
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

Form 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2008

OR

- 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. 001-32876

Wyndham Worldwide Corporation

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction
of incorporation or organization)*

**Seven Sylvan Way
Parsippany, New Jersey**
(Address of principal executive offices)

20-0052541
*(I.R.S. Employer
Identification No.)*

07054
(Zip Code)

(973) 753-6000
(Registrant's telephone number, including area code)

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 No

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

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

The number of shares outstanding of the issuer's common stock was 176,875,545 shares as of April 30, 2008.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Wyndham Worldwide Corporation Board of Directors and Shareholders
Wyndham Worldwide Corporation
Parsippany, New Jersey

We have reviewed the accompanying consolidated balance sheet of Wyndham Worldwide Corporation and subsidiaries (the “Company”) as of March 31, 2008, the related consolidated statements of income and cash flows for the three-month periods ended March 31, 2008 and 2007, and the related consolidated statement of stockholders’ equity for the three-month period ended March 31, 2008. These interim financial statements are the responsibility of the Company’s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

Prior to its separation from Cendant Corporation (“Cendant”; known as Avis Budget Group since August 29, 2006), the Company was comprised of the assets and liabilities used in managing and operating the lodging, vacation exchange and rental and vacation ownership businesses of Cendant. Included in Notes 13 and 14 of the consolidated financial statements is a summary of transactions with related parties. As discussed in Note 13 to the consolidated financial statements, in connection with its separation from Cendant, the Company entered into certain guarantee commitments with Cendant and has recorded the fair value of these guarantees as of July 31, 2006. As discussed in Note 8 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109 on January 1, 2007. Also, as discussed in Notes 1 and 7 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements, on January 1, 2008, except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in FASB Staff Position (“FSP”) FAS 157-2, which was issued on February 12, 2008.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Wyndham Worldwide Corporation and subsidiaries as of December 31, 2007, and the related consolidated statements of income, stockholders’ equity, and cash flows for the year then ended (not presented herein); and in our report dated February 29, 2008, we expressed an unqualified opinion (which included an explanatory paragraph relating to the fact that, prior to its separation from Cendant, the Company was comprised of the assets and liabilities used in managing and operating the lodging, vacation exchange and rental and vacation ownership businesses of Cendant. Included in Notes 20 and 21 of the consolidated and combined financial statements is a summary of transactions with related parties. As discussed in Note 14 to the consolidated and combined financial statements, in connection with its separation from Cendant, the Company entered into certain guarantee commitments with Cendant and has recorded the fair value of these guarantees as of July 31, 2006. As discussed in Note 1 to the consolidated and combined financial statements, as of January 1, 2006, the Company adopted the provisions for accounting for real estate time-sharing transactions. Also, as discussed in Note 2 to the consolidated and combined financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109 on January 1, 2007) on those consolidated and combined financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2007 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP
Parsippany, New Jersey
May 8, 2008

WYNDHAM WORLDWIDE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share amounts)
(Unaudited)

	Three Months Ended	
	March 31,	
	2008	2007
Net revenues		
Vacation ownership interest sales	\$ 294	\$ 373
Service fees and membership	453	403
Franchise fees	112	113
Consumer financing	99	81
Other	54	42
Net revenues	<u>1,012</u>	<u>1,012</u>
Expenses		
Operating	441	406
Cost of vacation ownership interests	60	91
Marketing and reservation	209	196
General and administrative	145	121
Separation and related costs	—	6
Trademark impairment	28	—
Depreciation and amortization	44	38
Total expenses	<u>927</u>	<u>858</u>
Operating income	85	154
Other income, net	(1)	—
Interest expense	19	18
Interest income	(3)	(3)
Income before income taxes	70	139
Provision for income taxes	28	53
Net income	<u>\$ 42</u>	<u>\$ 86</u>
Earnings per share		
Basic	\$ 0.24	\$ 0.46
Diluted	0.24	0.45

See Notes to Consolidated Financial Statements.

WYNDHAM WORLDWIDE CORPORATION
CONSOLIDATED BALANCE SHEETS
(In millions, except share and per share amounts)
(Unaudited)

	<u>March 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 229	\$ 210
Trade receivables, net	593	459
Vacation ownership contract receivables, net	293	290
Inventory	588	586
Prepaid expenses	177	160
Deferred income taxes	115	101
Due from former Parent and subsidiaries	9	18
Other current assets	<u>277</u>	<u>232</u>
Total current assets	2,281	2,056
Long-term vacation ownership contract receivables, net	2,734	2,654
Non-current inventory	650	649
Property and equipment, net	1,062	1,009
Goodwill	2,730	2,723
Trademarks	595	620
Franchise agreements and other intangibles, net	409	416
Other non-current assets	<u>361</u>	<u>332</u>
Total assets	<u><u>\$ 10,822</u></u>	<u><u>\$ 10,459</u></u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Securitized vacation ownership debt	\$ 268	\$ 237
Current portion of long-term debt	193	175
Accounts payable	467	380
Deferred income	759	612
Due to former Parent and subsidiaries	109	110
Accrued expenses and other current liabilities	<u>665</u>	<u>666</u>
Total current liabilities	2,461	2,180
Long-term securitized vacation ownership debt	1,851	1,844
Long-term debt	1,359	1,351
Deferred income taxes	947	927
Deferred income	261	262
Due to former Parent and subsidiaries	242	243
Other non-current liabilities	<u>164</u>	<u>136</u>
Total liabilities	<u>7,285</u>	<u>6,943</u>
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, \$.01 par value, authorized 6,000,000 shares, none issued and outstanding	—	—
Common stock, \$.01 par value, authorized 600,000,000 shares, issued 204,008,810 in 2008 and 203,874,101 shares in 2007	2	2
Additional paid-in capital	3,661	3,652
Retained earnings	560	525
Accumulated other comprehensive income	182	194
Treasury stock, at cost — 27,177,003 shares in 2008 and 26,656,804 shares in 2007	<u>(868)</u>	<u>(857)</u>
Total stockholders' equity	<u>3,537</u>	<u>3,516</u>
Total liabilities and stockholders' equity	<u><u>\$ 10,822</u></u>	<u><u>\$ 10,459</u></u>

See Notes to Consolidated Financial Statements.

WYNDHAM WORLDWIDE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)
(Unaudited)

	Three Months Ended	
	March 31,	
	2008	2007
Operating Activities		
Net income	\$ 42	\$ 86
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	44	38
Provision for loan losses	82	61
Deferred income taxes	16	25
Stock-based compensation	7	5
Trademark impairment	28	—
Net change in assets and liabilities, excluding the impact of acquisitions:		
Trade receivables	(127)	(119)
Vacation ownership contract receivables	(154)	(163)
Inventory	(24)	(111)
Prepaid expenses	(16)	(12)
Other current assets	(21)	2
Accounts payable, accrued expenses and other current liabilities	69	135
Due to former Parent and subsidiaries, net	6	8
Deferred income	143	49
Other, net	(8)	(19)
Net cash provided by (used in) operating activities	87	(15)
Investing Activities		
Property and equipment additions	(39)	(45)
Equity investments and development advances	(2)	(21)
Proceeds from asset sales	1	—
Increase in restricted cash, net	(52)	(19)
Other, net	(2)	—
Net cash used in investing activities	(94)	(85)
Financing Activities		
Proceeds from securitized borrowings	314	466
Principal payments on securitized borrowing	(276)	(215)
Proceeds from non-securitized borrowings	346	160
Principal payments on non-securitized borrowings	(340)	(179)
Dividend to shareholders	(7)	—
Repurchase of common stock	(13)	(231)
Proceeds from stock option exercises	3	9
Debt issuance costs	—	(2)
Other, net	—	(2)
Net cash provided by financing activities	27	6
Effect of changes in exchange rates on cash and cash equivalents	(1)	(1)
Net increase (decrease) in cash and cash equivalents	19	(95)
Cash and cash equivalents, beginning of period	210	269
Cash and cash equivalents, end of period	\$ 229	\$ 174

See Notes to Consolidated Financial Statements.

