funding initiatives and financial management of certain subsidiary operations.

From May 1997 to May 2003, Mr. Johnson served as Assistant Treasurer of Cendant, where he had a range of responsibilities, including banking and rating agency relations and management of unsecured funding and securitization.

Michael D. Orner serves as our Vice President and Controller, a position he has held since March 2005. Prior to joining us, Mr. Orner was employed by Millennium Chemicals, Inc. as Corporate Controller from January 2003 through March 2005 and Director of Accounting and Financial Reporting from December 1999 through December 2002. Prior to joining Millennium Chemicals, Inc., Mr. Orner served as a Senior Manager, Audit and Business Advisory Services for PricewaterhouseCoopers, where he was employed from September 1989 through November 1999.

PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Market Price of Common Stock

Shares of our Common stock are listed on the NYSE under the symbol PHH. The following table sets forth the high and low sales prices for our Common stock for the periods indicated as reported by the NYSE:

	Stock Price	
	High	**Low**
January 1, 2006 to March 31, 2006	$ 29.29	$ 23.70
April 1, 2006 to June 30, 2006	27.99	25.03
July 1, 2006 to September 30, 2006	27.99	23.99
October 1, 2006 to December 31, 2006	29.35	26.67
January 1, 2007 to March 31, 2007	31.50	27.25
April 1, 2007 to June 30, 2007	31.39	30.14
July 1, 2007 to September 30, 2007	31.52	22.51
October 1, 2007 to December 31, 2007	27.09	17.45

As of February 15, 2008, there were approximately 7,200 holders of record of our Common stock. As of that date, there were approximately 57,000 total holders of our Common stock including beneficial holders whose securities are held in the name of a registered clearing agency or its nominee.

Dividend Policy

No dividends were declared during the years ended December 31, 2007 or 2006.

The declaration and payment of future dividends by us will be subject to the discretion of our Board of Directors and will depend upon many factors, including our financial condition, earnings, capital requirements of our operating subsidiaries, legal requirements, regulatory constraints and other factors deemed relevant by our Board of Directors. Many of our subsidiaries (including certain consolidated partnerships, trusts and other non-corporate entities) are subject to restrictions on their ability to pay dividends or otherwise transfer funds to other consolidated subsidiaries and, ultimately, to PHH Corporation (the parent company). These restrictions relate to loan agreements applicable to certain of our asset-backed debt arrangements and to regulatory restrictions applicable to the equity of our insurance subsidiary, Atrium. The aggregate restricted net assets of these subsidiaries totaled $1.0 billion as of December 31, 2007. These restrictions on net assets of certain subsidiaries, however, do not directly limit our ability to pay dividends from consolidated Retained earnings. Pursuant to the MTN Indenture (as defined in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Indebtedness Unsecured Debt Term Notes), we may not pay dividends on our Common stock in the event that our ratio of debt to equity exceeds 6.5:1, after giving effect to the dividend payment. The MTN Indenture also requires that we maintain a debt to tangible equity ratio of not more than 10:1. In addition, the Amended Credit Facility, the Mortgage Repurchase Facility, the Greenwich Repurchase Facility and the Mortgage Venture Repurchase Facility (each as defined in Item 7. Management s Discussion and Analysis of Financial Condition and Results of

Operations Liquidity and Capital Resources Indebtedness) each include various covenants that may restrict our ability to pay dividends on our Common stock, including covenants which require that we maintain: (i) on the last day of each fiscal quarter, net worth of $1.0 billion plus 25% of net income, if positive, for each fiscal quarter ended after December 31, 2004 and (ii) at any time, a ratio of indebtedness to tangible net worth no greater than 10:1. Based on our assessment of these requirements as of December 31, 2007, we do not believe that these restrictions will materially limit dividend payments on our Common stock in the foreseeable future. However, we do not anticipate paying any cash dividends on our Common stock in the foreseeable future.

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Issuer Purchases of Equity Securities

There were no share repurchases during the quarter ended December 31, 2007.

Performance Graph

The following graph and table compare the cumulative total stockholder return on our Common stock with (i) the Russell 2000 Index and (ii) the Russell 2000 Financial Services Index. Our Common stock began trading on the NYSE on February 1, 2005. Cendant distributed one share of our Common stock for every 20 shares of Cendant common stock outstanding on the record date for the distribution. On January 31, 2005, all shares of our Common stock were spun-off from Cendant to the holders of Cendant s common stock on a pro rata basis.

	Investment Value as of						
	2/1/2005	**6/30/2005**	**12/31/2005**	**6/30/2006**	**12/31/2006**	**6/30/2007**	**12/31/2007**
Russell 2000 Index	100.00	102.37	108.39	117.29	128.30	136.57	126.29
Russell 2000 Financial Services Index	100.00	101.60	104.42	111.72	120.83	113.71	97.15
PHH Common stock	100.00	117.44	127.95	125.75	131.83	142.51	80.55

The graph and table above assume that $100 was invested in the Russell 2000 Index, the Russell 2000 Financial Services Index and our Common stock on February 1, 2005. Total stockholder returns assume reinvestment of dividends. The stock price performance depicted in the graph and table above may not be indicative of future stock price.

This performance graph and related information shall not be deemed filed for the purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that Section and shall not be deemed to be incorporated by reference into any filing that we make under the Securities Act or the Exchange Act.

Item 6. ***Selected Financial Data***

As discussed under Item 1. Business, on February 1, 2005, we began operating as an independent, publicly traded company pursuant to the Spin-Off from Cendant. During 2005, prior to the Spin-Off, we underwent an internal reorganization whereby we distributed our former relocation and fuel card businesses to Cendant, and Cendant contributed its former appraisal business, STARS, to us.

Pursuant to SFAS No. 141, Cendant s contribution of STARS to us was accounted for as a transfer of net assets between entities under common control and, therefore, the financial position and results of operations for STARS are included in all periods presented. Pursuant to SFAS No. 144, the financial position and results of operations of our former relocation and fuel card businesses have been segregated and reported as discontinued operations for all periods presented (see Note 24, Discontinued Operations in the Notes to Consolidated Financial Statements included in this Form 10-K for more information).

In connection with and in order to consummate the Spin-Off, on January 27, 2005, our Board of Directors authorized and approved a 52,684-for-one Common stock split, to be effected by a stock dividend at such ratio. The record date with regard to such stock split was January 28, 2005. The cash dividends declared per share and earnings per share amounts presented below reflect this stock split.

The selected consolidated financial data set forth below is derived from our audited Consolidated Financial Statements for the periods indicated. Because our business has changed substantially due to the internal reorganization in connection with the Spin-Off, and we now conduct our business as an independent, publicly traded company, our historical financial information does not reflect what our results of operations, financial position or cash flows would have been had we been an independent, publicly traded company during all of the periods presented. For this reason, as well as the inherent uncertainties of our business, the historical financial information for such periods is not indicative of what our results of operations, financial position or cash flows will be in the future.

	Year Ended and As of December 31,				
	2007	2006	2005[1]	2004[2]	2003[3]
	(In millions, except per share data)				
Consolidated Statements of Operations Data:					
Net revenues	$ 2,240	$ 2,288	$ 2,471	$ 2,397	$ 2,636
(Loss) income from continuing operations	$ (12)	$ (16)	$ 73	$ 94	$ 157
(Loss) income from discontinued operations, net of income taxes[4]			(1)	118	98
Cumulative effect of accounting change, net of income taxes					(35)
Net (loss) income	$ (12)	$ (16)	$ 72	$ 212	$ 220
Basic (loss) earnings per share:					
(Loss) income from continuing operations	$ (0.23)	$ (0.29)	$ 1.38	$ 1.79	$ 2.97
(Loss) income from discontinued operations			(0.02)	2.24	1.87
Cumulative effect of accounting change, net of income taxes					(0.67)
Net (loss) income	$ (0.23)	$ (0.29)	$ 1.36	$ 4.03	$ 4.17
Diluted (loss) earnings per share:					
(Loss) income from continuing operations	$ (0.23)	$ (0.29)	$ 1.36	$ 1.77	$ 2.95
(Loss) income from discontinued operations			(0.02)	2.22	1.85
Cumulative effect of accounting change, net of income taxes					(0.67)
Net (loss) income	$ (0.23)	$ (0.29)	$ 1.34	$ 3.99	$ 4.13
Cash dividends declared per share[5]	$	$	$	$ 2.66	$ 2.66
Consolidated Balance Sheets Data:					
Total assets	$ 9,357	$ 10,760	$ 9,965	$ 11,399	$ 11,641
Debt	6,279	7,647	6,744	6,504	6,829

Stockholders equity	1,529	1,515	1,521	1,921	1,855

(1) Income from continuing operations and Net income for the year ended December 31, 2005 included pre-tax Spin-Off related expenses of $41 million. See Note 3, Spin-Off from Cendant in the Notes to Consolidated Financial Statements included in this Form 10-K.

(2) During 2004, we acquired First Fleet Corporation (First Fleet), a national provider of fleet management services to companies that maintain private truck fleets.

(3) Income from continuing operations and Net income for the year ended December 31, 2003 included a pre-tax goodwill impairment charge of $102 million ($96 million net of income taxes). Also during 2003, we consolidated Bishop s Gate Residential Mortgage Trust (Bishop s Gate) pursuant to FASB Interpretation No. 46, Consolidation of Variable Interest Entities and recognized the related cumulative effect of accounting change.

(4) (Loss) income from discontinued operations, net of income taxes includes the after-tax results of discontinued operations.

(5) Dividends declared during the years ended December 31, 2004 and 2003 were paid to our former parent, Cendant.

Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion should be read in conjunction with Item 1. Business and our Consolidated Financial Statements and the notes thereto included in this Form 10-K. The following discussion should also be read in conjunction with the Cautionary Note Regarding Forward-Looking Statements and the risks and uncertainties described in Item 1A. Risk Factors set forth above.

Overview

We are a leading outsource provider of mortgage and fleet management services. We conduct our business through three operating segments: a Mortgage Production segment, a Mortgage Servicing segment and a Fleet Management Services segment. Our Mortgage Production segment originates, purchases and sells mortgage loans through PHH Mortgage which includes PHH Home Loans. PHH Home Loans is a mortgage venture that we maintain with Realogy that began operations in October 2005. Our Mortgage Production segment generated 9%, 14% and 21% of our Net revenues for the years ended December 31, 2007, 2006 and 2005, respectively. Our Mortgage Servicing segment services mortgage loans that either PHH Mortgage or PHH Home Loans originated. Our Mortgage Servicing segment also purchases MSRs and acts as a subservicer for certain clients that own the underlying MSRs. Our Mortgage Servicing segment generated 8%, 6% and 10% of our Net revenues for the years ended December 31, 2007, 2006 and 2005, respectively. Our Fleet Management Services segment provides commercial fleet management services to corporate clients and government agencies throughout the U.S. and Canada through PHH Arval. Our Fleet Management Services segment generated 83%, 80% and 69% of our Net revenues for the years ended December 31, 2007, 2006 and 2005, respectively.

For all periods presented in this Form 10-K prior to February 1, 2005, we were a wholly owned subsidiary of Cendant that provided homeowners with mortgages, serviced mortgage loans, facilitated employee relocations and provided vehicle fleet management and fuel card services to commercial clients. During 2006, Cendant changed its name to Avis Budget Group, Inc.; however, within this Form 10-K, our former parent company, now known as Avis Budget Group, Inc. (NYSE: CAR) is referred to as Cendant. On February 1, 2005, we began operating as an independent, publicly traded company pursuant to the Spin-Off from Cendant. See Item 1. Business for a discussion of the Spin-Off.

In connection with the Spin-Off, we entered into several agreements and arrangements with Cendant and its real estate services division, Realogy, that we expect to continue to be material to our business going forward. Cendant completed the Realogy Spin-Off effective July 31, 2006. On April 10, 2007, Realogy became a wholly owned subsidiary of Domus Holdings Corp., an affiliate of Apollo Management VI, L.P., following the completion of a merger and related transactions. For a discussion of these agreements and arrangements, see Item 1. Business Arrangements with Cendant and Arrangements with Realogy.

We, through our subsidiary, PHH Broker Partner, and Realogy, through its subsidiary, Realogy Venture Partner, formed the Mortgage Venture. We own 50.1% of the Mortgage Venture through PHH Broker Partner and Realogy owns the remaining 49.9% through Realogy Venture Partner. The Mortgage Venture originates and sells mortgage loans primarily sourced through Realogy s owned real estate brokerage business, NRT and its owned relocation business, Cartus. All mortgage loans originated by the Mortgage Venture are sold to PHH Mortgage or unaffiliated third-party investors on a servicing-released basis. The Mortgage Venture does not hold any mortgage loans for investment purposes or retain MSRs for any loans it originates.

The Mortgage Venture commenced operations, and we contributed assets and transferred employees that have historically supported originations from NRT and Cartus to the Mortgage Venture in October 2005. The Mortgage

Venture is principally governed by the terms of the Mortgage Venture Operating Agreement and the Strategic Relationship Agreement. The Mortgage Venture Operating Agreement has a 50-year term, subject to earlier termination, under certain circumstances, including after the twelfth year, following a two-year notice, or non-renewal by us after 25 years subject to delivery of notice between January 31, 2027 and January 31, 2028. In the event that we do not deliver a non-renewal notice after the 25th year, the Mortgage Venture Operating Agreement will be renewed for an additional 25-year term. The provisions of the Strategic Relationship Agreement govern the manner in which the Mortgage Venture is recommended by NRT, Cartus and TRG as the exclusive recommended provider of mortgage loans to (i) the independent sales associates affiliated with the Realogy Entities (excluding the

independent sales associates of any Realogy Franchisee acting in such capacity), (ii) all customers of the Realogy Entities (excluding Realogy Franchisees or any employee or independent sales associate thereof acting in such capacity) and (iii) all U.S.-based employees of Cendant. See Item 1. Business Arrangements with Realogy Mortgage Venture Between Realogy and PHH and Strategic Relationship Agreement for a description of the terms of the Mortgage Venture Operating Agreement and the Strategic Relationship Agreement.

The Mortgage Venture is consolidated within our financial statements, and Realogy s ownership interest is presented in our financial statements as a minority interest. (See Note 1, Summary of Significant Accounting Policies Basis of Presentation and Note 3, Spin-Off from Cendant in the Notes to Consolidated Financial Statements included in this Form 10-K.) Subject to certain regulatory and financial covenant requirements, net income generated by the Mortgage Venture is distributed quarterly to its members pro rata based upon their respective ownership interests. The Mortgage Venture may also require additional capital contributions from us and Realogy under the terms of the Mortgage Venture Operating Agreement if it is required to meet minimum regulatory capital and reserve requirements imposed by any governmental authority or any creditor of the Mortgage Venture or its subsidiaries.

During 2005, prior to and as part of the Spin-Off, Cendant made a cash contribution to us of $100 million and we distributed assets net of liabilities of $593 million to Cendant. Such amount included the historical cost of the net assets of our former relocation and fuel card businesses, certain other assets and liabilities per the Spin-Off Agreements and the net amount of forgiveness of certain payables and receivables, including income taxes, between us, our former relocation and fuel card businesses and Cendant.

Because our business has changed substantially due to the internal reorganization in connection with the Spin-Off, and we now conduct our business as an independent, publicly traded company, our historical financial information does not reflect what our results of operations, financial position or cash flows would have been had we been an independent, publicly traded company during all of the periods presented. For this reason, as well as the inherent uncertainties of our business, the historical financial information for such periods is not indicative of what our results of operations, financial position or cash flows will be in the future.

During 2006, we devoted substantial internal and external resources to the completion of our Annual Report on Form 10-K for the year ended December 31, 2005 (the 2005 Form 10-K) and related matters. As a result of these efforts, along with efforts to complete our assessment of internal control over financial reporting as of December 31, 2005, as required by Section 404 of the Sarbanes-Oxley Act of 2002 (SOX), we incurred incremental fees and expenses for additional auditor services, financial and other consulting services, legal services and liquidity waivers of approximately $44 million through December 31, 2006. Of this $44 million, we recorded $32 million and $12 million in Other operating expenses in the Consolidated Statements of Operations for the years ended December 31, 2006 and 2005, respectively. During 2007, we continued to incur fees and expenses for auditor services and financial and other consulting services that were significantly higher than historical fees and expenses to complete our Annual Report on Form 10-K for the year ended December 31, 2006, along with efforts to complete our assessment of internal control over financial reporting as of December 31, 2006, as required by SOX. Additionally, we devoted substantial internal and external resources to become a current filer with the SEC and to remediate the material weaknesses previously identified through our assessment of internal control over financial reporting as of December 31, 2006 and 2005.

On March 15, 2007, we entered into the Merger Agreement with GE and its wholly owned subsidiary, Jade Merger Sub, Inc. to be acquired (as previously defined, the Merger). In conjunction with the Merger, GE entered into the Mortgage Sale Agreement to sell our mortgage operations to Pearl Acquisition, an affiliate of Blackstone, a global investment and advisory firm.

On January 1, 2008, we gave a notice of termination to GE pursuant to the Merger Agreement because the Merger was not completed by December 31, 2007. On January 2, 2008, we received a notice of termination from Pearl Acquisition

pursuant to the Mortgage Sale Agreement and on January 4, 2008, the Settlement Agreement between us, Pearl Acquisition and BCP V was executed. Pursuant to the Settlement Agreement, BCP V paid us a reverse termination fee of $50 million and we agreed to pay BCP V up to $4.5 million for the reimbursement of certain fees for third-party consulting services incurred by BCP V and Pearl Acquisition in connection with the transactions contemplated by the Merger Agreement and the Mortgage Sale Agreement upon our receipt of invoices

reflecting such fees from BCP V. As part of the Settlement Agreement, we are entitled to receive the work product that those consultants provided to BCP V and Pearl Acquisition. As of the filing date of this Form 10-K, we paid BCP V $4.5 million and received the work product. See Note 2, Terminated Merger in the Notes to Consolidated Financial Statements included in this Form 10-K for more information.

Mortgage Production and Mortgage Servicing Segments

Mortgage Production Segment

Our Mortgage Production segment principally provides fee-based mortgage loan origination services for others (including brokered mortgage loans) and sells originated mortgage loans into the secondary market. PHH Mortgage generally sells all mortgage loans that it originates to investors (which include a variety of institutional investors) within 60 days of origination. We originate mortgage loans through three principal business channels: financial institutions (on a private-label basis), real estate brokers (including brokers associated with brokerages owned or franchised by Realogy and independent brokers) and relocation (primarily mortgage services for clients of Cartus). We also purchase mortgage loans originated by third parties. Fee income consists primarily of fees collected on loans originated for others (including brokered loans) and is recorded as revenue when we have completed our obligations related to the underlying loan transaction. Loan origination fees, commitment fees paid in connection with the sale of loans and certain direct loan origination costs associated with loans are deferred until such loans are sold. MLHS are recorded on our balance sheet at the lower of cost or market value, which is computed by the aggregate method, net of deferred loan origination fees and costs. Sales of mortgage loans are recorded on the date that ownership is transferred. Gains or losses on sales of mortgage loans are recognized based upon the difference between the selling price and the carrying value of the related mortgage loans sold.

Upon the closing of a residential mortgage loan originated or purchased by us, the mortgage loan is generally warehoused for a period of up to 60 days and then sold into the secondary market. MLHS represent mortgage loans originated or purchased by us and held until sold to investors. We principally sell our mortgage loans directly to government-sponsored entities, such as Fannie Mae, Freddie Mac or Ginnie Mae. Upon the sale, we generally retain the MSRs and servicing obligations of the underlying mortgage loans.

Our Mortgage Production segment also includes STARS, our appraisal services business. The appraisal services business is closely linked to the processes by which our Mortgage Production segment originates mortgage loans. STARS derives substantially all of its business from our three principal business channels described above.

Mortgage Servicing Segment

Our Mortgage Servicing segment services residential mortgage loans. Upon the sale of the loans originated in or purchased by the Mortgage Production segment, we generally retain the MSRs and servicing obligations of those underlying loans. An MSR is the right to receive a portion of the interest coupon and fees collected from the mortgagor for performing specified mortgage servicing activities, which consist of collecting loan payments, remitting principal and interest payments to investors, managing escrow funds for the payment of mortgage-related expenses such as taxes and insurance and otherwise administering our mortgage loan servicing portfolio.

The capitalization of MSRs occurs upon the sale of the underlying mortgage loans into the secondary market. We adopted SFAS No. 156, Accounting for Servicing of Financial Assets (SFAS No. 156) on January 1, 2006. As a result of adopting SFAS No. 156, servicing rights created through the sale of originated loans are recorded at the fair value of the servicing right on the date of sale whereas prior to the adoption, the servicing rights were recorded based on the relative fair values of the loans sold and the servicing rights retained. Prior to the adoption of SFAS No. 156, servicing

rights were amortized in proportion to estimated net servicing income and such amortization was recorded in Amortization and recovery of impairment of mortgage servicing rights in our Consolidated Statement of Operations for the year ended December 31, 2005. The effects of measuring servicing rights at fair value after the adoption of SFAS No. 156 are recorded in Change in fair value of mortgage servicing rights in our Consolidated Statements of Operations for the years ended December 31, 2007 and 2006. Loan servicing income is comprised of several components, including recurring servicing and other ancillary fees and net reinsurance income from our wholly owned reinsurance company, Atrium. Recurring servicing fees are recognized upon receipt of the coupon payment from the borrower and recorded net of agency guaranty fees. Loan servicing income is receivable only out of interest collected from mortgagors, and is recorded as income when collected. Late

charges and other miscellaneous fees collected from mortgagors are also recorded as income when collected. Costs associated with loan servicing are charged to expense as incurred.

The fair value of the MSRs is estimated based upon projections of expected future cash flows considering prepayment estimates (developed using a model described below), our historical prepayment rates, portfolio characteristics, interest rates based on interest rate yield curves, implied volatility and other economic factors. The model to forecast prepayment rates used in the development of expected future cash flows is based on historical observations of prepayment behavior in similar periods, comparing current mortgage interest rates to the mortgage interest rates in our servicing portfolio, and incorporates loan characteristics (e.g., loan type and note rate) and factors such as recent prepayment experience, previous refinance opportunities and estimated levels of home equity. Prior to January 1, 2006, MSRs were routinely evaluated for impairment, at least on a quarterly basis. Fair value was estimated using the method described above. In addition, the loans underlying the MSRs were stratified into note rate pools based on certain risk characteristics including product type and rate. We measured impairment for each stratum by comparing its estimated fair value to the carrying amount. Temporary impairment was recorded through a valuation allowance in the period of occurrence. We periodically evaluated our MSRs to determine if the carrying value before the application of the valuation allowance was recoverable. When we determined that a portion of the asset was not recoverable, the asset and the previously designated valuation were reduced to reflect the write-down.

As of December 31, 2007, we had $1.5 billion of MSRs associated with $126.5 billion of the unpaid principal balance of the underlying mortgage loans. We periodically evaluate our risk exposure and capital requirements related to our MSRs to determine the appropriate amount of MSRs to retain on our Balance Sheet. During 2007, we sold approximately $433 million of MSRs associated with $29.2 billion of the unpaid principal balance of the underlying mortgage loans. We expect that these sales of MSRs will result in a proportionate decrease in our Net revenues for the Mortgage Servicing segment in 2008.

Our Mortgage Servicing segment also includes our reinsurance business, which we conduct through Atrium, our wholly owned subsidiary and a New York domiciled monoline mortgage guaranty insurance corporation. Atrium receives premiums from certain third-party insurance companies and provides reinsurance solely in respect of primary mortgage insurance issued by those third-party insurance companies on loans originated through our various loan origination channels.

Arrangements with Cendant and Realogy

Prior to the Spin-Off, we entered into various agreements with Cendant in connection with the Spin-Off to provide for our separation from Cendant and the transition of our business as an independent company, including: (i) the Separation Agreement, (ii) the Amended Tax Sharing Agreement and (iii) the Transition Services Agreement. (See Item 1. Business Arrangements with Cendant for more information about these agreements and Item 1A. Risk Factors Risks Related to the Spin-Off Certain arrangements and agreements that we have entered into with Cendant in connection with the Spin-Off could impact our tax and other assets and liabilities in the future, and our financial statements are subject to future adjustments as a result of our obligations under those arrangements and agreements. for a discussion of some of the risks associated with these agreements.)

The Amended Tax Sharing Agreement contains provisions governing the allocation of liabilities for taxes between Cendant and us, indemnification for certain tax liabilities and responsibility for preparing and filing tax returns and defending tax contests, as well as other tax-related matters. The Amended Tax Sharing Agreement contains certain provisions relating to the treatment of the ultimate settlement of Cendant tax contingencies that relate to audit adjustments due to taxing authorities review of income tax returns. Our tax basis in certain assets may be adjusted in the future, and we may be required to remit tax benefits ultimately realized by us to Cendant in certain circumstances. Certain of the effects of future adjustments relating to years we were included in Cendant s income tax returns that

change the tax basis of assets, liabilities and net operating loss and tax credit carryforward amounts may be recorded in equity rather than as an adjustment to the tax provision.

We also entered into several agreements with Cendant s real estate services division prior to the Spin-Off to provide for the continuation of certain business arrangements, including (i) the Mortgage Venture Operating Agreement, (ii) the Strategic Relationship Agreement, (iii) the Marketing Agreement and (iv) the Trademark License Agreements. (See Item 1. Business Arrangements with Realogy for a description of these agreements.)

In connection with the Spin-Off, we, through PHH Broker Partner, and Cendant s real estate services division, through Realogy Venture Partner, formed the Mortgage Venture. (See Item 1. Business Arrangements with Realogy Mortgage Venture Between Realogy and PHH for a discussion of the Mortgage Venture.) The termination of our rights under our agreements with Realogy, including the termination of the Mortgage Venture or of our exclusivity rights under the Strategic Relationship Agreement or the Marketing Agreement, could have a material adverse effect on our business, financial position, results of operations and cash flows. See Item 1. Business Arrangements with Realogy and Item 1A. Risk Factors Risks Related to our Business.

Regulatory Trends

The regulatory environments in which we operate have an impact on the activities in which we may engage, how the activities may be carried out and the profitability of those activities. (See Item 1A. Risk Factors Risks Related to our Business The businesses in which we engage are complex and heavily regulated, and changes in the regulatory environment affecting our businesses could have a material adverse effect on our financial position, results of operations or cash flows.) Our Mortgage Production and Mortgage Servicing segments are subject to numerous federal, state and local laws and regulations, including those relating to real estate settlement procedures, fair lending, fair credit reporting, truth in lending, federal and state disclosure and licensing. Changes to laws, regulations or regulatory policies can affect our operations. As discussed in Item 1. Business Our Business Mortgage Production and Mortgage Servicing Segments Mortgage Regulation, RESPA and state real estate brokerage laws restrict the payment of fees or other consideration for the referral of real estate settlement services. The Home Mortgage Disclosure Act requires us to disclose certain information about the mortgage loans we originate and purchase, such as race and gender of our customers, the disposition of mortgage applications, income levels and interest rate (i.e. annual percentage rate) information. We believe that publication of such information may lead to heightened scrutiny of all mortgage lenders loan pricing and underwriting practices. The establishment of the Mortgage Venture and the continuing relationships between and among the Mortgage Venture, Realogy and us are subject to the anti-kickback requirements of RESPA. There can be no assurance that more restrictive laws, rules and regulations will not be adopted in the future or that existing laws, rules and regulations will be applied in a manner that may adversely impact our business or make regulatory compliance more difficult or expensive.

Atrium, our wholly owned insurance subsidiary, is subject to insurance regulations in the State of New York relating to, among other things: standards of solvency that must be met and maintained; the licensing of insurers and their agents; the nature of and limitations on investments; premium rates; restrictions on the size of risks that may be insured under a single policy; reserves and provisions for unearned premiums, losses and other obligations; deposits of securities for the benefit of policyholders; approval of policy forms and the regulation of market conduct, including the use of credit information in underwriting as well as other underwriting and claims practices. The New York State Insurance Department also conducts periodic examinations and requires the filing of annual and other reports relating to the financial condition of companies and other matters.

As a result of our ownership of Atrium, we are subject to New York s insurance holding company statute, as well as certain other laws, which, among other things, limit Atrium s ability to declare and pay dividends except from restricted cash in excess of the aggregate of Atrium s paid-in capital, paid-in surplus and contingency reserve. Additionally, anyone seeking to acquire, directly or indirectly, 10% or more of Atrium s outstanding common stock, or otherwise proposing to engage in a transaction involving a change in control of Atrium, will be required to obtain the prior approval of the New York Superintendent of Insurance.

Mortgage Industry Trends

The aggregate demand for mortgage loans in the U.S. is a primary driver of the Mortgage Production and Mortgage Servicing segments operating results. The demand for mortgage loans is affected by external factors including

prevailing mortgage rates and the strength of the U.S. housing market. We expect that the mortgage industry will continue to experience lower origination volumes related to home purchases during 2008 as a result of declining home sales. Although the level of interest rates is a key driver of refinancing activity, there are other factors which could influence the level of refinance originations. Notwithstanding the impact of interest rates, we believe that refinance originations will be negatively impacted by declines in home prices and increasing mortgage loan delinquencies, as these factors make the refinance of an existing mortgage more difficult. Furthermore, certain

existing adjustable-rate mortgage loans will have their rates reset in 2008, which could positively impact the volume of refinance originations as borrowers seek to refinance loans subject to interest rate changes.

As of January 2008, the Federal National Mortgage Association s *Economic and Mortgage Market Developments* estimated that industry originations during 2007 were $2.5 trillion, a decline of 10% compared with originations in 2006, and forecasted a decline in industry originations during 2008 of approximately 9% from estimated 2007 levels. Refinance activity is expected to increase to $1.3 trillion in 2008 from $1.2 trillion in 2007 as borrowers take advantage of the recent decline in long-term fixed mortgage rates, while purchase originations are expected to decrease to $1.0 trillion in 2008 from $1.3 trillion in 2007 as the declining housing market continues to impact home purchases.

Changes in interest rates may have a significant impact on our Mortgage Production and Mortgage Servicing segments, including a negative impact on origination volumes and the value of our MSRs and related hedges. Changes in interest rates may also result in changes in the shape or slope of the yield curve, which is a key factor in our MSR valuation model and the effectiveness of our hedging strategy. Furthermore, recent developments in the industry have resulted in more restrictive credit standards that may negatively impact home affordability and the demand for housing and related origination volumes for the mortgage industry. Many origination companies have entered bankruptcy proceedings, shut down or severely curtailed their lending activities. Industry-wide mortgage loan delinquency rates have increased and may continue to increase over 2007 levels. With more restrictive credit standards, borrowers, particularly those seeking non-conforming loans, are less able to purchase homes. We expect that our mortgage originations from refinance activity will increase during 2008 due to the volume of adjustable-rate mortgages originated over the last five years which are now nearing their interest-rate-reset dates as well as the impact of declining rates on fixed-rate mortgage products. However, based on home sale trends during 2007 and through the filing date of this Form 10-K, we expect that home sale volumes and our purchase originations will decrease during 2008. (See Item 1A. Risk Factors Risks Related to our Business Recent developments in the secondary mortgage market could have a material adverse effect on our business, financial position, results of operations or cash flows. included in this Form 10-K for more information.)

Demand in the secondary mortgage market for non-conforming loans was adversely impacted during the second half of 2007 and through the filing date of this Form 10-K. The deterioration of liquidity in the secondary market for these non-conforming loan products, including jumbo, Alt-A and second lien products and Scratch and Dent Loans, negatively impacted the price which could be obtained for such products in the secondary market. These loans experienced both a reduction in overall investor demand and discounted pricing which negatively impacted the value of the underlying loans as well as the execution of related secondary market loan sales. The valuation of Mortgage loans held for sale, net as of December 31, 2007 reflected this discounted pricing, with the most significant pricing discounts related to Scratch and Dent Loans and closed-end second lien loans. The unpaid principal balance of Scratch and Dent Loans and closed-end second lien loans decreased from $355 million as of September 30, 2007 to $86 million as of December 31, 2007, primarily due to the sale or securitization of these loans during the fourth quarter of 2007.

In the first half of August 2007, we modified our underwriting guidelines and/or our consumer pricing across all products while discontinuing certain less liquid mortgage products. Since mid-August 2007 to the filing date of this Form 10-K, substantially all new commitments to fund new originations were comprised almost exclusively of prime loan products, both conforming and non-conforming. The deterioration in the secondary mortgage market has caused a number of mortgage loan originators to take one or more of the following actions: revise their underwriting guidelines for Alt-A and non-conforming products, increase the interest rates charged on these products, impose more restrictive credit standards on borrowers or decrease permitted loan-to-value ratios. We expect that this shift in production efforts to more traditional prime loan products by these originators will result in increased competition in the mortgage industry, which could have a negative impact on profit margins for our Mortgage Production segment

during 2008. While we have adjusted pricing and margin expectations for new mortgage loan originations to reflect current secondary mortgage market conditions, market developments negatively impacted Gain on sale of mortgage loans, net in 2007, and may continue to have a negative impact during 2008. (See Item 1A. Risk Factors Risks Related to our Business We might be prevented from selling and/or securitizing our mortgage loans at opportune times and prices, if at all, which could have a material adverse effect on our business, financial position, results of operations or cash flows. and Recent developments in the

secondary mortgage market could have a material adverse effect on our business, financial position, results of operations or cash flows.   included in this Form 10-K for more information.)

As a result of these factors, we expect that the competitive pricing environment in the mortgage industry will continue during 2008 as excess origination capacity and lower origination volumes put pressure on production margins and ultimately result in further industry consolidation. We intend to take advantage of this environment by leveraging our existing mortgage origination services platform to enter into new outsourcing relationships as more companies determine that it is no longer economically feasible to compete in the industry. As of the filing date of this Form 10-K, we signed 14 new mortgage outsourcing relationships in 2007 and 2008, which we expect will result in approximately $1.3 billion of incremental mortgage origination volume in 2008. However, there can be no assurance that we will be successful in continuing to enter into new outsourcing relationships or will realize the expected incremental origination volume.

During 2007, we experienced an increase in foreclosure losses and related credit reserves primarily due to an increase in loss severity due to a decline in housing prices in 2007 compared to 2006 and increased foreclosure frequency due to higher mortgage loan delinquencies. Foreclosure losses during 2007 were $20 million compared to $17 million during 2006. During 2007, foreclosure related reserves increased by $13 million to $49 million as of December 31, 2007. We expect delinquency and foreclosure rates to remain high during 2008, and, as a result, we expect that we will continue to experience higher foreclosure losses in 2008 as compared to prior periods. These developments could also have a negative impact on our reinsurance business as further declines in real estate values and a continued negative economic outlook could adversely impact borrowers   ability to repay mortgage loans. During 2007, reinsurance related reserves increased by $15 million to $32 million, which is reflective of these recent trends, and we expect reinsurance related reserves to continue to increase during 2008.

During the years ended December 31, 2007 and 2006, we sought to reduce costs in our Mortgage Production and Mortgage Servicing segments to better align our resources and expenses with anticipated mortgage origination volumes. During 2007, we eliminated approximately 400 jobs primarily in our Mortgage Production segment and shut down certain facilities. As a result, we incurred $13 million of severance, outplacement and facility shutdown costs during 2007, which we estimate will benefit 2008 pre-tax results by approximately $21 million. Other cost-reduction initiatives implemented during 2006 favorably impacted our pre-tax results for the year ended December 31, 2007 by $36 million.

Seasonality

Our Mortgage Production segment is generally subject to seasonal trends. These seasonal trends reflect the pattern in the national housing market. Home sales typically rise during the spring and summer seasons and decline during the fall and winter seasons. Seasonality has less of an effect on mortgage refinancing activity, which is primarily driven by prevailing mortgage rates. Our Mortgage Servicing segment is generally not subject to seasonal trends; however, delinquency rates typically rise temporarily during the winter months, driven by mortgagor payment patterns.

Inflation

An increase in inflation could have a significant impact on our Mortgage Production and Mortgage Servicing segments. Interest rates normally increase during periods of rising inflation. Historically, as interest rates increase, mortgage loan production decreases, particularly production from loan refinancing. An environment of gradual interest rate increases may, however, signify an improving economy or increasing real estate values, which in turn may stimulate increased home buying activity. Generally, in periods of reduced mortgage loan production, the associated profit margins also decline due to increased competition among mortgage loan originators and higher unit costs, thus further reducing our mortgage production revenues. Conversely, in a rising interest rate environment, our

mortgage loan servicing revenues generally increase because mortgage prepayment rates tend to decrease, extending the average life of our servicing portfolio and increasing the value of our MSRs. See discussion below under Market and Credit Risk, Item 1A. Risk Factors Risks Related to our Business Our business is affected by fluctuations in interest rates, and if we fail to manage our exposure to changes in interest rates effectively, our business, financial position, results of operations or cash flows could be adversely affected. and Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Fleet Management Services Segment

We provide fleet management services to corporate clients and government agencies. These services include management and leasing of vehicles and other fee-based services for clients vehicle fleets. We lease vehicles primarily to corporate fleet users under open-end operating and direct financing lease arrangements where the client bears substantially all of the vehicle s residual value risk. The lease term under the open-end lease agreements provide for a minimum lease term of 12 months and after the minimum term, the leases may be continued at the lessees election for successive monthly renewals. In limited circumstances, we lease vehicles under closed-end leases where we bear all of the vehicle s residual value risk. For operating leases, lease revenues, which contain a depreciation component, an interest component and a management fee component, are recognized over the lease term of the vehicle, which encompasses the minimum lease term and the month-to-month renewals. For direct financing leases, lease revenues contain an interest component and a management fee component. The interest component is recognized using the effective interest method over the lease term of the vehicle, which encompasses the minimum lease term and the month-to-month renewals. Amounts charged to the lessees for interest are determined in accordance with the pricing supplement to the respective lease agreement and are generally calculated on a variable-rate basis that varies month-to-month in accordance with changes in the variable-rate index. Amounts charged to lessees for interest may also be based on a fixed rate that would remain constant for the life of the lease. Amounts charged to the lessees for depreciation are based on the straight-line depreciation of the vehicle over its expected lease term. Management fees are recognized on a straight-line basis over the life of the lease. Revenue for other services is recognized when such services are provided to the lessee.

We originate certain of our truck and equipment leases with the intention of syndicating to banks and other financial institutions. When we sell operating leases, we sell the underlying assets and assign any rights to the leases, including future leasing revenues, to the banks or financial institutions. Upon the transfer and assignment of the rights associated with the operating leases, we record the proceeds from the sale as revenue and recognize an expense for the undepreciated cost of the asset sold. Upon the sale or transfer of rights to direct financing leases, the net gain or loss is recorded. Under certain of these sales agreements, we retain a portion of the residual risk in connection with the fair value of the asset at lease termination.

Fleet Market Trends

The size of the U.S. commercial fleet management services market has displayed little or no growth over the last several years as reported by the *Automotive Fleet 2007, 2006 and 2005 Fact Books*. We do not expect any changes in this trend during 2008. Growth in our Fleet Management Services segment is driven principally by increased market share in the Large Fleet (greater than 500 units) and National Fleet (75 to 500 units) Markets and increased fee-based services, which growth we anticipate will be negatively impacted during 2008 by the uncertainty generated by the terminated Merger.

The costs associated with ABCP issued by the multi-seller conduits, which fund the Chesapeake Series 2006-1 and Series 2006-2 notes were negatively impacted by the disruption in the asset-backed securities market beginning in the third quarter of 2007. Accordingly, we anticipate that the costs of funding obtained through multi-seller conduits, including conduit fees and relative spreads of ABCP to broader market indices will be adversely impacted in 2008 compared to such costs prior to the disruption in the asset-backed securities market. Increases in conduit fees and the relative spreads of ABCP to broader market indices are components of Fleet interest expense which are currently not fully recovered through billings to the clients of our Fleet Management Services segment. As a result we expect that these costs may adversely impact the results of operations for our Fleet Management Services segment.

Vicarious Liability

Our Fleet Management Services segment could be liable for damages in connection with motor vehicle accidents under the theory of vicarious liability in certain jurisdictions in which we do business. Under this theory, companies that lease motor vehicles may be subject to liability for the tortious acts of their lessees, even in situations where the leasing company has not been negligent. Our Fleet Management Services segment is subject to unlimited liability as the owner of leased vehicles in one major province in Canada and is subject to limited liability (e.g., in

the event of a lessee s failure to meet certain insurance or financial responsibility requirements) in two major provinces, Ontario and British Columbia, and as many as fifteen jurisdictions in the U.S. Although our lease contracts require that each lessee indemnifies us against such liabilities, in the event that a lessee lacks adequate insurance coverage or financial resources to satisfy these indemnity provisions we could be liable for property damage or injuries caused by the vehicles that we lease.

On August 10, 2005, a federal law was enacted in the U.S. which preempted state vicarious liability laws that imposed unlimited liability on a vehicle lessor. This law, however, does not preempt existing state laws that impose limited liability on a vehicle lessor in the event that certain insurance or financial responsibility requirements for the leased vehicles are not met. Prior to the enactment of this law, our Fleet Management Services segment was subject to unlimited liability in the District of Columbia, Maine and New York. It is unclear at this time whether any of these three jurisdictions will enact legislation imposing limited or an alternative form of liability on vehicle lessors. In addition, the scope, application and enforceability of this federal law have not been fully tested. For example, a state trial court in New York has ruled that the law is unconstitutional. On February 1, 2008, the intermediate New York Court of Appeals reversed the trial court and upheld the constitutionality of the federal law. The ultimate disposition of this New York case and cases that are pending in other jurisdictions and their impact on the federal law are uncertain at this time.

Additionally, a law was enacted in the Province of Ontario setting a cap of $1 million on a lessor s liability for personal injuries for accidents occurring on or after March 1, 2006. A similar law went into effect in the Province of British Columbia effective November 8, 2007. The British Columbia law also includes a cap of $1 million on a lessor s liability. In December 2007, the Province of Alberta legislature adopted a vicarious liability bill with provisions similar to the Ontario and British Columbia statutes, including a cap of $1 million on a lessor s liability, but an effective date has not yet been established. The scope, application and enforceability of these provincial laws have not been fully tested.

Seasonality

The results of operations of our Fleet Management Services segment are generally not seasonal.

Inflation

Inflation does not have a significant impact on our Fleet Management Services segment.

Market and Credit Risk

We are exposed to market and credit risks. See Item 7A. Quantitative and Qualitative Disclosures About Market Risk and Item 1A. Risk Factors Risks Related to our Business Our business is affected by fluctuations in interest rates, and if we fail to manage our exposure to changes in interest rates effectively, our business, financial position, results of operations or cash flows could be adversely affected. and Certain hedging strategies that we use to manage interest rate risk associated with our MSRs and other mortgage-related assets and commitments may not be effective in mitigating those risks.

Market Risk

Our principal market exposure is to interest rate risk, specifically long-term Treasury and mortgage interest rates due to their impact on mortgage-related assets and commitments. We also have exposure to LIBOR and commercial paper interest rates due to their impact on variable-rate borrowings, other interest rate sensitive liabilities and net investment in variable-rate lease assets. We manage and reduce our interest rate risk through various economic hedging strategies

and financial instruments, including swap contracts, forward delivery commitments, futures and options contracts.

Credit Risk

While the majority of the mortgage loans serviced by us were sold without recourse, we are exposed to consumer credit risk related to loans sold with recourse. The majority of the loans sold with recourse represent sales under a program where we retain the credit risk for a limited period of time and only for a specific default event. The retained credit risk represents the unpaid principal balance of mortgage loans. For these loans, we record a recourse liability, which is determined based upon our history of actual loss experience under the program. This liability and the related activity are not significant to our results of operations or financial position. We are also exposed to credit risk for our clients under the lease and service agreements for PHH Arval.

We are exposed to counterparty credit risk in the event of non-performance by counterparties to various agreements and sales transactions. We manage such risk by evaluating the financial position and creditworthiness of such counterparties and/or requiring collateral, typically cash, in instances in which financing is provided. We mitigate counterparty credit risk associated with our derivative contracts by monitoring the amount for which we are at risk with each counterparty to such contracts, requiring collateral posting, typically cash, above established credit limits, periodically evaluating counterparty creditworthiness and financial position, and where possible, dispersing the risk among multiple counterparties.