WYNDHAM WORLDWIDE CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(In millions)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance at January 1, 2008	204	\$ 2	\$ 3,652	\$ 525	\$ 194	(27)	\$ (857)	\$ 3,516
Comprehensive income								
Net income	-	-	-	42	-	-	-	
Currency translation adjustment, net of tax of \$4	-	-	-	-	7	-	-	
Unrealized losses on cash flow hedges, net of tax benefit of \$12	-	-	-	-	(19)	-	-	
Total comprehensive income								30
Exercise of stock options	-	-	2	-	-	-	-	2
Change in deferred compensation	-	-	7	-	-	-	-	7
Repurchases of common stock	-	-	-	-	-	-	(11)	(11)
Payment of dividends	-	-	-	(7)	-	-	-	(7)
Balance at March 31, 2008	204	\$ 2	\$ 3,661	\$ 560	\$ 182	(27)	\$ (868)	\$ 3,537

See Notes to Consolidated Financial Statements.

WYNDHAM WORLDWIDE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unless otherwise noted, all amounts are in millions, except share and per share amounts)
(Unaudited)

1. Basis of Presentation

Wyndham Worldwide Corporation is a global provider of hospitality products and services. The accompanying Consolidated Financial Statements include the accounts and transactions of Wyndham, as well as the entities in which Wyndham directly or indirectly has a controlling financial interest. The accompanying Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America. All intercompany balances and transactions have been eliminated in the Consolidated Financial Statements.

In presenting the Consolidated Financial Statements, management makes estimates and assumptions that affect the amounts reported and related disclosures. Estimates, by their nature, are based on judgment and available information. Accordingly, actual results could differ from those estimates. In management's opinion, the Consolidated Financial Statements contain all normal recurring adjustments necessary for a fair presentation of interim results reported. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. These financial statements should be read in conjunction with the Company's 2007 Consolidated and Combined Financial Statements included in its Annual Report filed on Form 10-K with the Securities and Exchange Commission ("SEC") on February 29, 2008.

The Company applies the equity method of accounting when it has the ability to exercise significant influence over operating and financial policies of an investee in accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." During the three months ended March 31, 2008, the Company recorded \$1 million of net earnings from such investments in other income, net on the Consolidated Statements of Income.

Business Description

The Company operates in the following business segments:

- **Lodging**—franchises hotels in the upscale, midscale and economy segments of the lodging industry and provides property management services to owners of the Company's luxury, upscale and midscale hotels.
- **Vacation Exchange and Rentals**—provides vacation exchange products and services to owners of intervals of vacation ownership interests ("VOIs") and markets vacation rental properties primarily on behalf of independent owners.
- **Vacation Ownership**—markets and sells VOIs to individual consumers, provides consumer financing in connection with the sale of VOIs and provides property management services at resorts.

Significant Accounting Policy

Vacation Ownership Transactions. In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 152, "Accounting for Real Estate Time-Sharing Transactions," ("SFAS No. 152") in connection with the issuance of the American Institute of Certified Public Accountants' Statement of Position No. 04-2, "Accounting for Real Estate Time-Sharing Transactions." SFAS No. 152 provides guidance on revenue recognition for vacation ownership transactions, accounting and presentation for the uncollectibility of vacation ownership contract receivables, accounting for costs of sales of VOIs and related costs, accounting for operations during holding periods and other transactions associated with vacation ownership operations.

The Company recognizes revenue from vacation ownership transactions in accordance with SFAS No. 152. Revenues are not recognized until such time as a 10% minimum down payment (initial investment) and any incentives given at the time of sale have been received and the buyer's commitment satisfies the requirements of SFAS No. 152. If the buyer's investment has not met the minimum investment criteria of SFAS No. 152, the revenue associated with the sale of the VOI and the related costs of sales and direct costs are deferred. SFAS No. 152 also requires that the Company record the estimate of uncollectible vacation ownership contract receivables, without consideration of estimated inventory recoveries, at the time a vacation ownership transaction is consummated as a reduction of net revenue. In addition, SFAS No. 152 requires a change in accounting for inventory and cost of sales such that cost of sales is allocated based on a relative sales value method, under which cost of sales is calculated as an estimated percentage of net sales.

Changes in Accounting Policies during 2008

Fair Value Measurements. In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 explains the definition of fair value 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. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. In February 2008, the FASB issued Staff Position (“FSP”) 157-2, “Effective Date of Statement No. 157” which deferred the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. The Company adopted SFAS No. 157 on January 1, 2008, as required, for financial assets and financial liabilities. There was no material impact on the Company’s Consolidated Financial Statements resulting from the adoption. See Note 7—Fair Value for a further explanation of the adoption.

The Fair Value Option for Financial Assets and Financial Liabilities. In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115” (“SFAS No. 159”). SFAS No. 159 permits entities to choose to measure many financial instruments at fair value that are not currently required to be measured at fair value. It also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The Company adopted SFAS No. 159 on January 1, 2008, as required, but elected not to remeasure any assets. Therefore, there was no impact on the Company’s Consolidated Financial Statements resulting from the adoption.

Staff Accounting Bulletin No. 110. In December 2007, the SEC issued Staff Accounting Bulletin (“SAB”) No. 110 (“SAB 110”). SAB 110 expresses the views of the SEC regarding the use of a “simplified” method, as discussed in SAB 107, “Share-Based Payment”, in developing an estimate of the expected term of “plain vanilla” share options in accordance with SFAS No. 123(R). As permitted by SAB 110, the Company will continue to use the simplified method as the Company does not have sufficient historical data to estimate the expected term of its share based awards.

Recently Issued Accounting Pronouncements

Business Combinations. In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations” (“SFAS No. 141(R)”), replacing SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS No. 141(R) also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently evaluating the impact of the adoption of SFAS No. 141(R) on its Consolidated Financial Statements.

Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51. In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51” (“SFAS No. 160”). SFAS No. 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. In addition to the amendments to ARB No. 51, SFAS No. 160 amends SFAS No. 128; such that earnings per share data will continue to be calculated the same way that such data were calculated before this Statement was issued. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company is currently evaluating the impact of the adoption of SFAS No. 160 on its Consolidated Financial Statements.

Disclosure about Derivative Instruments and Hedging Activities—an amendment of SFAS No. 133. In March 2008, the FASB issued SFAS No. 161 “Disclosure about Derivative Instruments and Hedging Activities—an amendment of SFAS No. 133” (“SFAS No. 161”). SFAS No. 161 requires specific disclosures regarding the location and amounts of derivative instruments in the Company’s financial statements; how derivative instruments and related hedged items are accounted for; and how derivative instruments and related hedged items affect the Company’s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years and interim periods after November 15, 2008. The Company is currently evaluating the impact of the adoption of SFAS No. 161 on its Consolidated Financial Statements.

2. Earnings Per Share

The computation of basic and diluted earnings per share (“EPS”) is based on the Company’s net income divided by the basic weighted average number of common shares and diluted weighted average number of common shares, respectively.

The following table sets forth the computation of basic and diluted EPS:

	Three Months Ended	
	March 31,	
	2008	2007
Net income	\$ 42	\$ 86
Basic weighted average shares outstanding	177	188
Stock options and restricted stock units	1	2
Diluted weighted average shares outstanding	178	190

Earnings per share:

Basic	\$ 0.24	\$ 0.46
Diluted	0.24	0.45

The computations of diluted earnings per share available to common stockholders for the three months ended March 31, 2008 and 2007 do not include approximately 11 million and 16 million stock options and stock-settled stock appreciation rights (“SSARs”), respectively, as the effect of their inclusion would have been anti-dilutive to earnings per share.