Results of Operations 2007 vs. 2006

Consolidated Results

Our consolidated results of operations for 2007 and 2006 were comprised of the following:

	Year Ended December 31, 2007	Year Ended December 31, 2006	Change
	(In millions)		
Net revenues	$ 2,240	$ 2,288	$ (48)
Total expenses	2,285	2,292	(7)
Loss before income taxes and minority interest	(45)	(4)	(41)
(Benefit from) provision for income taxes	(34)	10	(44)
Loss before minority interest	$ (11)	$ (14)	$ 3

During 2007, our Net revenues decreased by $48 million (2%) compared to 2006, due to a decrease of $124 million in our Mortgage Production segment that was partially offset by increases of $45 million and $31 million in our Mortgage Servicing and Fleet Management Services segments, respectively. Our Loss before income taxes and minority interest increased by $41 million during 2007 compared to 2006 due to a $74 million unfavorable change in our Mortgage Production segment and a $12 million increase in other expenses related to the terminated Merger not allocated to our reportable segments that were partially offset by favorable changes of $31 million and $14 million in our Mortgage Servicing and Fleet Management Services segments, respectively.

During the preparation of the Condensed Consolidated Financial Statements as of and for the three months ended March 31, 2006, we identified and corrected errors related to prior periods. The effect of correcting these errors on the

Consolidated Statement of Operations for the year ended December 31, 2006 was to reduce Net loss by $3 million (net of income taxes of $2 million). The corrections included an adjustment for franchise tax accruals previously recorded during the years ended December 31, 2002 and 2003 and certain other miscellaneous adjustments related to the year ended December 31, 2005. We evaluated the impact of the adjustments and determined that they were not material, individually or in the aggregate to any of the periods affected, specifically the years ended December 31, 2006, 2005, 2003 or 2002.

Our effective income tax rates were (76.1)% and 249.1% for 2007 and 2006, respectively. The (Benefit from) provision for income taxes changed favorably by $44 million to a Benefit from income taxes of $34 million in 2007 from a Provision for income taxes of $10 million in 2006 primarily due to the following: (i) a $10 million decrease in expense related to income tax contingency reserves in 2007 as compared to 2006; (ii) a $15 million increase in federal income tax benefit due to the unfavorable change in Loss before income taxes and minority interest, (iii) a

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$20 million decrease in the valuation allowance for deferred tax assets (primarily due to the utilization of loss carryforwards as a result of taxable income generated during 2007) as compared to a $1 million increase in the valuation allowance during 2006 and (iv) due to our mix of income and loss from our operations by entity and state income tax jurisdictions, there was a significant difference between the state income tax effective rates during 2007 and 2006.

Segment Results

Discussed below are the results of operations for each of our reportable segments. Certain income and expenses not allocated to our reportable segments and intersegment eliminations are reported under the heading Other. Our management evaluates the operating results of each of our reportable segments based upon Net revenues and segment profit or loss, which is presented as the income or loss before income tax provision or benefit and after Minority interest in income or loss of consolidated entities, net of income taxes. The Mortgage Production segment profit or loss excludes Realogy s minority interest in the profits and losses of the Mortgage Venture.

Our segment results were as follows:

	Net Revenues Year Ended December 31,			Segment (Loss) Profit[1] Year Ended December 31,		
	2007	2006	Change	2007	2006	Change
	(In millions)					
Mortgage Production segment	$ 205	$ 329	$ (124)	$ (225)	$ (152)	$ (73)
Mortgage Servicing segment	176	131	45	75	44	31
Total Mortgage Services	381	460	(79)	(150)	(108)	(42)
Fleet Management Services segment	1,861	1,830	31	116	102	14
Total reportable segments	2,242	2,290	(48)	(34)	(6)	(28)
Other[2]	(2)	(2)		(12)		(12)
Total Company	$ 2,240	$ 2,288	$ (48)	$ (46)	$ (6)	$ (40)

[1] The following is a reconciliation of Loss before income taxes and minority interest to segment loss:

	Year Ended December 31, 2007	Year Ended December 31, 2006
	(In millions)	
Loss before income taxes and minority interest	$ (45)	$ (4)
Minority interest in income of consolidated entities, net of income taxes	1	2
Segment loss	$ (46)	$ (6)

[2] Amounts included in Other represent intersegment eliminations and amounts not allocated to our reportable segments. Segment loss of $12 million reported under the heading Other for 2007 represents expenses related to the terminated Merger.

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Mortgage Production Segment

Net revenues decreased by $124 million (38%) during 2007 compared to 2006. As discussed in greater detail below, the decrease in Net revenues was due to a $104 million decrease in Gain on sale of mortgage loans, net, a $19 million increase in Mortgage net finance expense and a $2 million decrease in Mortgage fees that were partially offset by a $1 million increase in Other income.

Segment loss increased by $73 million (48%) during 2007 compared to 2006 as the $124 million decrease in Net revenues was partially offset by a $50 million (10%) decrease in Total expenses and a $1 million (50%) decrease in Minority interest in income of consolidated entities, net of income taxes. The $50 million reduction in Total expenses was primarily due to decreases of $31 million in Other operating expenses, $12 million in Salaries and related expenses and $6 million in Other depreciation and amortization.

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The following tables present a summary of our financial results and key related drivers for the Mortgage Production segment, and are followed by a discussion of each of the key components of Net revenues and Total expenses:

	Year Ended December 31, 2007	2006	Change	% Change
	(Dollars in millions, except average loan amount)			
Loans closed to be sold	$ 29,207	$ 32,390	$ (3,183)	(10)%
Fee-based closings	10,338	8,872	1,466	17%
Total closings	$ 39,545	$ 41,262	$ (1,717)	(4)%
Purchase closings	$ 25,692	$ 28,509	$ (2,817)	(10)%
Refinance closings	13,853	12,753	1,100	9%
Total closings	$ 39,545	$ 41,262	$ (1,717)	(4)%
Fixed rate	$ 25,525	$ 23,336	$ 2,189	9%
Adjustable rate	14,020	17,926	(3,906)	(22)%
Total closings	$ 39,545	$ 41,262	$ (1,717)	(4)%
Number of loans closed (units)	182,885	206,063	(23,178)	(11)%
Average loan amount	$ 216,228	$ 200,238	$ 15,990	8%
Loans sold	$ 30,346	$ 31,598	$ (1,252)	(4)%

	Year Ended December 31, 2007	2006	Change	% Change
	(In millions)			
Mortgage fees	$ 127	$ 129	$ (2)	(2)%
Gain on sale of mortgage loans, net	94	198	(104)	(53)%
Mortgage interest income	171	184	(13)	(7)%
Mortgage interest expense	(190)	(184)	(6)	(3)%
Mortgage net finance expense	(19)		(19)	n/m[1]
Other income	3	2	1	50%

Net revenues	205	329	(124)	(38)%
Salaries and related expenses	195	207	(12)	(6)%
Occupancy and other office expenses	49	50	(1)	(2)%
Other depreciation and amortization	15	21	(6)	(29)%
Other operating expenses	170	201	(31)	(15)%
Total expenses	429	479	(50)	(10)%
Loss before income taxes	(224)	(150)	(74)	(49)%
Minority interest in income of consolidated entities, net of income taxes	1	2	(1)	(50)%
Segment loss	$ (225)	$ (152)	$ (73)	(48)%

[1] n/m Not meaningful.

Mortgage Fees

Mortgage fees consist primarily of fees collected on loans originated for others (including brokered loans and loans originated through our financial institutions channel), fees on cancelled loans and appraisal and other income generated by our appraisal services business. Mortgage fees collected on loans originated through our financial institutions channel are recorded in Mortgage fees when the financial institution retains the underlying loan. Loans purchased from financial institutions are included in loans closed to be sold while loans originated by us and retained by financial institutions are included in fee-based closings.

Fee income on loans closed to be sold is deferred until the loans are sold and is recognized in Gain on sale of mortgage loans, net in accordance with SFAS No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases (SFAS No. 91). Fee income on fee-based closings is recorded in Mortgage fees and is recognized at the time of closing.

Loans closed to be sold and fee-based closings are the key drivers of Mortgage fees. Fees generated by our appraisal services business are recorded when the services are performed, regardless of whether the loan closes and are associated with both loans closed to be sold and fee-based closings.

Mortgage fees decreased by $2 million (2%) as the effect of a 10% decrease in loans closed to be sold (fee income is deferred until the loans are sold in accordance with SFAS No. 91) that was partially offset by a 17% increase in fee-based closings. The change in mix between fee-based closings and loans closed to be sold was primarily due to an increase in fee-based closings from our financial institution clients during 2007 compared to 2006. The $1.7 billion decrease in total closings from 2006 to 2007 was attributable to a $2.8 billion (10%) decrease in purchase closings that was partially offset by a $1.1 billion (9%) increase in refinance closings. The decline in purchase closings was due to the decline in overall housing purchases during 2007 compared to 2006. Refinancing activity is sensitive to interest rate changes relative to borrowers current interest rates, and typically increases when interest rates fall and decreases when interest rates rise. (See Item 1A. Risk Factors Risks Related to our Business Recent developments in the secondary mortgage market could have a material adverse effect on our business, financial position, results of operations or cash flows. in this Form 10-K for more information.)

Gain on Sale of Mortgage Loans, Net

Gain on sale of mortgage loans, net consists of the following:

- § (Loss) gain on loans sold, including the changes in the fair value of all loan-related derivatives including our IRLCs, freestanding loan-related derivatives and loan derivatives designated in a hedge relationship. See Note 10, Derivatives and Risk Management Activities in the Notes to Consolidated Financial Statements included in this Form 10-K. To the extent the derivatives are considered effective hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), changes in the fair value of the mortgage loans would be recorded;

- § The initial value of capitalized servicing, which represents a non-cash increase to our MSRs. Subsequent changes in the fair value of MSRs are recorded in Net loan servicing income in the Mortgage Servicing segment and

- § Recognition of net loan origination fees and expenses previously deferred under SFAS No. 91.

The components of Gain on sale of mortgage loans, net were as follows:

	Year Ended December 31, 2007	2006	Change	% Change
	(In millions)			
(Loss) gain on loans sold	$ (171)	$ 4	$ (175)	n/m[1]
Initial value of capitalized servicing	433	410	23	6%
Recognition of deferred fees and costs, net	(168)	(216)	48	22%
Gain on sale of mortgage loans, net	$ 94	$ 198	$ (104)	(53)%

(1) n/m Not meaningful.

Gain on sale of mortgage loans, net decreased by $104 million (53%) from 2006 to 2007 due to a $175 million unfavorable change in (loss) gain on loans sold that was partially offset by a $48 million decrease in the recognition of deferred fees and costs and a $23 million increase in the initial value of capitalized servicing. The decrease in Gain on sale of mortgage loans, net during 2007 compared to 2006 was primarily the result of adverse secondary mortgage market conditions.

The $175 million unfavorable change in (loss) gain on loans sold during 2007 compared to 2006 was the result of a $65 million decline in the market value of Scratch and Dent Loans that were sold or are expected to be sold at a discount, a $51 million decline in margins on non-conforming and Alt-A loans, a $32 million unfavorable variance from economic hedge ineffectiveness resulting from our risk management activities related to IRLCs and mortgage loans and a $27 million decline in margins on other loans sold. The lower margins recognized during 2007 compared to 2006 were primarily attributable to competitive pricing pressures. Typically, when industry loan volumes decline due to a rising interest rate environment or other factors, competitive pricing pressures occur as mortgage companies compete for fewer customers, which results in lower margins. The $32 million unfavorable variance from economic hedge ineffectiveness resulting from our risk management activities related to IRLCs and mortgage loans was due to an increase in losses recognized from $6 million during 2006 to $38 million during 2007.

The $48 million decrease in the recognition of deferred fees and costs was primarily due to lower deferred costs as a result of a lower volume of loans closed to be sold and the impact of cost-reduction initiatives. The $23 million increase in the initial value of capitalized servicing was caused by an increase of 13 basis points (bps) in the initial capitalized servicing rate during 2007 compared to 2006 that was partially offset by a decrease in the volume of loans sold. The increase in the initial capitalized servicing rate from 2006 to 2007 was primarily related to the capitalization of a higher blend of fixed-rate loans compared to adjustable-rate loans, as fixed-rate loans have a higher initial servicing value than adjustable-rate loans.

Mortgage Net Finance Expense

Mortgage net finance expense allocable to the Mortgage Production segment consists of interest income on MLHS and interest expense allocated on debt used to fund MLHS and is driven by the average volume of loans held for sale, the average volume of outstanding borrowings, the note rate on loans held for sale and the cost of funds rate of our outstanding borrowings. Mortgage net finance expense allocable to the Mortgage Production segment increased by $19 million during 2007 compared to 2006 due to a $13 million (7%) decrease in Mortgage interest income and a $6 million (3%) increase in Mortgage interest expense. The $13 million decrease in Mortgage interest income was primarily due to a lower average volume of loans held for sale. The $6 million increase in Mortgage interest expense was attributable to an increase of $13 million due to a higher cost of funds from our outstanding borrowings that was partially offset by a decrease of $7 million due to lower average borrowings. The higher cost of funds from our outstanding borrowings was primarily attributable to higher credit spreads on our short-term debt, increased amortization of deferred financing costs and an increase in short-term interest rates. A significant portion of our loan originations are funded with variable-rate short-term debt. The average one-month LIBOR, which is used as a benchmark for short-term rates, increased by 15 bps during 2007 compared to 2006.

Salaries and Related Expenses

Salaries and related expenses allocable to the Mortgage Production segment are reflected net of loan origination costs deferred under SFAS No. 91 and consist of commissions paid to employees involved in the loan origination process, as well as compensation, payroll taxes and benefits paid to employees in our mortgage production operations and allocations for overhead. Salaries and related expenses decreased by $12 million (6%) during 2007 compared to 2006 as employee attrition, a reduction in incentive bonus expense and the realized benefit of cost-reduction initiatives

caused a $55 million decline that was partially offset by a $43 million decrease in deferred expenses under SFAS No. 91. The decrease in deferred expenses under SFAS No. 91 during 2007 was primarily due to a lower volume of loans closed to be sold and the impact of cost-reduction initiatives.

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Other Operating Expenses

Other operating expenses allocable to the Mortgage Production segment are reflected net of loan origination costs deferred under SFAS No. 91 and consist of production-related direct expenses, appraisal expense and allocations for overhead. Other operating expenses decreased by $31 million (15%) during 2007 compared to 2006 primarily due to a decrease in allocations for corporate overhead, the decrease in total closings and the impact of cost-reduction initiatives. Allocations for corporate overhead during 2006 included a $6 million loss on the extinguishment of debt, as well as higher professional services fees related to the completion of our 2005 Form 10-K and related matters.

Mortgage Servicing Segment

Net revenues increased by $45 million (34%) during 2007 compared to 2006. As discussed in greater detail below, the increase in Net revenues was due to a $66 million favorable change in Valuation adjustments related to mortgage servicing rights, a $3 million increase in Other income and a $2 million increase in Mortgage net finance income that were partially offset by a $26 million decrease in Loan servicing income.

Segment profit increased by $31 million (70%) during 2007 compared to 2006 due to the $45 million increase in Net revenues that was partially offset by a $14 million (16%) increase in Total expenses. The $14 million increase in Total expenses was due to a $17 million increase in Other operating expenses that was partially offset by a decrease of $3 million in Salaries and related expenses.

The following tables present a summary of our financial results and a key related driver for the Mortgage Servicing segment, and are followed by a discussion of each of the key components of Net revenues and Total expenses:

	Year Ended December 31,			
	2007	2006	Change	% Change
	(In millions)			
Average loan servicing portfolio	$ 163,107	$ 159,269	$ 3,838	2%

	Year Ended December 31,			
	2007	2006	Change	% Change
	(In millions)			
Mortgage interest income	$ 182	$ 181	$ 1	1%
Mortgage interest expense	(85)	(86)	1	1%
Mortgage net finance income	97	95	2	2%
Loan servicing income	489	515	(26)	(5)%
Change in fair value of mortgage servicing rights	(509)	(334)	(175)	(52)%
Net derivative gain (loss) related to mortgage servicing rights	96	(145)	241	n/m[1]
	(413)	(479)	66	14%

Valuation adjustments related to mortgage servicing rights				
Net loan servicing income	76	36	40	111%
Other income	3		3	n/m[1]
Net revenues	176	131	45	34%
Salaries and related expenses	29	32	(3)	(9)%
Occupancy and other office expenses	10	10		
Other depreciation and amortization	2	2		
Other operating expenses	60	43	17	40%
Total expenses	101	87	14	16%
Segment profit	$ 75	$ 44	$ 31	70%

[1] n/m Not meaningful.

Mortgage Net Finance Income

Mortgage net finance income allocable to the Mortgage Servicing segment consists of interest income credits from escrow balances, interest income from investment balances (including investments held by our reinsurance subsidiary) and interest expense allocated on debt used to fund our MSRs, and is driven by the average volume of outstanding borrowings and the cost of funds rate of our outstanding borrowings. Mortgage net finance income increased by $2 million (2%) during 2007 compared to 2006, primarily due to lower interest expense allocated on debt used to fund our MSRs resulting from a lower balance of MSRs in 2007 compared to 2006.

Loan Servicing Income

Loan servicing income includes recurring servicing fees, other ancillary fees and net reinsurance income from our wholly owned reinsurance subsidiary, Atrium. Recurring servicing fees are recognized upon receipt of the coupon payment from the borrower and recorded net of guaranty fees. Net reinsurance income represents premiums earned on reinsurance contracts, net of ceding commission and adjustments to the allowance for reinsurance losses. The primary driver for Loan servicing income is the average loan servicing portfolio.

The components of Loan servicing income were as follows:

	Year Ended December 31,			
	2007	2006	Change	% Change
	(In millions)			
Net service fee revenue	$ 494	$ 485	$ 9	2%
Late fees and other ancillary servicing revenue	21	45	(24)	(53)%
Curtailment interest paid to investors	(40)	(45)	5	11%
Net reinsurance income	14	30	(16)	(53)%
Loan servicing income	$ 489	$ 515	$ (26)	(5)%

Loan servicing income decreased by $26 million (5%) from 2007 to 2006 due to decreases in late fees and other ancillary servicing revenue and net reinsurance income that were partially offset by an increase in net service fee revenue and a decrease in curtailment interest paid to investors. The $24 million decrease in late fees and other ancillary servicing revenue was primarily related to the recognition of a $21 million realized loss, including direct expenses, on the sale of $433 million of MSRs during 2007. The $16 million decrease in net reinsurance income during 2007 compared to 2006 was primarily due to an increase in the liability for reinsurance losses. The increase in net service fee revenue was primarily related to the 2% increase in the average loan servicing portfolio during 2007 compared to 2006.

As of December 31, 2007, we had $1.5 billion of MSRs associated with $126.5 billion of the unpaid principal balance of the underlying mortgage loans. We periodically evaluate our risk exposure and capital requirements related to our MSRs to determine the appropriate amount of MSRs to retain on our Balance Sheet. During 2007, we sold approximately $433 million of MSRs associated with $29.2 billion of the unpaid principal balance of the underlying mortgage loans. We expect that these sales of MSRs will result in a proportionate decrease in our Net revenues for the Mortgage Servicing segment in 2008.

Valuation Adjustments Related to Mortgage Servicing Rights

Valuation adjustments related to mortgage servicing rights includes Change in fair value of mortgage servicing rights and Net derivative gain (loss) related to mortgage servicing rights. The components of Valuation adjustments related to mortgage servicing rights are discussed separately below.

Change in Fair Value of Mortgage Servicing Rights: The fair value of our MSRs is estimated based upon projections of expected future cash flows from our MSRs considering prepayment estimates, our historical prepayment rates, portfolio characteristics, interest rates based on interest rate yield curves, implied volatility and other economic factors. Generally, the value of our MSRs is expected to increase when interest rates rise and decrease when interest rates decline due to the effect those changes in interest rates have on prepayment estimates. Other factors noted above as well as the overall market demand for MSRs may also affect the MSRs valuation.

The Change in fair value of mortgage servicing rights is attributable to the realization of expected cash flows and market factors which impact the market inputs and assumptions used in our valuation model. The fair value of our MSRs was reduced by $315 million and $373 million during 2007 and 2006, respectively, due to the realization of expected cash flows. The change in fair value due to changes in market inputs or assumptions used in the valuation model was an unfavorable change of $194 million during 2007 and a favorable change of $39 million during 2006. The unfavorable change during 2007 was primarily due to the impact of a decrease in the spread between mortgage coupon rates and the underlying risk-free interest rate and a decrease in mortgage interest rates leading to higher expected prepayments. The favorable change during 2006 was primarily attributable to an increase in mortgage interest rates leading to lower expected prepayments. The 10-year Treasury rate, which is widely regarded as a benchmark for mortgage rates decreased by 68 bps during 2007 compared to an increase of 32 bps during 2006.

Net Derivative Gain (Loss) Related to Mortgage Servicing Rights: We use a combination of derivatives to protect against potential adverse changes in the value of our MSRs resulting from a decline in interest rates. See Note 10, Derivatives and Risk Management Activities in the Notes to Consolidated Financial Statements included in this Form 10-K. The amount and composition of derivatives used will depend on the exposure to loss of value on our MSRs, the expected cost of the derivatives and the increased earnings generated by origination of new loans resulting from the decline in interest rates (the natural business hedge). The natural business hedge provides a benefit when increased borrower refinancing activity results in higher production volumes which would partially offset declines in the value of our MSRs thereby reducing the need to use derivatives. The benefit of the natural business hedge depends on the decline in interest rates required to create an incentive for borrowers to refinance their mortgage loans and lower their interest rates. (See Item 1A. Risk Factors Risks Related to our Business Certain hedging strategies that we use to manage interest rate risk associated with our MSRs and other mortgage-related assets and commitments may not be effective in mitigating those risks. in this Form 10-K for more information.)

The value of derivatives related to our MSRs increased by $96 million during 2007 and decreased by $145 million during 2006. As described below, our net results from MSRs risk management activities were losses of $98 million and $106 million during 2007 and 2006, respectively. Refer to Item 7A. Quantitative and Qualitative Disclosures About Market Risk for an analysis of the impact of 25 bps, 50 bps and 100 bps changes in interest rates on the valuation of our MSRs and related derivatives at December 31, 2007.

The following table outlines Net loss on MSRs risk management activities:

	Year Ended December 31,	
	2007	2006
	(In millions)	
Net derivative gain (loss) related to mortgage servicing rights	$ 96	$ (145)
Change in fair value of mortgage servicing rights due to changes in market inputs or assumptions used in the valuation model	(194)	39
Net loss on MSRs risk management activities	$ (98)	$ (106)

Salaries and Related Expenses

Salaries and related expenses allocable to the Mortgage Servicing segment consist of compensation, payroll taxes and benefits paid to employees in our mortgage loan servicing operations and allocations for overhead. Salaries and

related expenses decreased by $3 million (9%) during 2007 compared to 2006 primarily due to a reduction in incentive bonus expense and the realized benefit of cost-reduction initiatives.

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Other Operating Expenses

Other operating expenses allocable to the Mortgage Servicing segment include servicing-related direct expenses, costs associated with foreclosure and real estate owned and allocations for overhead. Other operating expenses increased by $17 million (40%) during 2007 compared to 2006. This increase was primarily attributable to a $14 million increase in foreclosure losses and reserves associated with loans sold with recourse primarily due to an increase in loss severity due to a decline in housing prices in 2007 compared to 2006 and increased foreclosure frequency due to higher mortgage loan delinquencies.

Fleet Management Services Segment

Net revenues increased by $31 million (2%) during 2007 compared to 2006. As discussed in greater detail below, the increase in Net revenues was due to increases of $14 million in Other income, $11 million in Fleet lease income and $6 million in Fleet management fees.

Segment profit increased by $14 million (14%) during 2007 compared to 2006 as the $31 million increase in Net revenues was partially offset by a $17 million (1%) increase in Total expenses. The $17 million increase in Total expenses was primarily due to increases of $36 million in Depreciation on operating leases, $18 million in Fleet interest expense and $7 million in Salaries and related expenses that were partially offset by a $43 million decrease in Other operating expenses.

The following tables present a summary of our financial results and related drivers for the Fleet Management Services segment, and are followed by a discussion of each of the key components of our Net revenues and Total expenses:

	Average for the Year Ended December 31, 2007	2006	Change	% Change
	(In thousands of units)			
Leased vehicles	342	334	8	2 %
Maintenance service cards	326	339	(13)	(4) %
Fuel cards	330	325	5	2 %
Accident management vehicles	334	331	3	1 %

	Year Ended December 31, 2007	2006	Change	% Change
	(In millions)			
Fleet management fees	$ 164	$ 158	$ 6	4 %
Fleet lease income	1,598	1,587	11	1 %
Other income	99	85	14	16 %
Net revenues	1,861	1,830	31	2 %
Salaries and related expenses	92	85	7	8 %

Occupancy and other office expenses	18	18		
Depreciation on operating leases	1,264	1,228	36	3 %
Fleet interest expense	215	197	18	9 %
Other depreciation and amortization	12	13	(1)	(8) %
Other operating expenses	144	187	(43)	(23) %
Total expenses	1,745	1,728	17	1 %
Segment profit	$ 116	$ 102	$ 14	14 %

Fleet Management Fees

Fleet management fees consist primarily of the revenues of our principal fee-based products: fuel cards, maintenance services, accident management services and monthly management fees for leased vehicles. Fleet management fees increased by $6 million (4%) during 2007 compared to 2006, due to a $4 million increase in revenue from our principal fee-based products and a $2 million increase in revenue from other fee-based products.

Fleet Lease Income

Fleet lease income increased by $11 million (1%) during 2007 compared to 2006, primarily due to higher total lease billings resulting from higher interest rates on variable-interest rate leases and new leases and a 2% increase in leased vehicles that were partially offset by a $40 million decrease in lease syndication volume. The decrease in lease syndication volume during 2007 compared to 2006 was due to a decrease in heavy truck lease originations driven by lower industry-wide customer demand.

Other Income

Other income consists principally of the revenue generated by our dealerships and other miscellaneous revenues. Other income increased by $14 million (16%) during 2007 compared to 2006, primarily due to increased interest income.

Salaries and Related Expenses

Salaries and related expenses increased by $7 million (8%) during 2007 compared to 2006, primarily due to increases in base and variable compensation.

Depreciation on Operating Leases

Depreciation on operating leases is the depreciation expense associated with our leased asset portfolio. Depreciation on operating leases during 2007 increased by $36 million (3%) compared to 2006, primarily due to the 2% increase in leased vehicles.

Fleet Interest Expense

Fleet interest expense increased by $18 million (9%) during 2007 compared to 2006, primarily due to rising short-term interest rates and increased borrowings associated with the 2% increase in leased vehicles.

Other Operating Expenses

Other operating expenses decreased by $43 million (23%) during 2007 compared to 2006, primarily due to a decrease in cost of goods sold as a result of the decrease in lease syndication volume. Other operating expenses in 2007 were also impacted by a $10 million reduction in accruals due to the resolution of foreign non-income based tax contingencies.

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Results of Operations 2006 vs. 2005

Consolidated Results

Our consolidated results of continuing operations for 2006 and 2005 were comprised of the following:

	Year Ended December 31,		
	2006	2005	Change
		(In millions)	
Net revenues	$ 2,288	$ 2,471	$ (183)
Expenses:			
Spin-Off related expenses		41	(41)
Other expenses	2,292	2,271	21
Total expenses	2,292	2,312	(20)
(Loss) income from continuing operations before income taxes and minority interest	(4)	159	(163)
Provision for income taxes	10	87	(77)
(Loss) income from continuing operations before minority interest	$ (14)	$ 72	$ (86)

During 2006, our Net revenues decreased by $183 million (7%) compared to 2005, primarily due to decreases of $195 million and $105 million in our Mortgage Production and Mortgage Servicing segments, respectively, that were partially offset by a $119 million increase in our Fleet Management Services segment. In addition, Net revenues during 2006 included the elimination of $2 million in intersegment revenues recorded by the Mortgage Servicing segment. Our Income from continuing operations before income taxes and minority interest during 2005 included $41 million of Spin-Off related expenses, which were excluded from the results of our reportable segments. Our (Loss) income from continuing operations before income taxes and minority interest unfavorably changed by $163 million during 2006 compared to 2005 due to unfavorable changes of $132 million and $96 million in our Mortgage Production and Mortgage Servicing segments, respectively, that were partially offset by the Spin-Off related expenses recorded in 2005, a favorable change of $22 million in our Fleet Management Services segment and a $2 million decrease in other expenses not allocated to our reportable segments.

During the preparation of the Condensed Consolidated Financial Statements as of and for the three months ended March 31, 2006, we identified and corrected errors related to prior periods. The effect of correcting these errors on the Consolidated Statement of Operations for the year ended December 31, 2006 was to reduce Net loss by $3 million (net of income taxes of $2 million). The corrections included an adjustment for franchise tax accruals previously recorded during the years ended December 31, 2002 and 2003 and certain other miscellaneous adjustments related to the year ended December 31, 2005. We evaluated the impact of the adjustments and determined that they were not material, individually or in the aggregate to any of the years affected, specifically the years ended December 31, 2006, 2005, 2003 or 2002.

Our effective income tax rates were 249.1% and 54.7% for 2006 and 2005, respectively. The Provision for income taxes decreased $77 million to $10 million in 2006 from $87 million in 2005 primarily due to the following: (i) a decrease of $64 million due to the unfavorable change in (Loss) income from continuing operations before income taxes and minority interest from 2005 to 2006; (ii) a $5 million decrease due to our mix of income and loss from our operations by entity and state income tax jurisdiction in 2006, which created a significant change in the 2006 state income tax effective rate (losses in jurisdictions with higher income tax rates, income in jurisdictions with lower income tax rates and near breakeven pre-tax results on a consolidated basis) in comparison to 2005; (iii) a decrease of $6 million related to net deferred income tax charges representing the change in estimated deferred state

income taxes for state apportionment factors in 2006 as compared to 2005 and (iv) a $3 million decrease in income tax contingency reserves expensed in 2006 as compared to 2005.

Segment Results

Discussed below are the results of operations for each of our reportable segments. Certain income and expenses not allocated to our reportable segments and intersegment eliminations are reported under the heading Other. Due to the commencement of operations of the Mortgage Venture in the fourth quarter of 2005, our management began evaluating the operating results of each of our reportable segments based upon Net revenues and segment profit or loss, which is presented as the income or loss from continuing operations before income tax provision or benefit and after Minority interest in income or loss of consolidated entities, net of income taxes. The Mortgage Production segment profit or loss excludes Realogy s minority interest in the profits and losses of the Mortgage Venture. Prior to the commencement of the Mortgage Venture operations, PHH Mortgage was party to interim marketing agreements with NRT and Cartus, wherein PHH Mortgage paid fees for services provided. These interim marketing agreements terminated when the Mortgage Venture commenced operations. The provisions of the Strategic Relationship Agreement and the Marketing Agreement thereafter govern the manner in which the Mortgage Venture and PHH Mortgage are recommended by Realogy. (See Item 1. Business Arrangements with Realogy Strategic Relationship Agreement and Marketing Agreements for a discussion of the terms on which the Mortgage Venture and PHH Mortgage are recommended by Realogy.)

Our segment results were as follows:

	Net Revenues Year Ended December 31,			Segment (Loss) Profit[1] Year Ended December 31,		
	2006	2005	Change	2006	2005	Change
	(In millions)					
Mortgage Production segment	$ 329	$ 524	$ (195)	$ (152)	$ (17)	$ (135)
Mortgage Servicing segment	131	236	(105)	44	140	(96)
Total Mortgage Services	460	760	(300)	(108)	123	(231)
Fleet Management Services segment	1,830	1,711	119	102	80	22
Total reportable segments	2,290	2,471	(181)	(6)	203	(209)
Other[2]	(2)		(2)		(43)	43
Total Company	$ 2,288	$ 2,471	$ (183)	$ (6)	$ 160	$ (166)

[1] The following is a reconciliation of (Loss) income from continuing operations before income taxes and minority interest to segment (loss) profit:

	Year Ended December 31,

	2006	2005
	(In millions)	
(Loss) income from continuing operations before income taxes and minority interest	$ (4)	$ 159
Minority interest in income (loss) of consolidated entities, net of income taxes	2	(1)
Segment (loss) profit	$ (6)	$ 160

(2) Amounts included in Other represent intersegment eliminations and amounts not allocated to our reportable segments. Segment loss reported under the heading Other for 2005 was primarily $41 million of Spin-Off related expenses.

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Mortgage Production Segment

Net revenues decreased by $195 million (37%) in 2006 compared to 2005. As discussed in greater detail below, Net revenues were impacted by decreases of $102 million in Gain on sale of mortgage loans, net, $56 million in Mortgage fees, $36 million in Mortgage net finance income and $1 million in Other income.

Segment loss increased by $135 million (794%) in 2006 compared to 2005 driven by the $195 million decrease in Net revenues and a $3 million unfavorable change in Minority interest in income (loss) of consolidated entities, net of income taxes, which were partially offset by a $63 million (12%) decrease in Total expenses. The $63 million decrease in Total expenses was primarily due to decreases of $56 million and $10 million in Salaries and related expenses and Other operating expenses, respectively, that were partially offset by a $4 million increase in Other depreciation and amortization.

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The following tables present a summary of our financial results and key related drivers for the Mortgage Production segment, and are followed by a discussion of each of the key components of Net revenues and Total expenses:

	Year Ended December 31, 2006	2005	Change	% Change
	(Dollars in millions, except average loan amount)			
Loans closed to be sold	$ 32,390	$ 36,219	$ (3,829)	(11) %
Fee-based closings	8,872	11,966	(3,094)	(26) %
Total closings	$ 41,262	$ 48,185	$ (6,923)	(14) %
Purchase closings	$ 28,509	$ 32,098	$ (3,589)	(11) %
Refinance closings	12,753	16,087	(3,334)	(21) %
Total closings	$ 41,262	$ 48,185	$ (6,923)	(14) %
Fixed rate	$ 23,336	$ 22,681	$ 655	3 %
Adjustable rate	17,926	25,504	(7,578)	(30) %
Total closings	$ 41,262	$ 48,185	$ (6,923)	(14) %
Number of loans closed (units)	206,063	233,810	(27,747)	(12) %
Average loan amount	$ 200,238	$ 206,086	$ (5,848)	(3) %
Loans sold	$ 31,598	$ 35,541	$ (3,943)	(11) %

	Year Ended December 31, 2006	2005	Change	% Change
	(In millions)			
Mortgage fees	$ 129	$ 185	$ (56)	(30) %
Gain on sale of mortgage loans, net	198	300	(102)	(34) %
Mortgage interest income	184	182	2	1 %
Mortgage interest expense	(184)	(146)	(38)	(26) %
Mortgage net finance income		36	(36)	(100) %
Other income	2	3	(1)	(33) %
Net revenues	329	524	(195)	(37) %

Salaries and related expenses	207	263	(56)	(21) %
Occupancy and other office expenses	50	51	(1)	(2) %
Other depreciation and amortization	21	17	4	24 %
Other operating expenses	201	211	(10)	(5) %
Total expenses	479	542	(63)	(12) %
Loss before income taxes	(150)	(18)	(132)	(733) %
Minority interest in income (loss) of consolidated entities, net of income taxes	2	(1)	3	300 %
Segment loss	$ (152)	$ (17)	$ (135)	(794) %

Mortgage Fees

Mortgage fees consist primarily of fees collected on loans originated for others (including brokered loans and loans originated through our financial institutions channel), fees on cancelled loans and appraisal and other income generated by our appraisal services business. Mortgage fees collected on loans originated through our financial institutions channel are recorded in Mortgage fees when the financial institution retains the underlying loan. Loans

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purchased from financial institutions are included in loans closed to be sold while loans originated by us and retained by financial institutions are included in fee-based closings.

Fee income on loans closed to be sold is deferred until the loans are sold and is recognized in Gain on sale of mortgage loans, net in accordance with SFAS No. 91. Fee income on fee-based closings is recorded in Mortgage fees and is recognized at the time of closing.

Loans closed to be sold and fee-based closings are the key drivers of Mortgage fees. Fees generated by our appraisal services business are recorded when the services are performed, regardless of whether the loan closes and are associated with both loans closed to be sold and fee-based closings.

Mortgage fees decreased by $56 million (30%) from 2005 to 2006. This decrease was primarily attributable to the decline in loans closed to be sold of $3.8 billion (11%), coupled with a $3.1 billion (26%) decrease in fee-based closings. The decline in total closings was primarily attributable to the impact of lower industry origination volumes due to the impact of the slowing housing market as well as higher interest rates which caused a decline in refinancing activity. The change in mix between fee-based closings and loans closed to be sold was primarily due to a decrease in fee-based closings from our financial institutions clients during 2006 compared to 2005. The $6.9 billion (14%) decline in total closings from 2005 to 2006 was attributable to a $3.6 billion (11%) decrease in purchase closings and a $3.3 billion (21%) decrease in refinance closings. The decline in purchase closings was due to the decline in overall housing purchases in 2006 compared to 2005. Refinancing activity is sensitive to interest rate changes relative to borrowers current interest rates, and typically increases when interest rates fall and decreases when interest rates rise.

Gain on Sale of Mortgage Loans, Net

Gain on sale of mortgage loans, net consists of the following:

§ Gain on loans sold, including the changes in the fair value of all loan-related derivatives including our IRLCs, freestanding loan-related derivatives and loan derivatives designated in a hedge relationship. See Note 10, Derivatives and Risk Management Activities in the Notes to Consolidated Financial Statements included in this Form 10-K. To the extent the derivatives are considered effective hedges under SFAS No. 133, changes in the fair value of the mortgage loans would be recorded;

§ The initial value of capitalized servicing, which represents a non-cash increase to our MSRs. Subsequent changes in the fair value of MSRs are recorded in Net loan servicing income in the Mortgage Servicing segment and

§ Recognition of net loan origination fees and expenses previously deferred under SFAS No. 91.

The components of Gain on sale of mortgage loans, net were as follows:

	Year Ended December 31,			
	2006	2005	Change	% Change
	(In millions)			
Gain on loans sold	$ 4	$ 70	$ (66)	(94) %
Initial value of capitalized servicing	410	425	(15)	(4) %

Recognition of deferred fees and costs, net	(216)	(195)	(21)	(11) %
Gain on sale of mortgage loans, net	$ 198	$ 300	$ (102)	(34) %

Gain on sale of mortgage loans, net decreased by $102 million (34%) in 2006 compared to 2005. Gain on loans sold net of the recognition of deferred fees and costs (the effects of SFAS No. 91) declined by $87 million from 2005 to 2006 driven by a $116 million decline due to lower margins on loans sold that was partially offset by a $29 million favorable variance from economic hedge ineffectiveness resulting from our risk management activities related to IRLCs and mortgage loans. Typically, when industry loan volumes decline due to a rising interest rate environment or other factors, competitive pricing pressures occur as mortgage companies compete for fewer customers, which results in lower margins. The $29 million favorable variance from economic hedge ineffectiveness resulting from

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our risk management activities related to IRLCs and mortgage loans was due to a decrease in losses recognized from $35 million in 2005 to $6 million in 2006. A $15 million decrease in the initial value of capitalized servicing was caused by a decrease in the volume of loans sold, partially offset by an increase of 10 bps in the initial capitalized servicing rate in 2006 compared to 2005. The increase in the initial capitalized servicing rate during 2006 is primarily related to the increase in interest rates in 2006 as compared to 2005.

Mortgage Net Finance Income

Mortgage net finance income allocable to the Mortgage Production segment consists of interest income on MLHS and interest expense allocated on debt used to fund MLHS and is driven by the average volume of loans held for sale, the average volume of outstanding borrowings, the note rate on loans held for sale and the cost of funds rate of our outstanding borrowings. Mortgage net finance income allocable to the Mortgage Production segment declined by $36 million (100%) in 2006 compared to 2005, due to a $38 million (26%) increase in Mortgage interest expense that was partially offset by a $2 million (1%) increase in Mortgage interest income. The $38 million increase in Mortgage interest expense was attributable to increases of
$30margin-left:9.06%;margin-right:0%;text-indent:-9.06%;font-size:10pt;font-family:Times New Roman;">Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report
1. Financial Statements:
See Financial Statements Index on page 37 included in Item 8 of Part II of this annual report.

2. Financial Statement Schedule:
Schedule II   Valuation and Qualifying Accounts and Reserves

All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

3. Exhibits:
Incorporated herein by reference is a list of the Exhibits contained in the Exhibit Index on pages 42 through 45 of this annual report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MOVADO GROUP, INC.

(Registrant)

Dated: March 28, 2014 By: /s/ Efraim Grinberg
Efraim Grinberg
Chairman of the Board of Directors
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Dated: March 28, 2014	/s/ Efraim Grinberg Efraim Grinberg Chairman of the Board of Directors and Chief Executive Officer
Dated: March 28, 2014	/s/ Richard J. Coté Richard J. Coté President and Chief Operating Officer
Dated: March 28, 2014	/s/ Sallie A. DeMarsilis Sallie A. DeMarsilis Senior Vice President, Chief Financial Officer and Principal Accounting Officer
Dated: March 28, 2014	/s/ Alex Grinberg Alex Grinberg Senior Vice President Customer/Consumer Centric Initiatives
Dated: March 28, 2014	/s/ Peter Bridgman Peter Bridgman Director
Dated: March 28, 2014	/s/ Margaret Hayes Adame Margaret Hayes Adame Director
Dated: March 28, 2014	/s/ Alan H. Howard Alan H. Howard

	Director
Dated: March 28, 2014	/s/ Richard D. Isserman Richard D. Isserman Director
Dated: March 28, 2014	/s/ Nathan Leventhal Nathan Leventhal Director
Dated: March 28, 2014	/s/ Maurice Reznik Maurice Reznik Director

EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated By-Laws of the Registrant. Incorporated by reference to Exhibit 3.1 to the Registrant’s Current Report on Form 8-K filed on February 8, 2008.
3.2	Restated Certificate of Incorporation of the Registrant as amended. Incorporated herein by reference to Exhibit 3(i) to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended July 31, 1999.
4.1	Specimen Common Stock Certificate. Incorporated herein by reference to Exhibit 4.1 to the Registrant’s Annual Report on Form 10-K for the year ended January 31, 1998.
10.1	Amendment Number 1 to License Agreement dated December 9, 1996 between the Registrant as Licensee and Coach, a division of Sara Lee Corporation as Licensor, dated as of February 1, 1998. Incorporated herein by reference to Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended October 31, 1998.
10.2	License agreement dated January 1, 1992, between The Hearst Corporation and the Registrant, as amended on January 17, 1992. Incorporated herein by reference to Exhibit 10.8 to the Registrant’s Registration Statement on Form S-1 (Registration No. 33-666000).
10.3	Letter Agreement between the Registrant and The Hearst Corporation dated October 24, 1994 executed October 25, 1995 amending License Agreement dated as of January 1, 1992, as amended. Incorporated herein by reference to Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended October 31, 1995.
10.4	Registrant’s 1996 Stock Incentive Plan amending and restating the 1993 Employee Stock Option Plan. Incorporated herein by reference to Exhibit 10.5 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended October 31, 1996. *
10.5	License Agreement dated December 9, 1996 between the Registrant and Coach, a division of Sara Lee Corporation. Incorporated herein by reference to Exhibit 10.32 to the Registrant’s Annual Report on Form 10-K for the year ended January 31, 1997.

10.6 Amendment Number 2 dated as of September 1, 1999 to the December 9, 1996 License Agreement between Coach, a division of Sara Lee Corporation, and the Registrant. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 1999.

10.7 Severance Agreement dated December 15, 1999, and entered into December 16, 1999 between the Registrant and Richard J. Coté. Incorporated herein by reference to Exhibit 10.35 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2000. *

10.8 Lease made December 21, 2000 between the Registrant and Mack-Cali Realty, L.P. for premises in Paramus, New Jersey together with First Amendment thereto made December 21, 2000. Incorporated herein by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2000.

10.9 Lease Agreement dated May 22, 2000 between Forsgate Industrial Complex and the Registrant for premises located at 105 State Street, Moonachie, New Jersey. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2000.

10.10 Second Amendment of Lease dated July 26, 2001 between Mack-Cali Realty, L.P., as landlord, and Movado Group, Inc., as tenant, further amending lease dated as of December 21, 2000. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed for the quarter ended October 31, 2001.