On February 29, 2008, the Company’s Board of Directors declared a dividend of \$0.04 per share payable March 13, 2008 to shareholders of record as of March 6, 2008. On March 13, 2008, the Company paid cash dividends of \$0.04 per share (\$7 million).

3. Intangible Assets

Intangible assets consisted of:

	As of March 31, 2008			As of December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<i>Unamortized Intangible Assets:</i>						
Goodwill	\$ 2,730			\$ 2,723		
Trademarks	\$ 592			\$ 620		
<i>Amortized Intangible Assets:</i>						
Franchise agreements	\$ 597	\$ 262	\$ 335	\$ 597	\$ 257	\$ 340
Trademarks	3	-	3	-	-	-
Other	100	26	74	99	23	76
	<u>\$ 700</u>	<u>\$ 288</u>	<u>\$ 412</u>	<u>\$ 696</u>	<u>\$ 280</u>	<u>\$ 416</u>

As of December 31, 2007, the Company had \$31 million of unamortized vacation ownership trademarks recorded on the Consolidated Balance Sheet. During the first quarter of 2008, the Company recorded a \$28 million impairment charge due to the Company’s initiative to rebrand two of its vacation ownership trademarks to the Wyndham brand. The remaining \$3 million was reclassified to amortized trademarks and will be amortized over the next twelve months.

The changes in the carrying amount of goodwill are as follows:

	Balance at January 1, 2008	Goodwill Acquired during 2008	Adjustments to Goodwill Acquired during 2007	Foreign Exchange and Other	Balance at March 31, 2008
Lodging	\$ 245	\$ -	\$ -	\$ -	\$ 245
Vacation Exchange and Rentals	1,136	-	-	7(*)	1,143
Vacation Ownership	1,342	-	-	-	1,342
Total Company	<u>\$ 2,723</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7</u>	<u>\$ 2,730</u>

(*) Relates to foreign exchange translation adjustments.

Amortization expense relating to amortizable intangible assets was as follows:

	Three Months Ended	
	March 31,	
	2008	2007
Franchise agreements	\$ 5	\$ 5
Other	2	1
Total (*)	<u>\$ 7</u>	<u>\$ 6</u>

(*) Included as a component of depreciation and amortization on the Company's Consolidated Statements of Income.

Based on the Company's amortizable intangible assets as of March 31, 2008, the Company expects related amortization expense as follows:

	Amount
Remainder of 2008	\$ 21
2009	26
2010	24
2011	24
2012	23
2013	21

4. Vacation Ownership Contract Receivables

The Company generates vacation ownership contract receivables by extending financing to the purchasers of VOIs. Current and long-term vacation ownership contract receivables, net consisted of:

	March 31, 2008	December 31, 2007
<i>Current vacation ownership contract receivables:</i>		
Securitized	\$ 250	\$ 248
Other	75	73
	<u>325</u>	<u>321</u>
Less: Allowance for loan losses	(32)	(31)
Current vacation ownership contract receivables, net	<u>\$ 293</u>	<u>\$ 290</u>
<i>Long-term vacation ownership contract receivables:</i>		
Securitized	\$ 2,266	\$ 2,218
Other	752	725
	<u>3,018</u>	<u>2,943</u>
Less: Allowance for loan losses	(284)	(289)
Long-term vacation ownership contract receivables, net	<u>\$ 2,734</u>	<u>\$ 2,654</u>

Principal payments that are contractually due on the Company's vacation ownership contract receivables during the next twelve months are classified as current on the Company's Consolidated Balance Sheets. During the three months ended March 31, 2008 and 2007, the Company originated vacation ownership receivables of \$360 million and \$341 million, respectively, and received principal collections of \$206 million and \$178 million, respectively. The weighted average interest rate on outstanding vacation ownership contract receivables was 12.5% as of both March 31, 2008 and December 31, 2007.

The activity in the allowance for loan losses on vacation ownership contract receivables was as follows:

	Amount
Allowance for loan losses as of January 1, 2008	\$ (320)
Provision for loan losses	(82)
Contract receivables written-off	86
Allowance for loan losses as of March 31, 2008	<u>\$ (316)</u>

In accordance with SFAS No. 152, the Company recorded a provision for loan losses of \$82 million and \$61 million as a reduction of net revenues during the three months ended March 31, 2008 and 2007, respectively.

5. Inventory

Inventory consisted of:

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Land held for VOI development	\$ 156	\$ 170
VOI construction in process	561	562
Completed inventory and vacation credits (*)	<u>521</u>	<u>503</u>
Total inventory	1,238	1,235
Less: Current portion	<u>588</u>	<u>586</u>
Non-current inventory	<u>\$ 650</u>	<u>\$ 649</u>

(*) Includes estimated recoveries of \$128 million as of both March 31, 2008 and December 31, 2007.

Inventory that the Company expects to sell within the next twelve months is classified as current on the Company's Consolidated Balance Sheets.

6. Long-Term Debt and Borrowing Arrangements

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Securitized vacation ownership debt:		
Term notes	\$ 1,278	\$ 1,435
Bank conduit facility (a)	<u>841</u>	<u>646</u>
Total securitized vacation ownership debt	2,119	2,081
Less: Current portion of securitized vacation ownership debt	<u>268</u>	<u>237</u>
Long-term securitized vacation ownership debt	<u>\$ 1,851</u>	<u>\$ 1,844</u>
Long-term debt:		
6.00% senior unsecured notes (due December 2016) (b)	\$ 797	\$ 797
Term loan (due July 2011)	300	300
Revolving credit facility (due July 2011) (c)	95	97
Vacation ownership bank borrowings	181	164
Vacation rentals capital leases	165	154
Other	<u>14</u>	<u>14</u>
Total long-term debt	1,552	1,526
Less: Current portion of long-term debt	<u>193</u>	<u>175</u>
Long-term debt	<u>\$ 1,359</u>	<u>\$ 1,351</u>

(a) Represents a 364-day vacation ownership bank conduit facility with availability of \$1,200 million, which expires in October 2008. The capacity is subject to the Company's ability to provide additional assets to collateralize the facility (see below).

(b) The balance at March 31, 2008 represents \$800 million aggregate principal less \$3 million of unamortized discount.

(c) The revolving credit facility has a total capacity of \$900 million, which includes availability for letters of credit. As of March 31, 2008, the Company had \$68 million of letters of credit outstanding and, as such, the total available capacity of the revolving credit facility was \$737 million.

The Company's outstanding debt as of March 31, 2008 matures as follows:

	<u>Securitized Vacation Ownership Debt</u>	<u>Debt</u>	<u>Total</u>
Within 1 year	\$ 268	\$ 193	\$ 461
Between 1 and 2 years	329	11	340
Between 2 and 3 years	682	22	704
Between 3 and 4 years	131	407	538
Between 4 and 5 years	139	12	151
Thereafter	<u>570</u>	<u>907</u>	<u>1,477</u>
	<u>\$ 2,119</u>	<u>\$ 1,552</u>	<u>\$ 3,671</u>

As debt maturities of the securitized vacation ownership debt are based on the contractual payment terms of the underlying vacation ownership contract receivables, actual maturities may differ as a result of prepayments by the vacation ownership contract receivable obligors.

The revolving credit facility and unsecured term loan include covenants, including the maintenance of specific financial ratios. These financial covenants consist of a minimum interest coverage ratio of at least 3.0 times as of the measurement date and a maximum leverage ratio not to exceed 3.5 times on the measurement date. The interest coverage ratio is calculated by dividing EBITDA (as defined in the credit agreement and Note 12 to the Consolidated Financial Statements) by Interest Expense (as defined in the credit agreement), excluding interest expense on any Securitization Indebtedness and on Non-Recourse Indebtedness (as the two terms are defined in the credit agreement), both as measured on a trailing 12 month basis preceding the measurement date. The leverage ratio is calculated by dividing Consolidated Total Indebtedness (as defined in the credit agreement) excluding any Securitization Indebtedness and any Non-Recourse Secured debt as of the measurement date by EBITDA as measured on a trailing 12 month basis preceding the measurement date. Covenants in these credit facilities also include limitations on indebtedness of material subsidiaries; liens; mergers, consolidations, liquidations, dissolutions and sales of all or substantially all assets; and sale and leasebacks. Events of default in these credit facilities include nonpayment of principal when due; nonpayment of interest, fees or other amounts; violation of covenants; cross payment default and cross acceleration (in each case, to indebtedness (excluding securitization indebtedness) in excess of \$50 million); and a change of control (the definition of which permitted the Company's separation (the "Separation") from Cendant Corporation ("Cendant" or "former Parent")).

The 6.00% senior unsecured notes contain various covenants including limitations on liens, limitations on sale and leasebacks, and change of control restrictions. In addition, there are limitations on mergers, consolidations and sales of all or substantially all assets. Events of default in the notes include nonpayment of interest, nonpayment of principal, breach of a covenant or warranty, cross acceleration of debt in excess of \$50 million, and bankruptcy related matters.

As of March 31, 2008, the Company was in compliance with all of the covenants described above including the required financial ratios.

As of March 31, 2008, available capacity under the Company's borrowing arrangements was as follows:

	Total Capacity	Outstanding Borrowings	Available Capacity
Securitized vacation ownership debt:			
Term notes	\$ 1,278	\$ 1,278	\$ —
Bank conduit facility	1,200	841	359
Total securitized vacation ownership debt (a)	<u>\$ 2,478</u>	<u>\$ 2,119</u>	<u>\$ 359</u>
Long-term debt:			
6.00% senior unsecured notes (due December 2016)	\$ 797	\$ 797	\$ —
Term loan (due July 2011)	300	300	—
Revolving credit facility (due July 2011) (b)	900	95	805
Vacation ownership bank borrowings (c)	205	181	24
Vacation rentals capital leases (d)	165	165	—
Other	14	14	—
Total long-term debt	<u>\$ 2,381</u>	<u>\$ 1,552</u>	829
Less: Issuance of letters of credit (b)			<u>68</u>
			<u>\$ 761</u>

- (a) These outstanding borrowings are collateralized by \$2,667 million of underlying vacation ownership contract receivables and related assets. The capacity of the Company's bank conduit facility is subject to the Company's ability to provide additional assets to collateralize such facility.
- (b) The capacity under the Company's revolving credit facility includes availability for letters of credit. As of March 31, 2008, the available capacity of \$805 million was further reduced by \$68 million for the issuance of letters of credit.
- (c) These borrowings are collateralized by \$224 million of underlying vacation ownership contract receivables. The capacity of this facility is subject to maintaining sufficient assets to collateralize these secured obligations.
- (d) These leases are recorded as capital lease obligations with corresponding assets classified within property and equipment on the Consolidated Balance Sheets.

Interest expense incurred in connection with the Company's securitized vacation ownership debt amounted to \$33 million and \$23 million during the three months ended March 31, 2008 and 2007, respectively, and is recorded within operating expenses on the Consolidated Statements of Income. Cash paid related to such interest expense was \$27 million and \$20 million during the three months ended March 31, 2008 and 2007, respectively.

Interest expense incurred in connection with the Company's other debt amounted to \$23 million and \$24 million during the three months ended March 31, 2008 and 2007, respectively, and is recorded within the interest expense line item on the Consolidated Statements of Income. Cash paid related to such interest expense was \$13 million and \$9 million during the three months ended March 31, 2008 and 2007, respectively.

Interest expense is partially offset on the Consolidated Statements of Income by capitalized interest of \$4 million and \$6 million during the three months ended March 31, 2008 and 2007, respectively.

7. Fair Value

Effective January 1, 2008, the Company adopted SFAS No. 157, which requires additional disclosures about the Company's assets and liabilities that are measured at fair value. The following table presents information about the Company's financial assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2008, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value driver are observable.

Level 3: Unobservable inputs used when little or no market data is available.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement falls has been determined based on the lowest level input (closest to Level 3) that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

	As of March 31, 2008	Fair Value Measure on a Recurring Basis	
		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Derivative instruments (a)	\$ 14	\$ 14	\$ —
Securities available-for-sale (b)	5	—	5
Total assets	<u>19</u>	<u>14</u>	<u>5</u>
Liabilities:			
Derivative instruments (c)	<u>81</u>	<u>81</u>	<u>—</u>

(a) Included in other current assets and other non-current assets on the Company's Consolidated Balance Sheet.

(b) Included in other non-current assets on the Company's Consolidated Balance Sheet.

(c) Included in accrued expenses and other current liabilities and other non-current liabilities on the Company's Consolidated Balance Sheet.

The Company's derivative instruments are pay-fixed/receive-variable interest rate swaps, interest rate caps, foreign exchange forward contracts and foreign exchange average rate forward contracts. For assets and liabilities that are measured using quoted prices in active markets, the fair value is the published market price per unit multiplied by the number of units held without consideration of transaction costs. Assets and liabilities that are measured using other significant observable inputs are valued by reference to similar assets and liabilities. For these items, a significant portion of fair value is derived by reference to quoted prices of similar assets and liabilities in active markets. For assets and liabilities that are measured using significant unobservable inputs, fair value is derived using a fair value model, such as discounted cash flow model.

The following table presents additional information about financial assets which are measured at fair value on a recurring basis for which the Company has utilized Level 3 inputs to determine fair value as of March 31, 2008:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Securities Available-For- Sale
Balance at January 1, 2008	\$ 5
Balance at March 31, 2008	5

8. Income Taxes

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2003. During the first quarter of 2007, the Internal Revenue Service (“IRS”) opened an examination for Cendant’s taxable years 2003 through 2006 during which the Company was included in Cendant’s tax returns.

The Company adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109” (“FIN 48”) on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized an increase of \$20 million in the liability for unrecognized tax benefits, which was accounted for as a reduction of retained earnings on the Consolidated Balance Sheet at January 1, 2007. During the three months ended March 31, 2008, the Company’s liability for unrecognized tax benefits increased by less than \$1 million. The amount of the unrecognized tax benefits in the long-term income tax payable was \$22 million and \$21 million at March 31, 2008 and December 31, 2007, respectively.

The Company recorded both accrued interest and penalties related to unrecognized tax benefits as a component of provision for income taxes on the Consolidated Statements of Income. The Company recognized less than \$1 million in interest and penalties during both the three months ended March 31, 2008 and 2007.

The Company made cash income tax payments, net of refunds, of \$4 million and \$8 million during the three months ended March 31, 2008 and 2007, respectively. Such payments exclude income tax related payments made to former Parent.

9. Commitments and Contingencies

The Company is involved in claims, legal proceedings and governmental inquiries related to contract disputes, business practices, intellectual property and other matters relating to the Company’s business, including, without limitation, commercial, employment, tax and environmental matters. Such matters include, but are not limited to: (i) for the Company’s vacation ownership business, alleged failure to perform duties arising under management agreements, and claims for construction defects and inadequate maintenance (which are made by property owners’ associations from time to time); and (ii) for the Company’s vacation exchange and rentals business, breach of contract claims by both affiliates and members in connection with their respective agreements and bad faith and consumer protection claims asserted by members. See Part II, Item 1, “Legal Proceedings” for a description of claims and legal actions arising in the ordinary course of the Company’s business. See also Note 13—Separation Adjustments and Transactions with Former Parent and Subsidiaries regarding contingent litigation liabilities resulting from the Separation.