10.11 Third Amendment of Lease dated November 6, 2001 between Mack-Cali Realty, L.P., as lessor, and Movado Group, Inc., as lessee, for additional space at Mack-Cali II, One Mack Drive, Paramus, New Jersey. Incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q filed for the quarter ended October 31, 2001.

10.12 Amendment Number 2 to Registrant's 1996 Stock Incentive Plan dated March 16, 2001. Incorporated herein by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2002.*

10.13 Amendment Number 3 to Registrant's 1996 Stock Incentive Plan approved June 19, 2001. Incorporated herein by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2002.*

Exhibit Number	Description
10.14	Amendment Number 3 to License Agreement dated December 9, 1996, as previously amended, between the Registrant, Movado Watch Company S.A. and Coach, Inc., dated as of January 30, 2002. Incorporated herein by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2002.
10.15	Employment Agreement dated August 27, 2004 between the Registrant and Mr. Timothy F. Michno. Incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 2004. *
10.16	Master Credit Agreement dated August 17, 2004 and August 20, 2004 between MGI Luxury Group S.A. and UBS AG. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2004.
10.17	Fifth Amendment of Lease dated October 20, 2003 between Mack-Cali Realty, L.P. as landlord, and the Registrant as tenant further amending the lease dated as of December 21, 2000. Incorporated herein by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2004.
10.18	Registrant's 1996 Stock Incentive Plan, amended and restated as of April 8, 2004. Incorporated herein by reference to Exhibit 10.37 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2005.*
10.19	License Agreement entered into November 21, 2005 by and between the Registrant, Swissam Products Limited and L.C. Licensing, Inc. Incorporated herein by reference to Exhibit 10.37 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2006.
10.20	License Agreement effective March 27, 2006 between MGI Luxury Group S.A. and Lacoste S.A., Sporloisirs S.A. and Lacoste Alligator S.A. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2006.
10.21	Third Amendment to License Agreement dated as of January 1, 1992 between the Registrant and Hearst Magazines, a Division of Hearst Communications, Inc., effective February 15, 2007. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2007.
10.22	Amendment Number 5 to License Agreement dated December 9, 1996 between the Registrant and Coach, Inc., effective March 9, 2007. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2007.
10.23	

	First Amendment dated as of February 27, 2009 to Lease dated May 22, 2000 between Forsgate Industrial Complex as Landlord and Movado Group, Inc. as Tenant for the premises known as 105 State Street, Moonachie, New Jersey. Incorporated herein by reference to Exhibit 10.42 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2009.
10.24	Amendment Number 1 to the April 8, 2004 Amendment and Restatement of the Movado Group, Inc. 1996 Stock Incentive Plan. Incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2008.*
10.25	Pledge Agreement, dated as of June 5, 2009, by Movado Group, Inc. and Movado Group Delaware Holdings Corporation in favor of Bank of America, N.A., as agent. Incorporated herein by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed June 9, 2009.
10.26	Patent and Trademark Security Agreement dated as of June 5, 2009, by Movado Group, Inc. and Movado LLC in favor of Bank of America, N.A., as agent. Incorporated herein by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K filed June 9, 2009.
10.27	Amended and Restated Loan and Security Agreement, dated as of July 17, 2009, by and among Movado Group, Inc., Movado Group Delaware Holdings Corporation, Movado Retail Group, Inc. and Movado LLC, as Borrowers, Bank of America, N.A. and Bank Leumi USA, as lenders, and Bank of America, N.A., as agent. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed July 23, 2009.
10.28	Amendment Number 2 to Movado Group, Inc. 1996 Stock Incentive Plan as Amended and Restated as of April 8, 2004. Incorporated herein by reference to Annex A to the Registrant's Definitive Proxy Statement filed with the SEC on May 8, 2009.*

Exhibit Number	Description
10.29	Amendment Number 6 to License Agreement dated December 9, 1996 between the Registrant and Coach, Inc. effective June 4, 2009. Incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2009.
10.30	Amendment Number 7 to License Agreement dated December 9, 1996 between the Registrant and Coach, Inc. effective June 4, 2009. Incorporated herein by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2009.
10.31	Amended and Restated License Agreement among Tommy Hilfiger Licensing LLC, Movado Group, Inc. and Swissam Products Limited, dated as of September 16, 2009. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 2009.
10.32	Second Amendment to License Agreement between L.C. Licensing, Inc., Movado Group, Inc. and Swissam Products Limited dated as of December 6, 2010, further amending the License Agreement dated as of November 15, 2005. Incorporated herein by reference to Exhibit 10.35 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2011.
10.33	Tenth Amendment to Lease dated March 10, 2011 between Mack-Cali Realty, L.P., as landlord, and the Registrant, as tenant, further amending the lease dated as of December 21, 2000. Incorporated herein by reference to Exhibit 10.36 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2011.
10.34	Amendment No.1 dated as of April 5, 2011 to Amended and Restated Loan and Security Agreement dated as of July 17, 2009 by and among the Registrant, Movado Group Delaware Holdings Corporation, Movado Retail Group, Inc. and Movado LLC, as Borrowers, Bank of America, N.A. and Bank Leumi USA, as lenders, and Bank of America, N.A., as agent. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed April 7, 2011.
10.35	Third Amendment dated as of June 1, 2011 to the License Agreement dated as of November 15, 2005 by and between L.C. Licensing, Inc., Registrant and Swissam Products Limited. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2011.
10.36	Amendment No. 2 dated as of March 12, 2012 to Amended and Restated Loan and Security Agreement dated as of July 17, 2009, as previously amended, by and among the Registrant, Movado Group Delaware Holdings Corporation, Movado Retail Group, Inc. and Movado LLC, as Borrowers, Bank of America, N.A. and Bank Leumi USA, as lenders, and Bank of America, N.A., as agent. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed March 15, 2012.

10.37	Amended and Restated License Agreement, effective as of January 1, 2012 by and between MGI Luxury Group, S.A. and Hugo Boss Trademark Management GmbH & Co. KG. Incorporated herein by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2012.
10.38	License Agreement entered into as of March 22, 2012 by and between the Registrant and Ferrari S.p.A. Incorporated herein by reference to Exhibit 10.40 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2012.
10.39	Second Amendment entered into as of September 30, 2012 to Amended and Restated License Agreement dated September 16, 2009 by and between the Registrant, Swissam Products Limited and Tommy Hilfiger Licensing, LLC. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 2012.
10.40	Fourth Amendment dated as of September 28, 2012 to License Agreement dated as of November 15, 2005 by and between the Registrant and L.C. Licensing LLC. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 2012.
10.41	Movado Group, Inc. Amended and Restated Deferred Compensation Plan for Executives, effective January 1, 2013. Incorporated herein by reference to Annex B to the Registrant's Definitive Proxy Statement on Schedule 14A filed on May 2, 2013. *
10.42	Movado Group, Inc. 1996 Stock Incentive Plan, Amended and Restated as of April 8, 2013. Incorporated herein by reference to Annex A to the Registrant's Definitive Proxy Statement on Schedule 14A filed on May 2, 2013. *
10.43	Third Amendment entered into as of November 13, 2013 to Amended and Restated License Agreement dated September 16, 2009 by and between the Registrant, Swissam Products Limited and Tommy Hilfiger Licensing, LLC.**

Exhibit Number	Description
21.1	Subsidiaries of the Registrant.***
23.1	Consent of PricewaterhouseCoopers LLP.***
31.1	Certification of Chief Executive Officer.***
31.2	Certification of Chief Financial Officer.***
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.***
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.***
101	The following materials from the Company's Form 10-K for the year ended January 31, 2014, formatted in XBRL (eXtensible Business Reporting Language), (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Changes in Equity, (vi) Notes to the Consolidated Financial Statements, (vii) Schedule II- Valuation and Qualifying Accounts and Reserves.

*Constitutes a compensatory plan or arrangement

**Confidential portions of Exhibit 10.43 have been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.

***Filed herewith

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Management's Annual Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act, for the Company. With the participation of the Chief Executive Officer and the Chief Financial Officer, the Company's management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework and criteria established in the Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, the Company's management has concluded that the Company's internal control over financial reporting was effective as of January 31, 2014.

Our internal control over financial reporting as of January 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Movado Group, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Movado Group, Inc. and its subsidiaries (the "Company") at January 31, 2014 and January 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2014, based on criteria established in the Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control Over Financial Reporting appearing in the accompanying index. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, New York
March 28, 2014

MOVADO GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Fiscal Year Ended January 31,		
	2014	2013	2012
Net sales	$570,255	$505,478	$468,117
Cost of sales	264,994	227,596	211,772
Gross profit	305,261	277,882	256,345
Selling, general and administrative	237,519	228,536	222,782
Operating income	67,742	49,346	33,563
Other income, net (Note 16)	1,526	—	747
Interest expense	(436)	(434)	(1,277)
Interest income	86	144	199
Income before income taxes	68,918	49,056	33,232
Provision for / (benefit) of income taxes (Note 7)	17,373	(8,812)	604
Net income	51,545	57,868	32,628
Less: Net income attributed to noncontrolling interests	668	785	633
Net income attributed to Movado Group, Inc.	$50,877	$57,083	$31,995
Basic income per share:			
Weighted basic average shares outstanding	25,506	25,267	24,926
Net income per share attributed to Movado Group, Inc.	$1.99	$2.26	$1.28
Diluted income per share:			
Weighted diluted average shares outstanding	25,849	25,664	25,141
Net income per share attributed to Movado Group, Inc.	$1.97	$2.22	$1.27
Dividends paid per share	$0.26	$1.45	$0.12

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Fiscal Year Ended January 31,		
	2014	2013	2012
Comprehensive income, net of taxes:			
Net income including noncontrolling interests	$51,545	$57,868	$32,628
Net unrealized gain / (loss) on investments net of tax of $77, $66, $0, respectively	213	(19)	(47)
Net change in effective portion of hedging contracts	-	990	(851)
Foreign currency translation adjustments	1,234	3,448	5,714
Comprehensive income including noncontrolling interests	52,992	62,287	37,444
Less: Comprehensive income attributable to noncontrolling interests	684	855	555
Total comprehensive income attributable to Movado Group, Inc.	$52,308	$61,432	$36,889

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	January 31,	
	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	$157,659	$167,889
Short term investments	33,099	-
Trade receivables	68,683	61,398
Inventories	181,305	167,256
Other current assets	44,564	37,556
Total current assets	485,310	434,099
Property, plant and equipment, net	47,796	44,501
Deferred income taxes	14,891	22,749
Other non-current assets	30,613	25,013
Total assets	$578,610	$526,362
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$33,598	$22,075
Accrued liabilities	29,118	34,794
Accrued payroll and benefits	14,455	16,342
Deferred and current income taxes payable	6,422	275
Total current liabilities	83,593	73,486
Deferred and non-current income taxes payable	3,518	5,637
Other non-current liabilities	25,509	21,547
Total liabilities	112,620	100,670
Commitments and contingencies (Notes 8 and 9)		
Equity:		
Preferred Stock, $0.01 par value, 5,000,000 shares authorized; no shares issued	—	—
Common Stock, $0.01 par value, 100,000,000 shares authorized; 26,643,108 and 26,440,975 shares issued, respectively	266	264
Class A Common Stock, $0.01 par value, 30,000,000 shares authorized; 6,638,262 and 6,632,967 shares issued and outstanding, respectively	66	66
Capital in excess of par value	165,342	159,696
Retained earnings	316,334	272,094
Accumulated other comprehensive income	103,702	102,271
Treasury Stock, 7,945,419 and 7,634,649 shares at cost, respectively	(122,406)	(110,701)

Total Movado Group, Inc. shareholders' equity	463,304	423,690
Noncontrolling interests	2,686	2,002
Total equity	465,990	425,692
Total liabilities and equity	$578,610	$526,362

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Fiscal Year Ended January 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net income including noncontrolling interests	$51,545	$57,868	$32,628
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12,233	10,608	11,408
Write-down of inventories	5,586	2,621	1,772
Foreign currency transactional losses	1,403	511	—
Deferred income taxes	4,169	(16,161)	(8,691)
Gain on sale of asset held for sale	(1,526)	—	(747)
Stock-based compensation	3,787	2,888	1,675
Excess (tax benefit) from stock-based compensation	(915)	(1,657)	(214)
Stock donation	—	2,653	—
Changes in assets and liabilities:			
Trade receivables	(7,304)	(766)	(3,086)
Inventories	(19,077)	(2,371)	19,152
Other current assets	(5,141)	(5,332)	6,820
Accounts payable	11,581	(11,728)	11,783
Accrued liabilities	(4,171)	(3,153)	7,733
Accrued payroll and benefits	(1,887)	1,519	6,512
Income taxes payable	7,054	1,161	(280)
Other non-current assets	(5,752)	(3,112)	(819)
Other non-current liabilities	2,931	3,232	416
Net cash provided by operating activities	54,516	38,781	86,062
Cash flows from investing activities:			
Capital expenditures	(16,707)	(15,978)	(8,170)
Trademarks	(285)	(285)	(203)
Short term investments	(33,099)	—	—
Proceeds from asset held for sale	2,196	—	1,165
Net cash (used in) investing activities	(47,895)	(16,263)	(7,208)
Cash flows from financing activities:			
Stock options exercised and other changes	(305)	1,575	1,373
Excess tax benefit from stock-based compensation	915	1,657	214
Stock repurchase	(10,488)	—	—
Purchase of incremental ownership of U.K. joint venture	—	(4,689)	—

Distribution of noncontrolling interests earnings	—	(234)	(127)
Dividends paid	(6,637)	(36,684)	(2,985)
Net cash (used in) financing activities	(16,515)	(38,375)	(1,525)
Effect of exchange rate changes on cash and cash equivalents	(336)	1,545	1,856
Net (decrease) / increase in cash and cash equivalents	(10,230)	(14,312)	79,185
Cash and cash equivalents at beginning of year	167,889	182,201	103,016
Cash and cash equivalents at end of year	$157,659	$167,889	$182,201

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands, except per share amounts)

	Movado Group, Inc. Shareholders' Equity								
	Preferred Stock	Common Stock	Class A Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Noncontrolling Interests	Total
Balance, January 31, 2011	$—	$ 259	$ 66	$149,492	$222,685	$ 93,028	$(111,331)	$ 2,280	$356,479
Net income					31,995			633	32,628
Dividends ($0.12 per share)					(2,985)				(2,985)
Stock options exercised, net of tax of $0		2		2,125			(578)		1,549
Supplemental executive retirement plan				39					39
Stock-based compensation expense				1,675					1,675
Net unrealized loss on investments, net of tax benefit of $0						(47)			(47)
Net change in effective portion of hedging contracts, net of tax of $0						(851)			(851)
Foreign currency translation adjustment (1)						5,792		(78)	5,714
Distribution of noncontrolling interests earnings								(127)	(127)
Balance, January 31, 2012	—	261	66	153,331	251,695	97,922	(111,909)	2,708	394,074
Net income					57,083			785	57,868
Dividends ($1.45 per share)					(36,684)				(36,684)
Stock options exercised, net of tax benefit of $1,657		3		4,600			(1,461)		3,142
Supplemental executive retirement				91					91

plan									
Stock-based compensation expense				2,888					2,888
Net unrealized loss on investments, net of tax of $66						(19)			(19)
Net change in effective portion of hedging contracts, net of tax of $0						990			990
Stock donation				2,148			2,669		4,817
Joint venture incremental share purchase				(3,362)				(1,327)	(4,689)
Foreign currency translation adjustment (1)						3,378		70	3,448
Distribution of noncontrolling interests earnings								(234)	(234)
Balance, January 31, 2013	—	264	66	159,696	272,094	102,271	(110,701)	2,002	425,692
Net income					50,877			668	51,545
Dividends ($0.26 per share)					(6,637)				(6,637)
Stock options exercised, net of tax benefit of $915		2		1,825			(1,217)		610
Supplemental executive retirement plan				34					34
Stock-based compensation expense				3,787					3,787
Net unrealized gain on investments, net of tax of $77						213			213
Foreign currency translation adjustment (1)						1,218		16	1,234
Stock repurchase							(10,488)		(10,488)
Balance, January 31, 2014	$—	$ 266	$ 66	$ 165,342	$ 316,334	$ 103,702	$ (122,406)	$ 2,686	$ 465,990

(1) The currency translation adjustment is not adjusted for income taxes to the extent that they relate to permanent investments in international subsidiaries.

See Notes to Consolidated Financial Statement

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NOTES TO MOVADO GROUP, INC.'S CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

Movado Group, Inc. (together with its subsidiaries, the "Company") designs, sources, markets and distributes quality watches with prominent brands in almost every price category comprising the watch industry. In fiscal 2014, the Company marketed ten distinctive brands of watches: Coach, Concord, Ebel, ESQ, Scuderia Ferrari, HUGO BOSS, Juicy Couture, Lacoste, Movado, and Tommy Hilfiger, which compete in most segments of the watch market.

Movado (with the exception of Movado BOLD), Ebel and Concord watches are manufactured in Switzerland by independent third party assemblers with some in-house assembly in La Chaux-de-Fonds, Switzerland. All Movado, ESQ, Ebel and Concord watches are manufactured using Swiss movements. All the Company's products are manufactured using components obtained from third party suppliers. ESQ and Movado BOLD watches are manufactured by independent contractors in Asia using Swiss movements. Coach, Tommy Hilfiger, HUGO BOSS, Juicy Couture, Lacoste and Scuderia Ferrari watches are manufactured by independent contractors in Asia.

In addition to its sales to trade customers and independent distributors, the Company also operates outlet stores throughout the United States, through which it sells discontinued models and factory seconds of all of the Company's watches.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly and majority-owned joint ventures. Intercompany transactions and balances have been eliminated.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The Company uses estimates when accounting for sales discounts, allowances and incentives, warranties, income taxes, depreciation, amortization, inventory write-downs, stock-based compensation, contingencies, impairments and asset and liability valuations.

Reclassification

Certain reclassifications were made to prior years' financial statement amounts and related note disclosures to conform to the fiscal 2014. In fiscal 2013 and 2012 certain assets were reclassified from accounts receivable to inventory and certain accrued liabilities were reclassified to accrued payroll and benefits to conform to the fiscal 2014 presentation.

Translation of Foreign Currency Financial Statements and Foreign Currency Transactions

The financial statements of the Company's international subsidiaries have been translated into United States dollars by translating balance sheet accounts at year-end exchange rates and statement of operations accounts at average exchange rates for the year. Foreign currency transaction gains and losses are charged or credited to earnings as incurred. Foreign currency translation gains and losses are reflected in the equity section of the Company's

consolidated balance sheet in Accumulated Other Comprehensive Income. The balance of the foreign currency translation adjustment, included in Accumulated Other Comprehensive Income, was $103.4 million and $102.2 million as of January 31, 2014 and 2013, respectively.

Cash and Cash Equivalents

Cash equivalents include all highly liquid investments with original maturities at date of purchase of three months or less.

Short Term Investments

Short term investments are classified as held to maturity and consist entirely of six month time deposits. At the time of purchase, management determines the appropriate classification of these investments and re-evaluates such designation of each balance sheet date.

Trade Receivables

Trade receivables as shown on the consolidated balance sheets are net of allowances. The allowance for doubtful accounts is determined through an analysis of the aging of accounts receivable, assessments of collectability based on historic trends, the financial condition of the Company's customers and an evaluation of economic conditions. The Company writes off uncollectible trade receivables once collection efforts have been exhausted and third parties confirm the balance is not recoverable.

The Company's trade customers include department stores, jewelry store chains and independent jewelers. All of the Company's watch brands, except ESQ, are also marketed outside the U.S. through a network of independent distributors. Accounts receivable are stated net of doubtful accounts, returns and allowances of $23.1 million, $20.0 million and $18.7 million at January 31, 2014, 2013 and 2012, respectively. In fiscal 2014, the Company recorded return reserves of $4.9 million, for anticipated returns which resulted from the Company's decision to reduce the presence of ESQ Movado in certain retail doors while expanding the Movado brand offering. In fiscal 2013, the Company recorded a charge of $4.9 million related to the repositioning of the Coach watch brand from a collection priced to be sold in a department store's fine watch department to one suitable for sale in the fashion watch department. The allowance represented the Company's estimated cost of the aggregate sales allowance to Coach watch retailers affected by the repositioning.

The Company's concentrations of credit risk arise primarily from accounts receivable related to trade customers during the peak selling seasons. The Company has significant accounts receivable balances due from major national chain and department stores. The Company's results of operations could be materially adversely affected in the event any of these customers or a group of these customers defaulted on all or a significant portion of their obligations to the Company as a result of financial difficulties. As of January 31, 2014, except for those accounts provided for in the reserve for doubtful accounts, the Company knew of no situations with any of the Company's major customers which would indicate any such customer's inability to make its required payments.

Inventories

The Company valued its inventory at the lower of cost or market. Effective February 1, 2011, the Company changed its method of valuing its U.S. inventories to the average cost method. With this change, all of the Company's inventories were valued using the average cost method. The Company believes that the average cost method of inventory valuation is preferable because (1) it permits the Company to use a single method of accounting for all of the Company's U.S. and international inventories, (2) it aligns costing with the Company's forecasting and procurement decisions, and (3) since a number of the Company's key competitors use the average cost method, it improves comparability of the Company's financial statements. The Company performed reviews of its on-hand inventory to determine amounts, if any, of inventory that is deemed discontinued, excess, or unsaleable. Inventory classified as discontinued, together with the related component parts which can be assembled into saleable finished goods, is sold primarily through the Company's outlet stores. When management determines that finished product is unsaleable or that it is impractical to build the excess components into watches for sale, a charge is recorded to value those products and components at the lower of cost or market.

In the fourth quarter of fiscal 2014, the Company recorded inventory reserves of $2.6 million related to the write down of ESQ Movado excess watch inventory, as a result of the Company's decision to reduce the presence of ESQ Movado while expanding the Movado brand offering in certain retail doors.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation of buildings is amortized using the straight-line method based on the useful life of 40 years. Depreciation of furniture and equipment is provided using the straight-line method based on the estimated useful lives of assets, which range from four to ten years. Computer software is amortized using the straight-line method over the useful life of five to ten years. Leasehold improvements are amortized using the straight-line method over the lesser of the term of the lease or the estimated useful life of the leasehold improvement. Design fees and tooling costs are amortized using the straight-line method based on the useful life of three years. Upon the disposition of property, plant and equipment, the accumulated depreciation is deducted from the original cost and any gain or loss is reflected in current earnings.