The Company believes that it has adequately accrued for such matters with reserves of \$33 million at March 31, 2008. Such amount is exclusive of matters relating to the Separation. For matters not requiring accrual, the Company believes that such matters will not have a material adverse effect on its results of operations, financial position or cash flows based on information currently available. However, litigation is inherently unpredictable and, although the Company believes that its accruals are adequate and/or that it has valid defenses in these matters, unfavorable resolutions could occur. As such, an adverse outcome from such unresolved proceedings for which claims are awarded in excess of the amounts accrued, if any, could be material to the Company with respect to earnings or cash flows in any given reporting period. However, the Company does not believe that the impact of such unresolved litigation should result in a material liability to the Company in relation to its consolidated financial position or liquidity.

10. Accumulated Other Comprehensive Income

The after-tax components of accumulated other comprehensive income are as follows:

	<u>Currency Translation Adjustments</u>	<u>Unrealized Losses on Cash Flow Hedges, Net</u>	<u>Minimum Pension Liability Adjustment</u>	<u>Accumulated Other Comprehensive Income</u>
Balance, January 1, 2008, net of tax of \$47	\$ 217	\$ (26)	\$ 3	\$ 194
Current period change	7	(19)	—	(12)
Balance, March 31, 2008, net of tax of \$39	<u>\$ 224</u>	<u>\$ (45)</u>	<u>\$ 3</u>	<u>\$ 182</u>

Foreign currency translation adjustments exclude income taxes related to investments in foreign subsidiaries where the Company intends to reinvest the undistributed earnings indefinitely in those foreign operations.

11. Stock-Based Compensation

The Company has a stock-based compensation plan available to grant non-qualified stock options, incentive stock options, SSARs, restricted stock, restricted stock units (“RSUs”) and other stock or cash-based awards to key employees, non-employee directors, advisors and consultants. Under the Wyndham Worldwide Corporation 2006 Equity and Incentive Plan, a maximum of 43.5 million shares of common stock may be awarded. As of March 31, 2008, approximately 20.8 million shares remained available.

Incentive Equity Awards Conversion

Prior to August 1, 2006, all employee stock awards (stock options and RSUs) were granted by Cendant. At the time of Separation, a portion of Cendant’s outstanding equity awards were converted into equity awards of the Company at a ratio of one share of the Company’s common stock for every five shares of Cendant’s common stock. As a result, the Company issued approximately 2 million RSUs and approximately 24 million stock options upon completion of the conversion of existing Cendant equity awards into Wyndham equity awards. As of March 31, 2008, there were no converted RSUs outstanding.

The activity related to the converted stock options for the three months ended March 31, 2008 consisted of the following:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Balance at January 1, 2008	13.6	\$ 36.71
Exercised (a)	(0.1)	20.61
Canceled	(1.1)	59.43
Balance at March 31, 2008 (b)	<u>12.4</u>	<u>\$ 35.04</u>

(a) Stock options exercised during the three months ended March 31, 2008 and 2007 had an intrinsic value of approximately \$275,000 and \$9 million, respectively.

(b) As of March 31, 2008, the Company’s outstanding “in the money” stock options had aggregate intrinsic value of \$2 million. All 12 million options are exercisable as of March 31, 2008. Options outstanding and exercisable as of March 31, 2008 have a weighted average remaining contractual life of 2.4 years.

The following table summarizes information regarding the outstanding and exercisable converted stock options as of March 31, 2008:

<u>Range of Exercise Prices</u>	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
\$10.00 – \$19.99	2.6	\$ 19.74
\$20.00 – \$29.99	1.2	26.53
\$30.00 – \$39.99	3.5	37.50
\$40.00 – \$49.99	5.0	43.17
\$50.00 & above	0.1	64.27
Total Options	<u>12.4</u>	<u>\$ 35.04</u>

Incentive Equity Awards Granted by the Company

The activity related to incentive equity awards granted by the Company for the three months ended March 31, 2008 consisted of the following:

	RSUs		SSARs	
	Number of RSUs	Weighted Average Grant Price	Number of SSARs	Weighted Average Exercise Price
Balance at January 1, 2008	2.6	\$ 34.09	0.9	\$ 34.27
Granted	2.3(b)	22.17	0.7(b)	22.17
Vested/exercised	—	—	—	—
Canceled	(0.1)	32.77	—	—
Balance at March 31, 2008 (a)	4.8(c)	\$ 28.37	1.6(d)	\$ 28.69

- (a) Aggregate unrecognized compensation expense related to SSARs and RSUs was \$125 million as of March 31, 2008 which is expected to be recognized over a weighted average period of 3.2 years.
- (b) Represents awards granted by the Company on February 29, 2008.
- (c) Approximately 4.6 million RSUs outstanding at March 31, 2008 are expected to vest over time.
- (d) Approximately 175,000 of the approximately 1.6 million SSARs are exercisable at March 31, 2008. Since the SSARs were issued to the Company's top four officers, the Company assumes that all remaining unvested SSARs are expected to vest. SSARs outstanding at March 31, 2008 had no intrinsic value and have a weighted average remaining contractual life of 6.1 years.

On February 29, 2008, the Company approved the grant of incentive awards of approximately \$57 million to key employees and senior officers of Wyndham in the form of RSUs and SSARs. These awards will vest ratably over a period of four years.

The fair value of SSARs granted by the Company on February 29, 2008 was estimated on the date of grant using the Black-Scholes option-pricing model with the weighted average assumptions outlined in the table below. Expected volatility is based on both historical and implied volatilities of (i) the Company's stock and (ii) the stock of comparable companies over the estimated expected life of the SSARs. The expected life represents the period of time the SSARs are expected to be outstanding and is based on the "simplified method," as defined in SAB 110. The risk free interest rate is based on yields on U.S. Treasury strips with a maturity similar to the estimated expected life of the SSARs. The dividend yield was based on the Company's annual dividend divided by the closing price of the Company's stock on the date of the grant.

Grant date fair value	\$ 6.74
Expected volatility	35.9%
Expected life	4.25 yrs.
Risk free interest rate	2.4%
Dividend yield/Expected dividend yield	0.72%

Stock-Based Compensation

The Company recorded stock-based compensation expense of \$7 million and \$5 million, during the three months ended March 31, 2008 and 2007, respectively, related to the incentive equity awards granted by the Company. During the three months ended March 31, 2008 and 2007, the Company recognized \$3 million and \$2 million, respectively, of tax benefit for stock-based compensation arrangements on the Consolidated Statements of Income.

12. Segment Information

The reportable segments presented below represent the Company’s operating segments for which separate financial information is available and which is utilized on a regular basis by its chief operating decision maker to assess performance and to allocate resources. In identifying its reportable segments, the Company also considers the nature of services provided by its operating segments. Management evaluates the operating results of each of its reportable segments based upon net revenues and “EBITDA,” which is defined as net income before depreciation and amortization, interest expense (excluding interest on securitized vacation ownership debt), interest income and income taxes, each of which is presented on the Company’s Consolidated Statements of Income. The Company’s presentation of EBITDA may not be comparable to similarly-titled measures used by other companies.

	Three Months Ended March 31,			
	2008		2007	
	Net Revenues	EBITDA	Net Revenues	EBITDA (d)
Lodging	\$ 170	\$ 46	\$ 152	\$ 45
Vacation Exchange and Rentals	341	93	314	85
Vacation Ownership	504	7 ^(c)	549	63
Total Reportable Segments	1,015	146	1,015	193
Corporate and Other ^{(a)(b)}	(3)	(16)	(3)	(1)
Total Company	<u>\$ 1,012</u>	<u>\$ 130</u>	<u>\$ 1,012</u>	<u>\$ 192</u>

- (a) Includes the elimination of transactions between segments.
- (b) Includes \$3 million of a net expense and \$13 million of net benefit, respectively, related to the resolution of and adjustment to certain contingent liabilities and assets and \$10 million and \$8 million, respectively, of corporate costs during the three months ended March 31, 2008 and 2007.
- (c) Includes an impairment charge of \$28 million due to the Company’s initiative to rebrand two of its vacation ownership trademarks to the Wyndham brand.
- (d) Includes separation and related costs of \$3 million and \$3 million for Vacation Ownership and Corporate and Other, respectively, during the three months ended March 31, 2007.

The reconciliation of EBITDA to income before income taxes is noted below:

	Three Months Ended March 31,	
	2008	2007
EBITDA	\$ 130	\$ 192
Depreciation and amortization	44	38
Interest expense (excluding interest on securitized vacation ownership debt)	19	18
Interest income	(3)	(3)
Income before income taxes	<u>\$ 70</u>	<u>\$ 139</u>

13. Separation Adjustments and Transactions with Former Parent and Subsidiaries

Transfer of Cendant Corporate Liabilities and Issuance of Guarantees to Cendant and Affiliates

Pursuant to the Separation and Distribution Agreement, upon the distribution of the Company’s common stock to Cendant shareholders, the Company entered into certain guarantee commitments with Cendant (pursuant to the assumption of certain liabilities and the obligation to indemnify Cendant and Cendant’s former real estate services (“Realogy”) and travel distribution services (“Travelport”) for such liabilities) and guarantee commitments related to deferred compensation arrangements with each of Cendant and Realogy. These guarantee arrangements primarily relate to certain contingent litigation liabilities, contingent tax liabilities, and Cendant contingent and other corporate liabilities, of which the Company assumed and is responsible for 37.5% of these liabilities. The amount of liabilities which were assumed by the Company in connection with the Separation approximated \$342 million and \$349 million at March 31, 2008 and December 31, 2007, respectively. These amounts were comprised of certain Cendant corporate liabilities which were recorded on the books of Cendant as well as additional liabilities which were established for guarantees issued at the date of Separation related to certain unresolved contingent matters and certain others that could arise during the guarantee period. Regarding the guarantees, if any of the companies responsible for all or a portion of such liabilities were to default in its payment of costs or expenses related to any such liability, the Company would be responsible for a portion of the defaulting party or parties’ obligation. The Company also

provided a default guarantee related to certain deferred compensation arrangements related to certain current and former senior officers and directors of Cendant, Realogy and Travelport. These arrangements, which are discussed in more detail below, have been valued upon the Separation in accordance with Financial Interpretation No. 45 (“FIN 45”) “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” and recorded as liabilities on the Consolidated Balance Sheets. To the extent such recorded liabilities are not adequate to cover the ultimate payment amounts, such excess will be reflected as an expense to the results of operations in future periods.

As a result of the sale of Realogy on April 10, 2007, Realogy’s senior debt credit rating was downgraded to below investment grade. Under the Separation Agreement, if Realogy experienced such a change of control and suffered such a ratings downgrade, it was required to post a letter of credit in an amount acceptable to the Company and Avis Budget Group to satisfy the fair value of Realogy’s indemnification obligations for the Cendant legacy contingent liabilities in the event Realogy does not otherwise satisfy such obligations to the extent they become due. On April 26, 2007, Realogy posted a \$500 million irrevocable standby letter of credit from a major commercial bank in favor of Avis Budget Group and upon which demand may be made if Realogy does not otherwise satisfy its obligations for its share of the Cendant legacy contingent liabilities. The letter of credit can be adjusted from time to time based upon the outstanding contingent liabilities. The issuance of this letter of credit does not relieve or limit Realogy’s obligations for these liabilities.

The \$342 million of Separation related liabilities is comprised of \$36 million for litigation matters, \$238 million for tax liabilities, \$40 million for liabilities of previously sold businesses of Cendant, \$19 million for other contingent and corporate liabilities and \$9 million of liabilities where the calculated FIN 45 guarantee amount exceeded the SFAS No. 5 “Accounting for Contingencies” liability assumed at the date of Separation (of which \$7 million of the \$9 million pertain to litigation liabilities). In connection with these liabilities, \$109 million are recorded in current due to former Parent and subsidiaries and \$242 million are recorded in long-term due to former Parent and subsidiaries at March 31, 2008 on the Consolidated Balance Sheet. The Company is indemnifying Cendant for these contingent liabilities and therefore any payments would be made to the third party through the former Parent. The \$9 million relating to the FIN 45 guarantees is recorded in other current liabilities at March 31, 2008 on the Consolidated Balance Sheet. In addition, at March 31, 2008, the Company has \$9 million of receivables due from former Parent and subsidiaries primarily relating to income tax refunds, which is recorded in current due from former Parent and subsidiaries on the Consolidated Balance Sheet. Such receivables totaled \$18 million at December 31, 2007.

Following is a discussion of the liabilities on which the Company issued guarantees. The timing of payment, if any, related to these liabilities cannot be reasonably predicted because the distribution dates are not fixed:

- **Contingent litigation liabilities** The Company assumed 37.5% of liabilities for certain litigation relating to, arising out of or resulting from certain lawsuits in which Cendant is or was named as the defendant. The Company will indemnify Cendant to the extent that Cendant is required to make payments related to any of the underlying lawsuits until all of the lawsuits are resolved. Since the Separation, Cendant settled all but one of these lawsuits and the Company assumed a portion of the related indemnification obligations. As discussed above, for each settlement, the Company paid 37.5% of the aggregate settlement amount to Cendant. The Company’s payment obligations under the settlements were greater or less than the Company’s accruals, depending on the matter. During 2007, Cendant received an adverse order in the remaining litigation matter for which the Company retains a 37.5% indemnification obligation. The Company increased its contingent litigation accrual for this matter by \$27 million as of December 31, 2007. Such accrual was increased by an additional \$1 million as of March 31, 2008.
- **Contingent tax liabilities** The Company is liable for 37.5% of certain contingent tax liabilities and will pay to Cendant the amount of taxes allocated pursuant to the Tax Sharing Agreement for the payment of certain taxes. This liability will remain outstanding until tax audits related to the 2006 tax year are completed or the statutes of limitations governing the 2006 tax year have passed. The Company’s maximum exposure cannot be quantified as tax regulations are subject to interpretation and the outcome of tax audits or litigation is inherently uncertain.
- **Cendant contingent and other corporate liabilities** The Company has assumed 37.5% of corporate liabilities of Cendant including liabilities relating to (i) Cendant’s terminated or divested businesses, (ii) liabilities relating to the Travelport sale, if any, and (iii) generally any actions with respect to the Separation plan or the distributions brought by any third party. The Company’s maximum exposure to loss cannot be quantified as this guarantee relates primarily to future claims that may be made against Cendant. The Company assessed the probability and amount of potential liability related to this guarantee based on the extent and nature of historical experience.
- **Guarantee related to deferred compensation arrangements** In the event that Cendant, Realogy and/or Travelport are not able to meet certain deferred compensation obligations under specified plans for certain

current and former officers and directors because of bankruptcy or insolvency, the Company has guaranteed such obligations (to the extent relating to amounts deferred in respect of 2005 and earlier). This guarantee will remain outstanding until such deferred compensation balances are distributed to the respective officers and directors. The maximum exposure cannot be quantified as the guarantee, in part, is related to the value of deferred investments as of the date of the requested distribution.

Transactions with Avis Budget Group, Realogy and Travelport

Prior to the Company's Separation from Cendant, it entered into a Transition Services Agreement ("TSA") with Avis Budget Group, Realogy and Travelport to provide for an orderly transition to becoming an independent company. Under the TSA, Cendant agrees to provide the Company with various services, including services relating to human resources and employee benefits, payroll, financial systems management, treasury and cash management, accounts payable services, telecommunications services and information technology services. In certain cases, services provided by Cendant under the TSA may be provided by one of the separated companies following the date of such company's separation from Cendant. Such services were no longer required as of December 31, 2007. For the three months ended March 31, 2007, the Company recorded \$6 million of expenses in the Consolidated Statements of Income related to these agreements.

Separation and Related Costs

During the three months ended March 31, 2007, the Company incurred costs of \$6 million, in connection with executing the Separation, consisting primarily of expenses related to the rebranding initiative at the Company's vacation ownership business and certain transitional expenses.