Intangibles

Intangible assets consist primarily of trademarks and are recorded at cost. Trademarks are amortized over ten years. At January 31, 2014 and 2013, intangible assets at cost were $13.0 million and $12.7 million, respectively, and related accumulated amortization of intangibles was $11.6 million and $11.2 million, respectively. Amortization expense for fiscal 2014, 2013 and 2012 was $0.4 million, $0.5 million and $0.6 million, respectively.

Long-Lived Assets

The Company periodically reviews the estimated useful lives of its property, plant and equipment and intangible assets based on factors including historical experience, the expected beneficial service period of the asset, the quality and durability of the asset and the Company's maintenance policy including periodic upgrades. Changes in useful lives are made on a prospective basis unless factors indicate the carrying amounts of the assets may not be recoverable and an impairment write-down is necessary.

The Company performs an impairment review of its long-lived assets once events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. When such a determination has been made, management compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that an impairment loss has occurred, the loss is recognized during that period. The impairment loss is calculated as the difference between asset carrying values and the fair value of the long-lived assets.

Deferred Rent Obligations and Contributions from Landlords

The Company accounts for rent expense under non-cancelable operating leases with scheduled rent increases on a straight-line basis over the lease term. The excess of straight-line rent expense over scheduled payments is recorded as a deferred liability. In addition, the Company receives build out contributions from landlords primarily as an incentive for the Company to lease retail store space from the landlords. This is also recorded as a deferred liability. Such amounts are amortized as a reduction of rent expense over the life of the related lease.

Capitalized Software Costs

The Company capitalizes certain computer software costs after technological feasibility has been established. The costs are amortized utilizing the straight-line method over the economic lives of the related products ranging from five to seven years.

Derivative Financial Instruments

The Company accounts for its derivative financial instruments in accordance with guidance which requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. A significant portion of the Company's purchases are denominated in Swiss francs. The Company reduces its exposure to the Swiss franc exchange rate risk through a hedging program. Under the hedging program, the Company manages most of its foreign currency exposures on a consolidated basis, which allows it to net certain exposures and take advantage of natural offsets. In the event these exposures do not offset, the Company uses various derivative financial instruments to further reduce the net exposures to currency fluctuations, predominately forward and option contracts. When entered into, the Company designates and documents these derivative instruments as a cash flow hedge of a specific underlying exposure, as well as the risk management objectives and strategies for undertaking the hedge transactions. Changes in the fair value of a derivative that is designated and documented as a cash flow hedge and is highly effective, are recorded in other comprehensive income until the underlying transaction affects earnings, and then are later reclassified into earnings in the same account as the hedged transaction. The Company formally assesses, both at the inception and at each financial quarter thereafter, the effectiveness of the derivative instrument hedging the underlying forecasted cash flow transaction. Any ineffectiveness related to the derivative financial instruments' change in fair value will be recognized in the period in which the ineffectiveness was calculated.

The Company uses forward exchange contracts to offset its exposure to certain foreign currency receivables and liabilities. These forward contracts are not qualified hedges and, therefore, changes in the fair value of these derivatives are recognized in earnings, thereby offsetting the current earnings effect of the related foreign currency receivables and liabilities.

The Company's risk management policy includes net investment hedging of the Company's Swiss franc-denominated investment in its wholly-owned subsidiaries located in Switzerland using purchased foreign currency options under certain limitations. When entered into for this purpose, the Company designates and documents the derivative instrument as a net investment hedge of a specific underlying exposure, as well as the risk management objectives and strategies for undertaking the hedge transactions. Changes in the fair value of a derivative that is designated and documented as a net investment hedge are recorded in other comprehensive income in the same manner as the cumulative translation adjustment of the Company's Swiss franc-denominated investment. The Company formally assesses, both at the inception and at each financial quarter thereafter, the effectiveness of the derivative instrument hedging the net investment.

All of the Company's derivative instruments have liquid markets to assess fair value. The Company does not enter into any derivative instruments for trading purposes.

Revenue Recognition

In the wholesale segment, the Company recognizes its revenues upon transfer of title and risk of loss in accordance with its FOB shipping point terms of sale and after the sales price is fixed and determinable and collectability is reasonably assured. In the retail segment, transfer of title and risk of loss occurs at the time of register receipt. The Company records estimates for sales returns, volume-based programs and sales and cash discount allowances as a reduction of revenue in the same period that the sales are recorded. These estimates are based upon historical analysis, customer agreements and/or currently known factors that arise in the normal course of business. While returns have historically been within the Company's expectations and the provisions established, future return rates may differ from those experienced in the past. In the event that returns are authorized at a rate significantly higher than the Company's historic rate, the resulting returns could have an adverse impact on its operating results for the period in which such results materialize.

In the fourth quarter of fiscal 2014, the Company recorded a pre-tax charge of $7.8 million to sales, for anticipated returns which resulted from the Company's decision to reduce the presence of ESQ Movado while expanding the Movado brand offering in certain retail doors. During the fourth quarter of fiscal 2013, the Company recorded a charge of $4.9 million related to the repositioning of the Coach watch brand from a collection priced to be sold in a department store's fine watch department to one suitable for sale in the fashion watch department. The charge represented the Company's estimated cost of the aggregate sales allowance to Coach watch retailers affected by the repositioning.

Cost of Sales

Cost of sales of the Company's products consist primarily of component costs, royalties, depreciation, amortization, assembly costs and unit overhead costs associated with the Company's supply chain operations in Switzerland and Asia. The Company's supply chain operations consist of logistics management of assembly operations and product sourcing in Switzerland and Asia and minor assembly in Switzerland. Through productivity improvement efforts, the Company has controlled the level of overhead costs and maintained flexibility in its cost structure by outsourcing a significant portion of its component and assembly requirements.

Cost of sales of the Company's products includes costs for raw material and components, as well as labor for assembly of finished goods, all of which can be impacted by inflation. While inflation in costs has negatively impacted gross margin percentage, this effect has not been material to the Company's results of operations for the periods presented in this report. A significant increase in these costs due to inflation could have a material adverse effect on the Company's future results of operations. While the Company may seek to offset the negative inflationary impact on these costs with price increases on its products, its ability to effectively do so will depend on the extent it can pass on price increases and still remain competitive in the marketplace.

In the fourth quarter of fiscal 2014, gross margin was impacted by a $7.5 million pre-tax charge related to anticipated ESQ Movado watch brand returns and the write down of ESQ Movado excess watch inventory. This charge resulted from the Company's decision to reduce the presence of ESQ Movado while expanding the Movado brand offering in certain retail doors. The Company expects to reallocate certain of the ESQ Movado retail space in the second quarter of fiscal 2015 to drive incremental sales of its more productive Movado brand watch families, and will continue to offer ESQ Movado in select retail locations as well as its direct-to-consumer outlet stores and Movado.com.

In calendar years 2010 through 2012, drawback claims were filed with U.S. Customs & Border Protection ("CBP") to recover duty payments made by the Company in calendar years 2008 through 2011. The drawback claims concerned duty paid on watches that were subsequently exported from the United States. A number of drawback claims filed on behalf of the Company were denied by CBP in calendar year 2012 and an administrative protest was filed requesting

reconsideration of the denials. This protest was approved and as a result in the fourth quarter of fiscal 2014 the Company recorded and received a net pre-tax refund in the amount of $2.5 million. The Company does not anticipate receipt of any additional refunds related to this matter nor does the Company anticipate return of any of these refunds to CBP.

In the fourth quarter of fiscal 2012, the Company recorded a sale of certain mechanical movements that had been written down in the previous year. As a result, the Company recorded a pre-tax net profit of $2.3 million related to those movements.

Since a substantial amount of the Company's product costs are incurred in Swiss francs, fluctuations in the U.S. dollar/Swiss franc exchange rate can impact the Company's cost of goods sold and, therefore, its gross margins. The Company reduces its exposure to the Swiss franc exchange rate risk through a hedging program. Under the hedging program, the Company manages most of its foreign currency exposures on a consolidated basis, which allows it to net certain exposures and take advantage of natural offsets. In the event these exposures do not offset, the Company has the ability to hedge its Swiss franc purchases using a combination of forward contracts and purchased currency options. The Company's hedging program mitigated the exchange rate fluctuations on product costs and gross margins for fiscal years 2014, 2013 and 2012.

Selling, General and Administrative (“SG&A”) Expenses

The Company’s SG&A expenses consist primarily of marketing, selling, distribution, general and administrative expenses. In fiscal 2014, the Company recorded a $2.0 million pre-tax charge related to donations made to the Movado Group Foundation. In fiscal 2014, the Company also recorded a $0.8 million pre-tax charge related to the write-down of excess displays and point of sales materials, as a result of the Company’s decision to reduce the presence of ESQ Movado while expanding the Movado brand offering in certain retail doors. In fiscal 2013 and 2012, the Company recorded a $3.0 million pre-tax charge related to donations made to the Movado Group Foundation.

Annual marketing expenditures are based principally on overall strategic considerations relative to maintaining or increasing market share in markets that management considers to be crucial to the Company’s continued success as well as on general economic conditions in the various markets around the world in which the Company sells its products. Marketing expenses include various forms of media advertising, digital advertising and co-operative advertising with customers and distributors and other point-of-sale marketing and promotion spending. For fiscal 2014, 2013 and 2012, the Company increased its investment in marketing and advertising in order to elevate its connection to consumers and better position its brands in the marketplace.

Selling expenses consist primarily of salaries, sales commissions, sales force travel and related expenses, depreciation and amortization, expenses associated with Baselworld, the annual watch and jewelry trade show, and other industry trade shows and operating costs incurred in connection with the Company’s retail business. Sales commissions vary with overall sales levels. Retail selling expenses consist primarily of payroll related and store occupancy costs.

Distribution expenses consist primarily of salaries of distribution staff, rental and other occupancy costs, security, depreciation and amortization of furniture and leasehold improvements and shipping supplies.

General and administrative expenses consist primarily of salaries and other employee compensation including performance based compensation, employee benefit plan costs, office rent, management information systems costs, professional fees, bad debts, depreciation and amortization of furniture, computer software and leasehold improvements, patent and trademark expenses and various other general corporate expenses.

Warranty Costs

All watches sold by the Company come with limited warranties covering the movement against defects in material and workmanship for periods ranging from two to three years from the date of purchase, with the exception of Tommy Hilfiger watches, for which the warranty period is ten years. In addition, the warranty period is five years for the gold plating for Movado watch cases and bracelets. When changes in warranty costs are experienced, the Company will adjust the warranty liability as required. The Company records an estimate for future warranty costs based on historical repair costs. Warranty costs have historically been within the Company’s expectations and the provisions established. If such costs were to substantially exceed estimates, this could have an adverse effect on the Company’s operating results.

Warranty liability for the fiscal years ended January 31, 2014, 2013 and 2012 was as follows (in thousands):

	2014	2013	2012
Balance, beginning of year	$2,584	$2,309	$2,149
Provision charged to operations	2,660	2,584	2,309
Settlements made	(2,584)	(2,309)	(2,149)

Balance, end of year	$2,660	$2,584	$2,309

Pre-opening Costs

Costs associated with the opening of retail stores, including pre-opening rent, are expensed in the period incurred.

Marketing

The Company expenses the production costs of an advertising campaign at the commencement date of the advertising campaign. Included in marketing expenses are costs associated with co-operative advertising, media advertising, digital advertising, production costs and costs of point-of-sale materials and displays. These costs are recorded as SG&A expenses. The Company participates in co-operative advertising programs on a voluntary basis and receives a "separately identifiable benefit in exchange for the consideration." Since the amount of consideration paid to the retailer does not exceed the fair value of the benefit received by the Company, these

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costs are recorded as SG&A expenses as opposed to being recorded as a reduction of revenue. Marketing expense for fiscal 2014, 2013 and 2012 amounted to $74.4 million, $68.2 million and $64.2 million, respectively.

Included in the other current assets in the consolidated balance sheets as of January 31, 2014 and 2013 are prepaid advertising costs of $0.9 million and $0.8 million, respectively. These prepaid costs represent advertising costs paid to licensors in advance, pursuant to the Company's licensing agreements and sponsorships.

Shipping and Handling Costs

Amounts charged to customers for shipping and handling are $2.6 million, $2.5 million and $2.1 million for fiscal years 2014, 2013 and 2012, respectively. The costs related to shipping and handling are $6.6 million, $5.9 million and $5.7 million for fiscal years 2014, 2013 and 2012, respectively. These amounts incurred by the Company related to shipping and handling are included in net sales and cost of goods sold.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax laws and tax rates, in each jurisdiction the Company operates, and applies to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in income in the period that includes the enactment date. In addition, the amounts of any future tax benefits are reduced by a valuation allowance to the extent such benefits are not expected to be realized on a more-likely-than-not basis. The Company calculates estimated income taxes in each of the jurisdictions in which it operates. This process involves estimating actual current tax expense along with assessing temporary differences resulting from differing treatment of items for both book and tax purposes.

The Company follows guidance for accounting for uncertainty in income taxes. This guidance clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. This guidance also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions.

Earnings Per Share

The Company presents net income per share on a basic and diluted basis. Basic earnings per share is computed using weighted-average shares outstanding during the period. Diluted earnings per share is computed using the weighted-average number of shares outstanding adjusted for dilutive common stock equivalents.

The weighted-average number of shares outstanding for basic earnings per share were approximately 25,506,000, 25,267,000 and 24,926,000 for fiscal 2014, 2013 and 2012, respectively. For the years ended January 31, 2014, 2013 and 2012, the number of shares outstanding for diluted earnings per share were approximately 25,849,000, 25,664,000 and 25,141,000, respectively. For the years ended January 31, 2014, 2013 and 2012, the number of shares outstanding for diluted earnings per share were increased by approximately 343,000, 397,000 and 215,000 due to potentially dilutive common stock equivalents issuable under the Company's stock compensation plans.

For the years ended January 31, 2014, 2013 and 2012 approximately 85,000, 276,000, and 593,000, respectively, of potentially dilutive common stock equivalents were excluded from the computation of dilutive earnings per share

because their effect would have been antidilutive.

Stock-Based Compensation

Under the accounting guidance for share-based payments, the Company utilizes the Black-Scholes option-pricing model which requires that certain assumptions be made to calculate the fair value of each option at the grant date. The expected life of stock option grants is determined using historical data and represents the time period during which the stock option is expected to be outstanding until it is exercised. The risk free interest rate is the yield on the grant date of U.S. Treasury constant maturities with a maturity date closest to the expected life of the stock option. The expected stock price volatility is derived from historical volatility and calculated based on the estimated term structure of the stock option grant. The expected dividend yield is calculated using the Company's historical average of annualized dividend yields.

Compensation expense for equity instruments is accrued based on the estimated number of instruments for which the requisite service is expected to be rendered and expensed on a straight-line basis over the vesting term.

See Note 10 to the Company's Consolidated Financial Statements for further information regarding stock-based compensation.

NOTE 2 – INVENTORIES

Inventories consisted of the following (in thousands):

	As of January 31,	
	2014	2013
Finished goods	$118,308	$104,732
Component parts	55,138	53,061
Work-in-process	7,859	9,463
	$181,305	$167,256

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at January 31, at cost, consisted of the following (in thousands):

	As of January 31,	
	2014	2013
Land and buildings	$1,682	$1,676
Furniture and equipment	62,028	56,153
Computer software	28,585	44,260
Leasehold improvements	28,898	24,365
Design fees and tooling costs	3,182	2,742
	124,375	129,196
Less: accumulated depreciation	76,579	84,695
	$47,796	$44,501

Depreciation and amortization expense from operations related to property, plant and equipment for fiscal 2014, 2013 and 2012 was $11.8 million, $10.0 million and $9.9 million, respectively, which includes computer software amortization expense for fiscal 2014, 2013 and 2012 of $3.8 million, $3.2 million and $3.1 million, respectively.

NOTE 4 – DEBT AND LINES OF CREDIT

On July 17, 2009, the Company, together with Movado Group Delaware Holdings Corporation, Movado Retail Group, Inc. and Movado LLC (together with the Company, the "Borrowers"), each a wholly-owned domestic subsidiary of the Company, entered into an Amended and Restated Loan and Security Agreement (the "Original Loan Agreement")

with Bank of America, N.A. and Bank Leumi USA, as lenders (“Lenders”), and Bank of America, N.A., as agent (in such capacity, the “Agent”). The parties amended the Original Loan Agreement by entering into Amendment No. 1 thereto (“First Amendment”) on April 5, 2011 and Amendment No. 2 thereto (“Second Amendment”) on March 12, 2012 (the Original Loan Agreement, as so amended, the “Loan Agreement”). The Loan Agreement provides for a $25.0 million asset based senior secured revolving credit facility (the “Facility”), including a $15.0 million letter of credit subfacility, and provides that Borrowers are entitled to request that Lenders increase the Facility up to $50 million subject to any additional terms and conditions the parties may agree upon. The maturity date of the Facility is March 12, 2015.

Availability under the Facility is determined by reference to a borrowing base which is based on the sum of a percentage of eligible accounts receivable and eligible inventory of the Borrowers. $10.0 million in availability is blocked unless the Borrowers have achieved for the most recently ended four fiscal quarter periods a consolidated fixed charge coverage ratio of at least 1.25 to 1.0 with domestic EBITDA greater than $10.0 million. The Borrowers are not currently subject to the availability block. The availability block, if applicable, will be reduced by the amount by which the borrowing base exceeds $25.0 million, up to a maximum reduction of $5.0 million. Availability under the Facility may be further reduced by certain reserves established by the Agent in its good faith credit judgment. The Second Amendment reduced the Lenders’ total commitment under the Loan Agreement from $55 million to $25 million and consequently availability was correspondingly reduced. As of January 31, 2014, total availability under the Facility, giving effect to an availability block of $0, no outstanding borrowings and the letters of credit outstanding under the subfacility, was $20.4 million.

The initial applicable margin for LIBOR rate loans was 4.25% and for base rate loans was 3.25%. After July 17, 2010, the applicable margins decreased or increased by 0.25% per annum from the initial applicable margins depending on whether average availability for the most recently completed fiscal quarter was either greater than $12.5 million, or was $5.0 million or less, respectively. The First Amendment reduced the applicable margins for both LIBOR rate loans and base rate loans by 1.25% and the Second Amendment further reduced the applicable margins by 0.75%. Accordingly, as of January 31, 2014 and based on current availability, the applicable margins were 2.00% and 1.00% for LIBOR and base rate loans, respectively.

After the date (the “Block Release Date”) when availability under the Facility is no longer subject to any blocked amount, if borrowing availability is less than $12.5 million, the Borrowers will be subject to a minimum fixed charge coverage ratio until such time as borrowing availability has been greater than $12.5 million for at least 90 consecutive days.

After the Block Release Date, cash dominion will be imposed if borrowing availability is less than $10.0 million and will continue until such time as borrowing availability has been greater than $10.0 million for at least 45 consecutive days. As of January 31, 2014, the Borrowers were not subject to cash dominion, nor do the Borrowers expect to be subject to such a requirement in the foreseeable future.

The Loan Agreement contains additional affirmative and negative covenants binding on the Borrowers and their subsidiaries that are customary for asset based facilities, including, but not limited to, restrictions and limitations on the incurrence of debt for borrowed money and liens, dispositions of assets, capital expenditures, dividends and other payments in respect of equity interests, the making of loans and equity investments, prepayments of subordinated and certain other debt, mergers, consolidations, liquidations and dissolutions, and transactions with affiliates. The Loan Agreement permits Borrowers to pay distributions as dividends and make share repurchases up to an aggregate of $150.0 million (less the amount of any charitable donations made by the Company which are permitted up to an aggregate amount of $14 million) and make acquisitions up to an aggregate of $50.0 million, as long as, at the time of such transaction, either (A) Borrowers have cash assets of at least $60.0 million with no revolver loans outstanding, or (B) (i) the consolidated fixed charge coverage ratio is at least 1.25 to 1.00, (ii) availability is greater than $12.5 million and (iii) positive EBITDA plus repatriated cash dividends minus restricted payments are greater than $0. The Company, as of January 31, 2014, was in compliance with these financial covenants and, therefore, is permitted to pay dividends. The Company presently expects that it will be able to pay any dividends declared through the remaining term of the Facility.

The Loan Agreement contains events of default that are customary for facilities of this type, including, but not limited to, nonpayment of principal, interest, fees and other amounts when due, failure of any representation or warranty to be true in any material respect when made or deemed made, violation of covenants, cross default, material judgments, material ERISA liability, bankruptcy events, material loss of collateral in excess of insured amounts, asserted or actual revocation or invalidity of the loan documents, change of control and events or circumstances having a material adverse effect. The borrowings under the Facility are joint and several obligations of the Borrowers and also cross-guaranteed by each Borrower. In addition, the Borrowers’ obligations under the Facility are secured by first priority liens, subject to permitted liens, on substantially all of the Borrowers’ U.S. assets (other than certain excluded assets).

A Swiss subsidiary of the Company maintains unsecured lines of credit with an unspecified length of time with a Swiss bank. As of January 31, 2014, these lines of credit totaled 5 million Swiss francs with a dollar equivalent of $5.5 million. As of January 31, 2013, these lines of credit totaled 10 million Swiss francs with dollar equivalents of $11.0 million. As of January 31, 2014 and 2013, there were no borrowings against these lines. As of January 31, 2014, two European banks and a Canadian bank have guaranteed obligations to third parties on behalf of three of the Company’s foreign subsidiaries in the amount equivalent to $1.5 million in various foreign currencies.