14. Related Party Transactions

Income Taxes, net

Prior to the Separation, the Company was included in the consolidated federal and state income tax returns of Cendant through the Separation date for the 2006 period then ended. Balances due to Cendant for these pre-Separation tax returns and related tax attributes were estimated as of December 31, 2006 and have since been adjusted in connection with the filing of the pre-Separation tax returns. These balances will again be adjusted after the ultimate settlement of the related tax audits of these periods.

Related Party Agreements

Prior to the Separation, the Company conducted the following business activities, among others, with Cendant's other business units or newly separated companies, as applicable: (i) provision of access to hotel accommodation and vacation exchange and rentals inventory to be distributed through Travelport; (ii) utilization of employee relocation services, including relocation policy management, household goods moving services and departure and destination real estate related services; (iii) utilization of commercial real estate brokerage services, such as transaction management, acquisition and disposition services, broker price opinions, renewal due diligence and portfolio review; (iv) utilization of corporate travel management services of Travelport; and (v) designation of Cendant's car rental brands, Avis and Budget, as the exclusive primary and secondary suppliers, respectively, of car rental services for the Company's employees. The majority of the related party agreement transactions were settled in cash. The majority of these commercial relationships have continued since the Separation under agreements formalized in connection with the Separation.

15. Subsequent Events

Dividend Declaration

On April 24, 2008, the Company's Board of Directors declared a dividend of \$0.04 per share payable June 12, 2008 to shareholders of record as of May 29, 2008.

Securitized Vacation Ownership Term Notes

On May 1, 2008, the Company closed an additional series of term notes payable, Sierra Timeshare 2008-1 Receivables Funding, LLC, in the initial principal amount of \$200 million. These borrowings bear interest at a weighted average rate of 8% and are secured by vacation ownership contract receivables. The proceeds from these notes were used primarily to reduce the balance outstanding under the bank conduit facility.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

FORWARD-LOOKING STATEMENTS

This report includes “forward-looking” statements, as that term is defined by the Securities and Exchange Commission in its rules, regulations and releases. Forward-looking statements are any statements other than statements of historical fact, including statements regarding our expectations, beliefs, hopes, intentions or strategies regarding the future. In some cases, forward-looking statements can be identified by the use of words such as “may,” “expects,” “should,” “believes,” “plans,” “anticipates,” “estimates,” “predicts,” “potential,” “continue,” or other words of similar meaning. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those discussed in, or implied by, the forward-looking statements. Factors that might cause such a difference include, but are not limited to, general economic conditions, our financial and business prospects, our capital requirements, our financing prospects, our relationships with associates and those disclosed as risks under “Risk Factors” in Part I, Item 1A, in our Annual Report filed on Form 10-K with the Commission on February 29, 2008. We caution readers that any such statements are based on currently available operational, financial and competitive information, and they should not place undue reliance on these forward-looking statements, which reflect management’s opinion only as of the date on which they were made. Except as required by law, we disclaim any obligation to review or update these forward-looking statements to reflect events or circumstances as they occur.

BUSINESS AND OVERVIEW

We are a global provider of hospitality products and services and operate our business in the following three segments:

- **Lodging**—franchises hotels in the upscale, midscale and economy segments of the lodging industry and provides property management services to owners of our luxury, upscale and midscale hotels.
- **Vacation Exchange and Rentals**—provides vacation exchange products and services to owners of intervals of vacation ownership interests, or VOIs, and markets vacation rental properties primarily on behalf of independent owners.
- **Vacation Ownership**—markets and sells VOIs to individual consumers, provides consumer financing in connection with the sale of VOIs and provides property management services at resorts.

RESULTS OF OPERATIONS

Discussed below are our key operating statistics, consolidated results of operations and the results of operations for each of our reportable segments. The reportable segments presented below represent our operating segments for which separate financial information is available and which is utilized on a regular basis by our chief operating decision maker to assess performance and to allocate resources. In identifying our reportable segments, we also consider the nature of services provided by our operating segments. Management evaluates the operating results of each of our reportable segments based upon net revenues and EBITDA. Our presentation of EBITDA may not be comparable to similarly-titled measures used by other companies.

OPERATING STATISTICS

The following table presents our operating statistics for the three months ended March 31, 2008 and 2007. See Results of Operations section for a discussion as to how these operating statistics affected our business for the periods presented.

	Three Months Ended March 31,		
	2008	2007	% Change
Lodging			
Number of rooms (a)	551,100	539,300	2
RevPAR (b)	\$ 32.21	\$ 31.35	3
Royalty, marketing and reservation revenues (in 000s) (c)	\$ 104,162	\$ 105,426	(1)
Vacation Exchange and Rentals			
Average number of members (000s) (d)	3,632	3,474	5
Annual dues and exchange revenues per member (e)	\$ 150.84	\$ 155.60	(3)
Vacation rental transactions (in 000s) (f)	387	398	(3)
Average net price per vacation rental (g)	\$ 412.74	\$ 349.73	18
Vacation Ownership			
Gross VOI sales (in 000s) (h)	\$ 458,000	\$ 430,000	7
Tours (i)	255,000	240,000	6
Volume Per Guest ("VPG") (j)	\$ 1,668	\$ 1,607	4

(a) Represents the number of rooms at lodging properties at the end of the period which are either (i) under franchise and/or management agreements, (ii) properties affiliated with Wyndham Hotels and Resorts brand for which we receive a fee for reservation and/or other services provided and (iii) properties managed under the CHI Limited joint venture. The amounts in 2008 and 2007 include 4,367 and 4,677 affiliated rooms, respectively.

(b) Represents revenue per available room and is calculated by multiplying the percentage of available rooms occupied during the period by the average rate charged for renting a lodging room for one day.

(c) Royalty, marketing and reservation revenues are typically based on a percentage of the gross room revenues of each hotel. Royalty revenue is generally a fee charged to each franchised or managed hotel for the use of one of our trade names, while marketing and reservation revenues are fees that we collect and are contractually obligated to spend to support marketing and reservation activities.

(d) Represents members in our vacation exchange programs who pay annual membership dues. For additional fees, such participants are entitled to exchange intervals for intervals at other properties affiliated with our vacation exchange business. In addition, certain participants may exchange intervals for other leisure-related products and services.

(e) Represents total revenues from annual membership dues and exchange fees generated for the period divided by the average number of vacation exchange members during the year.

(f) Represents the gross number of transactions that are generated in connection with customers booking their vacation rental stays through us. In our European vacation rentals businesses, one rental transaction is recorded each time a standard one-week rental is booked; however, in the United States, one rental transaction is recorded each time a vacation rental stay is booked, regardless of whether it is less than or more than one week.

(g) Represents the net rental price generated from renting vacation properties to customers divided by the number of rental transactions. On a comparable basis (excluding the impact of foreign exchange movements), such increase was 9%.

(h) Represents gross sales of VOIs (including tele-sales upgrades, which are a component of upgrade sales) before deferred sales and loan loss provisions.

(i) Represents the number of tours taken by guests in our efforts to sell VOIs.

(j) Represents revenue per guest and is calculated by dividing the gross VOI sales, excluding tele-sales upgrades, which are a component of upgrade sales, by the number of tours.