NOTE 5 – DERIVATIVE FINANCIAL INSTRUMENTS

The Company accounts for its derivative financial instruments in accordance with guidance which requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. A significant portion of the Company's purchases are denominated in Swiss francs. The Company reduces its exposure to the Swiss franc exchange rate risk through a hedging program. Under the hedging program, the Company manages most of its foreign currency exposures on a consolidated basis, which allows it to net certain exposures and take advantage of natural offsets. In the event these exposures do not offset, the Company uses various derivative financial instruments to further reduce the net exposures to currency fluctuations, predominately forward and option contracts. When entered into, the Company designates and documents these derivative instruments as a cash flow hedge of a specific underlying exposure, as well as the risk management objectives and strategies for undertaking the hedge transactions. Changes in the fair value of a derivative that is designated and documented as a cash flow hedge and is highly effective, are recorded in other comprehensive income until the underlying transaction affects earnings, and then are later reclassified into earnings in the same account as the hedged transaction. The Company formally assesses, both at the inception and at each financial quarter thereafter, the effectiveness of the derivative instrument hedging the underlying forecasted cash flow transaction.

Any ineffectiveness related to the derivative financial instruments' change in fair value will be recognized in the Consolidated Statements of Operations in the period in which the ineffectiveness was calculated.

The Company uses forward exchange contracts to offset its exposure to certain foreign currency receivables and liabilities. These forward contracts are not designated as qualified hedges and, therefore, changes in the fair value of these derivatives are recognized into cost of sales, thereby offsetting the current earnings effect of the related foreign currency receivables and liabilities.

All of the Company's derivative instruments have liquid markets to assess fair value. The Company does not enter into any derivative instruments for trading purposes.

As of January 31, 2014, the Company's entire net forward contracts hedging portfolio consisted of 48 million Swiss francs equivalent with various expiry dates ranging through July 17, 2014.

The following table summarizes the fair value and presentation in the Consolidated Balance Sheets for derivatives as of January 31, 2014 and 2013 (in thousands):

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	2014 Fair Value	2013 Fair Value	Balance Sheet Location	2014 Fair Value	2013 Fair Value
Derivatives not designated as hedging instruments:						
Foreign Exchange Contracts	Other Current Assets	$ 403	$ 876	Accrued Liabilities	$ 173	$ 2
Total Derivative Instruments		$ 403	$ 876		$ 173	$ 2

As of January 31, 2014 and 2013, the balance of deferred net gains/losses on derivative financial instruments documented as cash flow hedges included in accumulated other comprehensive income ("AOCI") was $0. As of January 31, 2012, the balance of deferred net losses on derivative financial instruments documented as cash flow hedges included in accumulated other comprehensive income was $1.0 million in net losses, net of tax of $1.0 million. The Company's sell through of inventory purchased in Swiss francs will primarily cause the amount in AOCI to affect cost of goods sold. The maximum length of time the Company hedges its exposure to the fluctuation in future cash flows for forecasted transactions is 24 months. For the year ended January 31, 2014 and 2013 there were no reclassifications from AOCI to earnings. For the year ended January 31, 2012 the Company reclassified from AOCI to earnings $0.9 million of net gains, net of tax of $0.

During fiscal 2014, 2013, and 2012, the Company recorded no charges related to its assessment of the effectiveness of its derivative hedge portfolio because of the high degree of effectiveness between the hedging instrument and the underlying exposure being hedged. Changes in the contracts' fair value due to spot-forward differences are excluded from the designated hedge relationship. The Company records these transactions in cost of sales of the Consolidated Statements of Operations.

NOTE 6 - FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting guidance establishes a fair value

hierarchy which prioritizes the inputs used in measuring fair value into three broad levels as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.
- Level 3 - Unobservable inputs based on the Company's assumptions.

The guidance requires the use of observable market data if such data is available without undue cost and effort.

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The following tables present the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of January 31, 2014 and 2013 (in thousands):

		Fair Value at January 31, 2014			
	Balance Sheet Location	Level 1	Level 2	Level 3	Total
Assets:					
Available-for-sale securities	Other current assets	$576	$ —	$ —	$576
Time deposits	Short-term investments	33,099			33,099
SERP assets - employer	Other non-current assets	1,117	—	—	1,117
SERP assets - employee	Other non-current assets	20,854	—	—	20,854
Hedge derivatives	Other current assets	—	403	—	403
Total		$55,646	$ 403	$ —	$56,049
Liabilities:					
SERP liabilities - employee	Other non-current liabilities	$20,854	$ —	$ —	$20,854
Hedge derivatives	Accrued liabilities	—	173	—	173
Total		$20,854	$ 173	$ —	$21,027

		Fair Value at January 31, 2013			
	Balance Sheet Location	Level 1	Level 2	Level 3	Total
Assets:					
Available-for-sale securities	Other current assets	$285	$ —	$ —	$285
SERP assets - employer	Other non-current assets	783	—	—	783
SERP assets - employee	Other non-current assets	17,637	—	—	17,637
Hedge derivatives	Other current assets	—	876	—	876
Total		$18,705	$ 876	$ —	$19,581
Liabilities:					
SERP liabilities - employee	Other non-current liabilities	$17,637	$ —	$ —	$17,637
Hedge derivatives	Accrued liabilities	—	2	—	2
Total		$17,637	$ 2	$ —	$17,639

The fair values of the Company's available-for-sale securities are based on quoted prices. Time deposits are classified as short-term investments and held at original maturity. The hedge derivatives are entered into by the Company principally to reduce its exposure to the Swiss franc exchange rate risk. Fair values of the Company's hedge derivatives are calculated based on quoted foreign exchange rates, quoted interest rates and market volatility factors. The assets related to the Company's defined contribution supplemental executive retirement plan ("SERP") consist of both employer (employee unvested) and employee assets which are invested in investment funds with fair values calculated based on quoted market prices. The SERP liability represents the Company's liability to the employees in the plan for their vested balances.

NOTE 7 - INCOME TAXES

The provision/(benefit) for income taxes for the fiscal years ended January 31, 2014, 2013 and 2012 consists of the following components (in thousands):

	2014	2013	2012
Current:			
U.S. Federal	$7,296	$2,365	$382
U.S. State and Local	866	499	141
Non-U.S.	5,043	3,559	8,202
	13,205	6,423	8,725
Noncurrent:			
U.S. Federal	(1,640)	56	(1,396)
Non-U.S.	988	498	851
	(652)	554	(545)
Deferred:			
U.S. Federal	1,823	(18,197)	—
U.S. State and Local	(888)	(495)	—
Non-U.S.	3,885	2,903	(7,576)
	4,820	(15,789)	(7,576)
Provision / (benefit) for income taxes	$17,373	$(8,812)	$604

Income before taxes for U.S. operations was $26.6 million, $11.7 million, and $2.8 million for periods ended January 31, 2014, 2013 and 2012, respectively. Income before taxes for non-U.S. operations was $42.3 million, $37.4 million, and $30.4 million for periods ended January 31, 2014, 2013 and 2012, respectively.

Significant components of the Company's deferred income tax assets and liabilities as of January 31, 2014 and 2013 are as follows (in thousands):

	2014 Deferred Taxes		2013 Deferred Taxes	
	Assets	Liabilities	Assets	Liabilities
Net operating loss carryforwards	$ 9,797	$ —	$ 16,119	$ —
Inventory	4,294	—	6,155	—
Unprocessed returns	3,364	—	2,143	—
Receivables allowance	1,254	230	1,256	275
Deferred compensation	10,988	—	9,760	—
Foreign tax credits	—	—	4,204	—
Unrepatriated earnings	—	2,724	—	2,724
Capital loss carryforwards	1,292	—	1,464	—
Depreciation/amortization	4,205	2,286	5,592	3,053
Other provisions/accruals	2,788	—	2,567	—
Miscellaneous	738	—	611	—
	38,720	5,240	49,871	6,052
Valuation allowance	(7,798)	—	(11,491)	—
Total deferred tax assets and liabilities	$ 30,922	$ 5,240	$ 38,380	$ 6,052

As of January 31, 2014, the Company had total foreign net operating loss carryforwards of approximately $34.6 million, which are available to offset foreign taxable income in future years. $20.8 million of these carryforwards were incurred in Switzerland. At January 31, 2014, the balance of the deferred tax asset valuation allowance relating to the Company's Switzerland entities was $1.9 million, principally to reserve for operating loss carryforwards for which future projected taxable income is not sufficient to realize the benefit of the deferred tax asset.

The remaining foreign tax losses of $13.8 million are primarily related to the Company's operations in Germany and Canada. A full valuation allowance has been established on the deferred tax assets resulting from all of these losses due to the Company's assessment that it is not more-likely-than-not the deferred tax assets will be utilized.

As of January 31, 2014, the Company had no U.S. federal net operating loss carryforwards. The recognition of windfall tax benefits from stock-based compensation deducted on the tax return is prohibited until realized through a reduction of income tax payable. Windfall tax benefits totaling $0.9 million were recorded in additional paid-in-capital during fiscal 2014. The Company also has an

estimated apportioned $16.9 million in U.S. state net operating loss carryforwards. A partial valuation allowance has been maintained on the deferred tax assets due to the Company's assessment that it is more-likely-than-not that a portion of the losses will not be utilized within expiration periods ranging from 2 to 20 years.

At January 31, 2014, the Company's net U.S. deferred tax assets amounted to $20.8 million, against which a valuation allowance of $1.4 million has been established. The Company bases its estimate of deferred tax assets and liabilities on current tax laws, tax rates and the difference between the financial statement basis and the tax basis of the underlying assets and liabilities. The realization of deferred tax assets depends on the Company's ability to generate future income. Under U.S. GAAP, deferred tax assets are to be reduced by a valuation allowance if based on the weight of available positive and negative evidence, it is more-likely-than-not that all or some portion of the deferred tax assets will not be realized. In the third quarter of fiscal 2010, the Company determined that it was appropriate to record a full valuation allowance against its net deferred tax assets in the United States, primarily due to the Company's domestic loss position in recent years. At that time, expectation of future income was not sufficient to overcome such negative evidence, and although the Company believed it would ultimately utilize the underlying tax benefits within the statutory limits, in fiscal 2010, the Company recognized a non-cash deferred tax expense of $21.4 million, as a result of recording this valuation allowance. In the third quarter of fiscal 2013, the Company concluded, based upon all available evidence, that it was more likely than not that its domestic consolidated group would have sufficient future taxable income to realize its net deferred tax assets. As a result, the Company reversed the major portion of the valuation allowance, resulting in a non-cash deferred tax benefit of $19.4 million. In reaching its conclusion relating to this significant judgment, the Company considered both negative and positive evidence. Positive evidence included the three year cumulative profit position as of October 31, 2012 as well as domestic projections of future taxable income, positive Company results and the continued positive trend experienced by the retail industry during calendar 2012. The Company maintained a valuation allowance only against state tax loss carryforwards due to uncertainty in utilizing the losses prior to expiry. While the Company believes the assumptions included in its projections of future taxable income for the domestic consolidated group are reasonable, if the actual results vary from expected results due to unforeseen changes in the worldwide economy or retail industry, or other factors, the Company may need to make future adjustments to the valuation allowance for all, or a portion, of the net deferred tax assets. In the fourth quarter of fiscal 2014 and 2013, the Company recognized a non-cash deferred tax benefit of $1.2 million and $0.4 million as a result of the partial release of the valuation allowance against the deferred tax assets for state tax losses. In addition, in the fourth quarter of fiscal 2013, the Company recorded a deferred tax asset of approximately $1.4 million for domestic capital losses, with a full valuation allowance due to no expectation of future domestic capital gains sufficient to utilize the future tax benefit. While the Company believes the assumptions included in its projections of future taxable income for the domestic consolidated group are reasonable, if the actual results vary from expected results due to unforeseen changes in the worldwide economy or retail industry, or other factors, the Company may need to make future adjustments to the valuation allowance for all, or a portion, of the net deferred tax assets.

Management will continue to evaluate the appropriate level of allowance on all deferred tax assets considering such factors as prior earnings history, expected future earnings, carryback and carryforward periods, and tax and business strategies that could potentially enhance the likelihood of realization of the deferred tax assets.

The provision / (benefit) for income taxes differs from the amount determined by applying the U.S. federal statutory rate as follows (in thousands):

	Fiscal Year Ended January 31,		
	2014	2013	2012
Provision / (benefit) for income taxes at the U.S. statutory rate	$24,121	$17,169	$11,631
Lower effective foreign income tax rate	(6,950)	(6,006)	(4,952)
Change in valuation allowance	(996)	(19,526)	(13,922)
U.S. tax provided on earnings of foreign subsidiaries	580	109	4,369
Change in liabilities for uncertain tax positions, net	(652)	554	(545)
State and local taxes, net of federal benefit	719	607	84
Foreign legal reorganizations	—	(1,902)	—
Foreign tax settlement	—	—	4,302
Other, net	551	183	(363)
Total provision / (benefit) for income taxes	$17,373	$(8,812)	$604

At January 31, 2013, the Company recorded $1.9 million net tax benefit related to the reorganization of business operations in Japan and the UK. At January 31, 2012, the Company recorded $4.3 million in accrued liabilities on the Company's Consolidated Balance Sheets for a Swiss withholding tax liability and a corresponding charge to income tax expense pursuant to management agreements reached during the fourth quarter of fiscal 2012 to settle with the Swiss federal tax authorities and to close several audits through fiscal 2010. Prior to the fourth quarter of fiscal 2012, due to facts and circumstances, management did not believe that settlement was probable. In the fourth quarter of fiscal 2012, the Company concluded, based upon all available evidence, that it was more likely than not its Swiss subsidiary would have sufficient future taxable income to realize its net deferred tax asset. As a result, the Company reversed the full $10.3 million valuation allowance as a credit to income tax expense on January 31, 2012.

The Company performs a quarterly assessment reviewing its global cash projections and investment needs, considers such factors as projected future results, continued need for investment in the overseas business as well as cash needs in the U.S., among other countries. During fiscal 2014 and 2013, the Company has identified all current year foreign subsidiary earnings as permanently reinvested. This assertion differs from assertions made in fiscal 2012. The decision to make this change was due to improvement in economic conditions and a decrease in cash requirements in the U.S. market, offset by increased requirements for cash to fund business expansion efforts in the Asian and European markets.

During fiscal 2012, as part of the same quarterly assessment process, the Company identified 75% of that year's net income of one of the Company's Hong Kong subsidiaries, as well as 75% of that year's net income of one of the Company's Swiss subsidiaries for repatriation. As a result, a provision of approximately $2.3 million was made for federal income tax, net of foreign tax credits, for the future remittance of approximately $10.3 million of that year's earnings. 25% of that year's earnings was identified as required by the local subsidiaries for normal working capital needs. During fiscal 2014, 2013 and 2012, no cash was repatriated.

No provision has been made for federal income or withholding taxes which may be payable on the remittance of undistributed retained earnings of foreign subsidiaries approximating $213.7 million at January 31, 2014, as those earnings are considered permanently reinvested. It is not practicable to estimate the amount of tax that may be payable on the eventual distribution of these earnings.

The effective tax rate for fiscal 2014 was 25.2%, primarily as a result of foreign profits being taxed in lower taxing jurisdictions and the release of liabilities for uncertain tax positions as a result of favorable U.S. and foreign audit

settlements partially offset by no tax being realized on certain foreign net operating losses. The effective tax rate for fiscal 2013 was -18%, primarily as a result of the release of the majority of a valuation allowance against net deferred tax assets in the United States, and the net tax benefit related to foreign legal reorganizations in Japan and the UK. The effective tax rate for fiscal 2012 was 1.8%, primarily as a result of the release of a valuation allowance against net deferred tax assets in Switzerland, partially offset by the accrual of a Swiss withholding tax settlement and the continued recording of other valuation allowances, most notably the valuation allowance against net U.S. deferred tax assets, and the tax accrued on the repatriation of foreign earnings.

The Internal Revenue Service ("IRS") commenced examination in October 2009 of the Company's consolidated U.S. federal income tax return for fiscal 2009, as required by the Joint Committee on Taxation ("JCT") as a result of the Company filing, in May 2009, a tax loss carryback claim exceeding $2.0 million. The scope of the audit was subsequently increased to also include the fiscal 2010 income tax return due to the filing of a similar carryback claim. The final audit report was received during the third quarter of fiscal 2012; no material adjustments were made. The IRS commenced examination in May 2012 of the Company's consolidated U.S. federal income tax return for fiscal 2011. The audit was closed in January 2013 and resulted in no changes.

A reconciliation of the beginning and ending amounts of gross unrecognized tax benefits (exclusive of interest) for January 31, 2014, 2013 and 2012 are as follows (in thousands):

	2014	2013	2012
Beginning balance	$3,602	$3,216	$4,835
Additions for tax positions of prior years	959	475	901
Lapse of statute of limitations	(1,214)	(98)	(2,491)
Settlements	(605)	(51)	—
Tax rate changes	—	—	(30)
Foreign currency exchange fluctuations	(2)	60	1
Ending balance	$2,740	$3,602	$3,216

Included in the balances at January 31, 2014, January 31, 2013 and January 31, 2012 are $2.6 million, $3.0 million, and $2.5 million of unrecognized tax benefits which would impact the Company's effective tax rate, if recognized. Interest and penalties, if any, related to unrecognized tax benefits are recorded in income tax expense. As of January 31, 2014, January 31, 2013 and January 31, 2012, the Company had $0.6 million, $1.5 million and $1.3 million of accrued interest (net of tax benefit) related to unrecognized tax benefits. During fiscal years 2014, 2013 and 2012, the Company accrued $0.1 million, $0.2 million and $0.3 million of interest (net of tax benefit).

The Company conducts business globally and, as a result, files income tax returns in the U.S. federal jurisdiction and various states, local and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities in many countries, including such major jurisdictions as Switzerland, Hong Kong, Germany, Canada and the United States. The Company, with few exceptions, is no longer subject to income tax examinations by tax authorities in state, local and foreign taxing jurisdictions for years before the fiscal year ended January 31, 2010.

NOTE 8 – LEASES

The Company leases office, distribution, retail and manufacturing facilities, and office equipment under operating leases, which expire at various dates through January 2026. Certain leases include renewal options and the payment of real estate taxes and other occupancy costs. Some leases also contain rent escalation clauses (step rents) that require additional rent amounts in the later years of the term. Rent expense for leases with step rents is recognized on a straight-line basis over the minimum lease term. Likewise, capital funding and other lease concessions that are occasionally provided to the Company, are recorded as deferred rent and amortized on a straight-line basis over the minimum lease term as adjustments to rent expense. Rent expense for equipment and distribution, factory and office facilities under operating leases was approximately $13.0 million, $13.5 million and $12.0 million in fiscal 2014, 2013 and 2012, respectively.

Minimum annual rentals under noncancelable operating leases as of January 31, 2014, which do not include real estate taxes and operating costs, are as follows (in thousands):

Fiscal Year Ending January 31,	
2015	$10,659
2016	10,397
2017	8,899
2018	6,804
2019	4,242
Thereafter	4,593
	$45,594

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NOTE 9 – COMMITMENTS AND CONTINGENCIES

At January 31, 2014, the Company had outstanding letters of credit totaling $4.6 million with expiration dates through June 3, 2014 compared to $4.6 million with expiration dates through April 30, 2014 as of January 31, 2013. One bank in the domestic bank group has issued irrevocable standby letters of credit in connection with a trademark license agreement, retail and operating facility leases to various landlords and for Canadian payroll to the Royal Bank of Canada.

As of January 31, 2014 and 2013, two European banks and a Canadian bank have guaranteed obligations to third parties on behalf of three of the Company's foreign subsidiaries in the amount equivalent to $1.5 million and $2.3 million in various foreign currencies, respectively.

As of January 31, 2013, a bank in Dubai also had guaranteed obligations to third parties on behalf of one of the Company's foreign subsidiaries in the amount equivalent to $0.1 million in foreign currency.

Pursuant to the Company's agreements with its licensors, the Company is required to pay minimum royalties and advertising. As of January 31, 2014, the total amount of the Company's minimum commitments related to its license agreements was $132.5 million.

The Company had outstanding purchase obligations of $60.3 million with suppliers at the end of fiscal 2014 primarily for raw materials, finished watches and packaging in the normal course of business. These purchase obligation amounts do not represent total anticipated purchases but represent only amounts to be paid for items required to be purchased under agreements that are enforceable, legally binding and specify minimum quantity, price and term.

The Company is involved from time to time in legal claims involving trademarks and other intellectual property, contracts, employee relations and other matters incidental to the Company's business. Although the outcome of such matters cannot be determined with certainty, the Company's general counsel and management believe that the final outcome would not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

NOTE 10 – STOCK-BASED COMPENSATION

Effective concurrently with the consummation of the Company's public offering in the fourth quarter of fiscal 1994, the Board of Directors and the shareholders of the Company approved the adoption of the Movado Group, Inc. 1993 Employee Stock Option Plan (the "Employee Stock Option Plan") for the benefit of certain officers, directors and key employees of the Company. The Employee Stock Option Plan was amended in fiscal 1997 and restated as the Movado Group, Inc. 1996 Stock Incentive Plan (the "1996 Plan"). Under the 1996 Plan, as amended and restated as of April 8, 2004 and as further amended and restated as of April 4, 2013 (the "Plan"), the Compensation Committee of the Board of Directors, which consists of four of the Company's outside directors, has the authority to grant incentive stock options and nonqualified stock options, as well as stock appreciation rights and stock awards, to purchase up to 11,000,000 shares of common stock. Options granted to participants under the Plan generally become exercisable in equal installments over three or five years and remain exercisable until the tenth anniversary of the date of grant. The option price may not be less than the fair market value of the stock at the time the options are granted.

Under the accounting guidance for share based payments, the Company utilizes the Black-Scholes option-pricing model which requires certain assumptions to be made to calculate the fair value of each option at the grant date. The expected life of stock option grants is determined using historical data and represents the time period which the stock option is expected to be outstanding until it is exercised. The risk free interest rate is the yield on the grant date of U.S. Treasury constant maturities with a maturity date closest to the expected life of the stock option. The expected stock

price volatility is derived from historical volatility and calculated based on the estimated term structure of the stock option grant. The expected dividend yield is calculated using the expected annualized dividend during the expected term of the option.

The weighted-average assumptions used with the Black-Scholes option-pricing model for the calculation of the fair value of stock option grants during fiscal 2014 were: expected term of 5.0 years; risk-free interest rate of 0.72%; expected volatility of 62.12% and dividend yield of 1.28%. The weighted-average grant date fair value of options granted during the fiscal year ended January 31, 2014 was $14.40. The weighted-average assumptions used with the Black-Scholes option-pricing model for the calculation of the fair value of stock option grants during fiscal 2013 were: expected term of 5.2 years; risk-free interest rate of 0.92%; expected volatility of 61.5% and dividend yield of 2.01%. The weighted-average grant date fair value of options granted during the fiscal year ended January 31, 2013 was $12.03. There were no stock option grants during fiscal 2012.

Total compensation expense for stock option grants recognized during the fiscal years ended January 31, 2014, 2013 and 2012 was approximately $0.8 million, net of tax of $0.5 million and $0.4 million, net of tax of $0.3 million and $0.1 million, net of tax of $0, respectively. Expense related to stock option compensation is recognized on a straight-line basis over the vesting term. As of January 31, 2014, there was approximately $2.4 million of unrecognized compensation cost related to unvested stock options. These costs are expected to be recognized over a weighted-average period of 1.8 years. Total cash received for stock option exercises during the fiscal year ended January 31, 2014 amounted to approximately $0.9 million. The windfall tax benefit realized on these exercises was approximately $0.2 million.

Transactions for stock options under the Plan since fiscal 2011 are summarized as follows:

	Outstanding Options	Weighted-Average Exercise Price
January 31, 2011	1,128,263	$ 18.42
Options exercised	(143,961)	$ 12.11
Options cancelled	(289,320)	$ 18.43
January 31, 2012	694,982	$ 19.55
Options granted	258,600	$ 26.59
Options exercised	(392,093)	$ 16.88
January 31, 2013	561,489	$ 24.67
Options granted	106,440	$ 30.34
Options exercised	(52,023)	$ 17.54
Options cancelled	(16,500)	$ 26.59
January 31, 2014	599,406	$ 26.24

The total intrinsic value of stock options exercised for the fiscal years ended January 31, 2014, 2013 and 2012 was approximately $1.1 million, $6.3 million and $0.8 million, respectively. The total fair value of the stock options vested for the fiscal years ended January 31, 2014, 2013 and 2012 was approximately $0.1 million, $0.1 million and $0.3 million, respectively.

The following table summarizes outstanding and exercisable stock options as of January 31, 2014:

Range of Exercise Prices		Number Outstanding	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$12.03 -	$15.02	6,500	0.6	$ 14.60	6,500	$ 14.60
$15.03 -	$18.02	8,066	0.6	$ 16.84	8,066	$ 16.84
$18.03 -	$21.02	56,050	2.1	$ 18.74	56,050	$ 18.74
$21.03 -	$24.02	108,750	4.2	$ 22.27	108,750	$ 22.27
$24.03 -	$27.02	242,100	8.2	$ 26.59	-	$ -
$27.03 -	$32.92	177,940	6.8	$ 31.38	71,500	$ 32.92
		599,406	5.0	$ 26.24	250,866	$ 24.14

The total intrinsic value of outstanding stock options as of January 31, 2014, 2013 and 2012 was approximately $6.9 million, $6.7 million and $0.8 million, respectively. The total intrinsic value of exercisable stock options as of January 31, 2014, 2013 and 2012 was approximately $3.4 million, $4.0 million and $0.8 million, respectively.

Under the Plan, the Company has the ability to grant stock awards to employees. Stock awards generally vest three to five years from the date of grant. Expense for these grants is recognized on a straight-line basis over the vesting period. The fair value of stock awards is equal to the closing price of the Company's publicly-traded common stock on the grant date.

For fiscal years 2014, 2013 and 2012, compensation expense for stock awards was approximately $1.6 million, net of tax of $0.9 million, $1.4 million, net of tax of $0.8 and $1.6 million, net of tax of $0, respectively. Current accounting guidance requires forfeitures to be estimated at the time of grant in order to estimate the amount of share-based awards that will ultimately vest and thus, current period compensation expense has been adjusted for estimated forfeitures based on historical data. As of January 31, 2014, there was approximately $3.9 million of unrecognized compensation cost related to unvested stock awards. These costs are expected to be recognized over a weighted-average period of 2.0 years.

Transactions for stock award units under the Plan since fiscal 2011 are summarized as follows:

	Number of Stock Award Units	Weighted-Average Grant Date Fair Value
January 31, 2011	245,238	$ 13.23
Units granted	135,612	$ 16.55
Units vested	(67,074)	$ 15.86
Units forfeited	(16,507)	$ 13.77
January 31, 2012	297,269	$ 14.12
Units granted	85,765	$ 26.59
Units vested	(30,445)	$ 15.37
Units forfeited	(9,208)	$ 15.12
January 31, 2013	343,381	$ 17.10
Units granted	140,922	$ 31.33
Units vested	(147,552)	$ 14.55
Units forfeited	(33,581)	$ 18.17
January 31, 2014	303,170	$ 24.84

Upon the vesting of a stock award, shares equal to the number of underlying stock award units are issued from the pool of authorized shares. The total intrinsic value of stock award units that vested during fiscal 2014, 2013 and 2012 was approximately $4.7 million, $0.8 million, and $1.0 million, respectively. The windfall tax benefits realized on the vested stock awards for fiscal 2014 were $0.7 million. The weighted-average grant date fair values for stock awards for fiscal 2014, 2013, and 2012 were $31.33, $26.59, and $16.55, respectively. Outstanding stock award units had a total intrinsic value of approximately $11.4 million, $12.6 million, and $5.5 million for fiscal 2014, 2013 and 2012, respectively.

NOTE 11 – OTHER EMPLOYEE BENEFIT PLANS

The Company maintains an Employee Savings Plan under Section 401(k) of the Internal Revenue Code. In addition, the Company maintains defined contribution employee benefit plans for its employees located in Switzerland. Company contributions and expenses of administering the plans amounted to $3.3 million, $3.4 million and $3.3 million in fiscal 2014, 2013 and 2012, respectively.

The Company maintains a defined contribution SERP. The SERP provides eligible executives with supplemental pension benefits in addition to amounts received under the Company’s other retirement plan. The Company makes a matching contribution which vests equally over five years.

During fiscal 2014, 2013 and 2012, the Company recorded an expense related to the SERP of $0.4 million, $0.4 million and $0.4 million, respectively.

NOTE 12 – ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of accumulated other comprehensive income at January 31, consisted of the following (in thousands):

	Currency Translation Adjustments	Net Unrealized Gain on Investments	Net Unrealized Income On Hedging Contracts	Accumulated Other Comprehensive Income
Balance, January 31, 2013	$ 102,220	$ 50	$ 1	$ 102,271
Other comprehensive income before reclassifications	1,135	213	-	1,348
Amounts reclassified from accumulated other comprehensive income	83	-	-	83
Net current-period other comprehensive income	1,218	213	-	1,431
As of January 31, 2014	$ 103,438	$ 263	$ 1	$ 103,702

	Currency Translation Adjustments	Net Unrealized Gain on Investments	Net Unrealized (Loss) / Income On Hedging Contracts	Accumulated Other Comprehensive Income
Balance, January 31, 2012	$ 98,842	$ 69	$ (989)	$ 97,922
Other comprehensive income / (loss) before reclassifications	3,378	(19)	990	4,349
Amounts reclassified from accumulated other comprehensive income	-	-	-	-
Net current-period other comprehensive income / (loss)	3,378	(19)	990	4,349
As of January 31, 2013	$ 102,220	$ 50	$ 1	$ 102,271

NOTE 13 – SEGMENT INFORMATION

The Company follows accounting guidance related to disclosures about segments of an enterprise and related information. This guidance requires disclosure of segment data based on how management makes decisions about allocating resources to segments and measuring their performance.

The Company conducts its business in two operating segments: Wholesale and Retail. The Company's Wholesale segment includes the designing, manufacturing and distribution of quality watches, in addition to revenue generated from after sales service activities and shipping. The retail segment includes the Company's outlet stores.

The Company divides its business into two major geographic locations: United States operations, and International, which includes the results of all other Company operations. The allocation of geographic revenue is based upon the location of the customer. The Company's international operations are principally conducted in Europe, the Americas (excluding the United States), Asia and the Middle East which accounted for 18.5%, 12.4%, 8.1% and 7.8%, respectively, of the Company's total net sales for fiscal 2014. For fiscal 2013, the Company's international operations were principally conducted in Europe, the Americas (excluding the United States), Asia and the Middle East which accounted for 17.1%, 12.0%, 9.4% and 7.3%, respectively, of the Company's total net sales. For fiscal 2012, the Company's international operations were principally conducted in Europe, the Americas (excluding the United States), Asia, and the Middle East which accounted for 20.9%, 10.0%, 9.9% and 6.9%, respectively, of the Company's total net sales. Substantially all of the Company's international assets are located in Switzerland and Asia.

Operating Segment Data as of and for the Fiscal Year Ended January 31, (in thousands):

	Net Sales (1) (2) (3) (8)			Operating Income (Loss) (2) (3) (4) (5) (6) (7)		
	2014	2013	2012	2014	2013	2012
Wholesale	$510,990	$449,289	$412,825	$55,241	$38,045	$24,668
Retail	59,265	56,189	55,292	12,501	11,301	8,895
Consolidated total	$570,255	$505,478	$468,117	$67,742	$49,346	$33,563

	Total Assets		Capital Expenditures		
	2014	2013	2014	2013	2012
Wholesale	$558,266	$507,672	$15,280	$13,348	$7,444
Retail	20,344	18,690	1,427	2,630	726
Consolidated total	$578,610	$526,362	$16,707	$15,978	$8,170

	Depreciation and Amortization		
	2014	2013	2012
Wholesale	$10,965	$9,513	$10,148
Retail	1,268	1,095	1,260
Consolidated total	$12,233	$10,608	$11,408

Geographic Location Data as of and for the Fiscal Year Ended January 31, (in thousands):

	Net Sales (1) (2) (3) (8)			Operating Income (Loss) (2) (3) (4) (5) (6) (7)		
	2014	2013	2012	2014	2013	2012
United States	$303,095	$263,551	$234,991	$11,036	$2,171	$(6,069)
International	267,160	241,927	233,126	56,706	47,175	39,632
Consolidated total	$570,255	$505,478	$468,117	$67,742	$49,346	$33,563

	Total Assets		Long-Lived Assets	
	2014	2013	2014	2013
United States	$239,890	$208,273	$25,943	$26,682
International	338,720	318,089	21,853	17,819
Consolidated total	$578,610	$526,362	$47,796	$44,501

(1) Fiscal 2014 Wholesale and United States net sales included a $7.8 million sales reserve, for anticipated returns resulted from the Company's decision to reduce the presence of ESQ Movado while expanding the Movado brand offering in certain retail doors.

(2) Fiscal 2013 Wholesale, United States and International net sales included a sales allowance of $4.9 million, $3.1 million and $1.8 million, respectively, related to the repositioning of the Coach watch brand.

(3) Fiscal 2012 Wholesale and International net sales included a $3.0 million sale of certain proprietary watch movements.

(4)

Fiscal 2014 Wholesale and United States operating income included a charge of $8.3 million related to its strategy to reduce the presence of ESQ Movado while expanding the Movado brand offering in certain retail doors. The $8.3 million charge consists of anticipated sales returns from select customers, inventory reserves and writes down of excess displays and point of sale materials related to this strategy.

(5) Fiscal 2014 Wholesale and United States operating income included a $2.0 million donation to the Movado Group Foundation.

(6) Fiscal 2014 Wholesale and United States operating income included $2.5 million duty refund received relating to payments made by the Company in calendar years 2008 through 2011 for drawback claims filed with U.S. Customs & Border Protection.

(7) Fiscal 2013 and 2012 Wholesale and United States operating income (loss) included a $3.0 million donation to the Movado Group Foundation.

(8) The United States and International net sales are net of intercompany sales of $338.6 million, $269.3 million and $223.3 million for the years ended January 31, 2014, 2013 and 2012, respectively.

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NOTE 14 - QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table presents unaudited selected interim operating results of the Company for fiscal 2014 and 2013 (in thousands, except per share amounts):

	Quarter 1st	2nd	3rd	4th
Fiscal 2014				
Net sales (1)	$110,010	$138,301	$189,685	$132,259
Gross profit (3)	$59,919	$74,818	$101,270	$69,254
Income before income taxes (3)(4)(6)	$11,489	$16,941	$33,984	$6,504
Net income (3)(4)(6)(7)	$8,179	$12,654	$23,414	$7,297
Net income attributed to Movado Group, Inc. (3)(4)(6)(7)	$8,210	$12,454	$23,019	$7,193
Basic income per share:				
Net income attributed to Movado Group, Inc.	$0.32	$0.49	$0.90	$0.28
Diluted income per share:				
Net income attributed to Movado Group, Inc.	$0.32	$0.48	$0.89	$0.28
Fiscal 2013				
Net sales (2)	$103,655	$118,027	$160,202	$123,594
Gross profit (2)	$59,025	$65,758	$90,419	$62,680
Income before income taxes (2)(5)	$8,359	$10,678	$24,987	$5,032
Net income (2)(5)(8)(9)	$6,761	$8,154	$34,853	$8,100
Net income attributed to Movado Group, Inc. (2)(5)(8)(9)	$6,633	$8,058	$34,473	$7,919
Basic income per share:				
Net income attributed to Movado Group, Inc.	$0.26	$0.32	$1.36	$0.31
Diluted income per share:				
Net income attributed to Movado Group, Inc.	$0.26	$0.32	$1.34	$0.31

As each quarter is calculated as a discrete period, the sum of the four quarters may not equal the calculated full year amount. This is in accordance with prescribed reporting requirements.

(1) Net sales in the fourth quarter of fiscal 2014 includes a pre-tax charge of $7.8 million for anticipated returns in fiscal 2015, as a result of the Company’s decision to reduce the presence of ESQ Movado while expanding the Movado brand offering in certain retail doors.
(2) Net sales in the fourth quarter of fiscal 2013 includes a sales allowance of $4.9 million related to the repositioning of the Coach watch brand.
(3) Gross profit in the fourth quarter of fiscal 2014 includes a $2.5 million pre-tax duty refund received relating to payments made by the Company in calendar years 2008 through 2011 for drawback claims filed with U.S.

Customs and Border Protection and a $7.5 million pre-tax charge related to the anticipated ESQ Movado product returns and the write down of ESQ Movado excess inventory. This charge resulted from the Company's decision to reduce the presence of ESQ Movado while expanding the Movado brand offering in certain retail doors.

(4) Income before income taxes in the fourth quarter of fiscal 2014 includes a $2.0 million donation to the Movado Group Foundation recorded in SG&A expenses and a $0.8 million pre-tax charge to SG&A expenses, related to the write down of excess displays and point of sale materials, as a result of the Company's decision to reduce the presence of ESQ Movado while expanding the Movado brand offering in certain retail doors.

(5) Income before income taxes in the third quarter of fiscal 2013 includes a $3.0 million donation to the Movado Group Foundation recorded in SG&A expenses.

(6) Income before income taxes in the first quarter of fiscal 2014 consists of a pre-tax gain of $1.5 million recorded in other income, related to the sale of a building.

(7) Net income in the second quarter of 2014 includes a benefit of $1.0 million related to U.S. and foreign tax settlements and the release of uncertain tax positions.

(8) Net income in the third quarter of fiscal 2013 includes a tax benefit of $19.4 million attributable to the reversal of a majority of the U.S. valuation allowance.

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(9) Net income in the fourth quarter of fiscal 2013 includes a tax benefit of $0.8 million attributable to the reversal of a valuation allowance on the U.S. net deferred tax assets and includes the net tax benefit related to foreign business restructurings in Japan and the UK.

NOTE 15 - SUPPLEMENTAL CASH FLOW INFORMATION

The following is provided as supplemental information to the consolidated statements of cash flows (in thousands):

	Fiscal Year Ended January 31,		
	2014	2013	2012
Cash paid during the year for:			
Interest	$ 282	$ 212	$ 353
Income taxes paid / (received) (1)	$ 8,013	$ 6,520	$ 5,190

(1) Fiscal 2014, 2013 and 2012 income taxes paid / (received) includes payments of $8.1 million, $6.8 million and $5.6 million taxes paid, respectively.

NOTE 16 – OTHER INCOME

Other income for the twelve months ended January 31, 2014 consisted of a $1.5 million pre-tax gain on the sale of a building. The Company received cash proceeds from the sale of $2.2 million in the first quarter of fiscal year 2014. Prior to the sale, the building had been classified as an asset held for sale in other current assets. Other income for the year ended January 31, 2012 consisted of $0.7 million of pre-tax gain on the sale of a building which was completed in the second quarter. The Company received cash proceeds from the sale of $1.2 million. The building had been classified as an asset held for sale in other current assets.

NOTE 17 – NET INCOME ATTRIBUTABLE TO MOVADO GROUP, INC. AND TRANSFERS TO NONCONTROLLING INTEREST

	For Fiscal Year Ended January 31, (in thousands)		
	2014	2013	2012
Net income attributable to Movado Group, Inc.	$ 50,877	$ 57,083	$ 31,995
Transfers to the noncontrolling interest			
Decrease in Movado Group, Inc.’s paid in capital for purchase of 39% of MGS common shares	-	(3,362)	—
Net transfers to noncontrolling interest	-	(3,362)	—
Change from net income attributable to Movado Group, Inc. and transfers to noncontrolling interest	$ 50,877	$ 53,721	$ 31,995

In the U.K., the Company signed a joint venture agreement (the “JV Agreement”) on May 11, 2007, with Swico Limited (“Swico”), an English company with established distribution, marketing and sales operations in the U.K. Swico had been the Company’s exclusive distributor of HUGO BOSS watches in the U.K. since 2005. Under the JV Agreement,

the Company and Swico controlled 51% and 49%, respectively, of MGS Distribution Limited, an English company ("MGS") responsible for the marketing, distribution and sale in the U.K. of the Company's licensed brands. On January 30, 2013, a mutual agreement was reached by the Company and Swico to terminate the JV Agreement. This resulted in the Company acquiring additional shares in MGS from Swico, thereby increasing its ownership interest in MGS to 90%. Henceforth the Company manages MGS as a wholly owned subsidiary, with Swico continuing to provide logistical support and after-sale service for the brands distributed by MGS in the U.K. which, in addition to the Company's licensed brands, also includes Movado and Ebel watches.

NOTE 18 – TREASURY STOCK

On March 20, 2013, the Board approved a share repurchase program under which the Company may purchase up to $50 million of its outstanding common stock from time to time, depending on market conditions, share price and other factors. This authorization expires on January 31, 2016, and the Company may purchase shares of its common stock through open market purchases, block trades or otherwise. The shares will be purchased primarily to mitigate the dilutive impact of equity grants during the course of the next few years. Therefore, the Company does not expect the share repurchase program to have a significant impact on the weighted average of shares outstanding. During the twelve months ended January 31, 2014, the Company repurchased a total of 272,533 shares of common

stock at a total cost of approximately $10.5 million or an average of $38.48 per share, which included 27,000 shares repurchased from the Movado Group Foundation at a total cost of approximately $1.1 million or $39.21 average per share.

NOTE 19 – RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." ASU No. 2013-02 requires presentation of reclassification adjustments from each component of accumulated other comprehensive income either in a single note or parenthetically on the face of the financial statements, for those amounts required to be reclassified into net income in their entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety in the same reporting period, cross-reference to other disclosures is required. As permitted under ASU 2013-02, the Company has adopted to present reclassification adjustments from each component of accumulated other comprehensive income within a single note to the financial statements.

In September 2013, the Internal Revenue Service and the United State Treasury Department issued final tax regulations that provided guidance regarding the deduction and capitalization of expenditures related to tangible property. The Company does not expect the final tax regulations to have a material impact on its financial statements.

Schedule II

MOVADO GROUP, INC.

VALUATION AND QUALIFYING ACCOUNTS

(In thousands)

Description	Balance at beginning of year	Net provision charged to operations	Currency revaluation	Net write-offs	Balance at end of year
Year ended January 31, 2014:					
Doubtful accounts	$ 4,356	$ 612	$ (27)	$ (1,626)	$ 3,315
Returns (1)	7,448	15,457	(63)	(6,519)	16,323
Other sales allowances	8,205	5,189	(52)	(9,880)	3,462
Total	$ 20,009	$ 21,258	$ (142)	$ (18,025)	$ 23,100
Year ended January 31, 2013:					
Doubtful accounts	$ 7,741	$ —	$ 46	$ (3,431)	$ 4,356
Returns	8,353	18,246	(15)	(19,136)	7,448
Other sales allowances (2)	2,664	10,223	28	(4,710)	8,205
Total	$ 18,758	$ 28,469	$ 59	$ (27,277)	$ 20,009
Year ended January 31, 2012:					
Doubtful accounts	$ 8,494	$ 847	$ 8	$ (1,608)	$ 7,741
Returns	7,960	16,946	8	(16,561)	8,353
Other sales allowances	1,974	3,961	(16)	(3,255)	2,664
Total	$ 18,428	$ 21,754	$ —	$ (21,424)	$ 18,758

(1) In fiscal 2014, net provision and the ending balance for returns includes a $7.8 million sales reserve, for anticipated returns in fiscal 2015 which resulted from the Company’s decision to reduce the presence of ESQ Movado while expanding the Movado brand offering in certain retail doors.

(2) In fiscal 2013, net provision and the ending balance for other allowances includes a sales allowance of $4.9 million related to the repositioning of the Coach watch.

Description	Balance at beginning of year	Net provision charged to operations	Currency revaluation	Adjustments	Balance at end of year
Year ended January 31, 2014:					
Deferred tax asset valuation (1)	$ 11,491	$ —	$ (201)	$ (3,492)	$ 7,798
Year ended January 31, 2013:					
Deferred tax asset valuation (2)	$ 32,856	$ —	$ (375)	$ (20,990)	$ 11,491
Year ended January 31, 2012:					
Deferred tax asset valuation (3)	$ 46,929	$ —	$ 367	$ (14,440)	$ 32,856

(1)The detail of adjustments is as follows:

Prior year adjustments and tax rate changes	$238
Reversal due to merger / liquidations	(2,302)

(2)The detail of adjustments is as follows:

Expired tax losses	$ (208)
Prior year adjustments and tax rate changes	(23)

P&L adjustments	(1,428)	OCI Adjustments	(942)
	$(3,492)	P&L Adjustments	(19,817)
			$ (20,990)

(3)The detail of adjustments is as follows:

Expired tax losses	$(329)
Prior year adjustments and tax rate changes	(304)
OCI Adjustments	332
P&L Adjustments	(14,139)
	$(14,440)

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