THREE MONTHS ENDED MARCH 31, 2008 VS. THREE MONTHS ENDED MARCH 31, 2007

Our consolidated results are as follows:

	Three Months Ended March 31,		
	2008	2007	Change
Net revenues	\$ 1,012	\$ 1,012	\$ —
Expenses	927	858	69
Operating income	85	154	(69)
Other income, net	(1)	—	(1)
Interest expense	19	18	1
Interest income	(3)	(3)	—
Income before income taxes	70	139	(69)
Provision for income taxes	28	53	(25)
Net income	<u>\$ 42</u>	<u>\$ 86</u>	<u>\$ (44)</u>

During the first quarter of 2008, our net revenues remained flat as compared to the first quarter of 2007. Net revenues were favorably impacted by (i) a \$28 million increase in gross sales of VOIs at our vacation ownership businesses due to higher tour flow and an increase in VPG; (ii) a \$21 million increase in net revenues from rental transactions primarily due to an increase in the average net price per rental, including the favorable impact of foreign exchange movements and the conversion of two of our Landal parks from franchised to managed; (iii) an \$18 million increase in net consumer financing revenues earned on vacation ownership contract receivables due primarily to growth in the portfolio; (iv) an \$18 million increase in net revenues in our lodging business, primarily due to incremental reimbursable revenues, incremental net revenues generated by our TripRewards loyalty program and RevPAR growth; (v) \$11 million of incremental property management fees within our vacation ownership business primarily as a result of growth in the number of units under management; (vi) a \$6 million increase in ancillary revenues at our vacation ownership business resulting from higher VOI sales; (vii) a \$4 million increase in ancillary revenues at our vacation exchange and rentals business and (viii) a \$2 million increase in annual dues and exchange revenues due to growth in the average number of members and favorable transaction pricing, partially offset by a decline in exchange transactions per member. Such favorability in net revenues was offset by (i) a net increase of \$76 million in deferred revenue of VOI sales under the percentage-of-completion method of accounting at our vacation ownership business and (ii) a \$31 million increase in our provision for loan losses at our vacation ownership business. The net revenue increase at our vacation exchange and rentals business includes the favorable impact of foreign currency translation of \$16 million.

Total expenses increased \$69 million (8%) principally reflecting (i) a \$48 million increase in operating and administrative expenses primarily related to increased payroll costs paid on behalf of property owners in our lodging business and for which we are reimbursed by the property owners, increased volume-related expenses and staffing costs due to growth in our vacation exchange and rentals and vacation ownership businesses, increased interest expense on our securitized debt, which is included in operating expenses, increased costs related to the property management services that we provide at our vacation ownership business, increased resort services expenses at our vacation exchange and rentals business resulting from increased Landal park volume and the conversion of two of our Landal parks from franchised to managed and increased costs related to sales incentives awarded to owners at our vacation ownership business; (ii) a \$28 million impairment charge recorded at our vacation ownership business due to our initiative to rebrand two of our vacation ownership trademarks to the Wyndham brand; (iii) a \$16 million increase in marketing and reservation expenses primarily resulting from increased marketing initiatives across our lodging and vacation ownership businesses; (iv) a \$16 million net increase in expenses related to the resolution of and adjustment to certain contingent liabilities and assets; and (v) the unfavorable impact of foreign currency translation on expenses at our vacation exchange and rentals business of \$12 million. These increases were partially offset by (i) \$36 million of increased deferred expenses related to the net increase in deferred revenue at our vacation ownership business, as discussed above; (ii) \$12 million of decreased cost of sales primarily due to increased estimated recoveries associated with the increase in our provision for loan losses, as discussed above, partially offset by the impact to cost of sales from increased VOI sales; and (iii) \$6 million of decreased costs related to our separation from Cendant (the "Separation").

The increase in depreciation and amortization of \$6 million primarily reflecting increased capital investments over the past twelve months. Other income, net increased \$1 million primarily due to net earnings on equity investments. Interest expense increased \$1 million in the first quarter of 2008 as compared to the first quarter of 2007 due to lower capitalized interest at our vacation ownership business, partially offset by lower interest paid on our long-term debt facilities. Interest income remained flat quarter over quarter. Our effective tax rate increased to 40% during the first quarter of 2008 from

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38% during the first quarter of 2007 primarily due to an increase in non-deductible items in foreign tax jurisdictions. We cannot estimate the effect of legacy matters for the remainder of 2008. Excluding the tax impact on such matters, we expect our effective tax rate to approximate 38%.

As a result of these items, our net income decreased \$44 million as compared to the first quarter of 2007.

Following is a discussion of the results of each of our reportable segments during the first quarter:

	Net Revenues			EBITDA		
	2008	2007	% Change	2008	2007	% Change
Lodging	\$ 170	\$ 152	12	\$ 46	\$ 45	2
Vacation Exchange and Rentals	341	314	9	93	85	9
Vacation Ownership	504	549	(8)	7	63	(89)
Total Reportable Segments	1,015	1,015	—	146	193	(24)
Corporate and Other ^(a)	(3)	(3)	*	(16)	(1)	*
Total Company	\$ 1,012	\$ 1,012	—	130	192	(32)
Less: Depreciation and amortization				44	38	
Interest expense (excluding interest on securitized vacation ownership debt)				19	18	
Interest income				(3)	(3)	
Income before income taxes				\$ 70	\$ 139	

(*) Not meaningful.

(a) Includes the elimination of transactions between segments.

Lodging

Net revenues and EBITDA increased \$18 million (12%) and \$1 million (2%), respectively, during the first quarter of 2008 compared to the first quarter of 2007 primarily reflecting incremental property management reimbursable revenues and fees generated upon execution of franchise contracts and other services provided to franchisees. Such increases were offset in EBITDA by increased expenses, particularly for expenses associated with incremental property management reimbursable revenues and marketing activities.

The increase in net revenues includes (i) \$12 million of incremental reimbursable revenues earned by our property management business, (ii) \$3 million of incremental revenue generated by our TripRewards loyalty program primarily due to increased member stays and (iii) a \$4 million increase in other revenue primarily due to fees generated upon execution of franchise contracts and ancillary services that we provide to our franchisees. Royalty, marketing and reservation revenues decreased by \$1 million despite RevPAR growth of 3% and a 2% increase in the number of rooms primarily due to (i) a higher mix of international properties, which generally carry lower royalty and marketing and reservation rates than domestic properties, and (ii) incremental development advance note amortization, which is recorded net within revenues. The \$12 million of incremental reimbursable revenues earned by our property management business primarily relates to payroll costs that we incur and pay on behalf of property owners, for which we are reimbursed by the property owner. As the reimbursements are made based upon cost with no added margin, the recorded revenue is offset by the associated expense and there is no resultant impact on EBITDA. The growth in RevPAR was driven by price increases, reflecting the beneficial impact of management and marketing initiatives and an increased focus on quality enhancements, including strengthening our brand standards.

EBITDA further reflects \$5 million of higher marketing expenses primarily relating to (i) incremental expenditures in our TripRewards loyalty program and (ii) additional campaigns in international regions that we have targeted for growth.

As of March 31, 2008, we had approximately 6,550 properties and approximately 551,100 rooms in our system. Additionally, our hotel development pipeline included approximately 930 hotels and approximately 106,900 rooms, of which approximately 35% were international and approximately 45% were new construction as of March 31, 2008.

Vacation Exchange and Rentals

Net revenues and EBITDA increased \$27 million (9%) and \$8 million (9%), respectively, during the first quarter of 2008 compared with the first quarter of 2007. The increase in net revenues primarily reflects a \$21 million increase in net revenues from rental transactions and related services, a \$2 million increase in annual dues and exchange revenues and a \$4 million increase in ancillary revenues. Net revenue and expense increases include \$16 million and \$12 million, respectively, of currency translation from a weaker U.S. dollar compared to other foreign currencies.

Net revenues generated from rental transactions and related services increased \$21 million (15%) (or \$8 million (6%), excluding the favorable impact of foreign exchange movements) during the first quarter of 2008 driven by (i) a 14% increase in the average net price per rental (or 5%, excluding the favorable impact of foreign exchange movements) and (ii) the conversion of two of our Landal parks from franchised to managed, which contributed an incremental \$5 million to revenues or 4% to average net price per rental. Such increases were partially offset by a 3% decline in rental transaction volume. Excluding the favorable impact of foreign exchange movements and the conversion of two of our Landal parks from franchised to managed, the 5% increase in average net price per rental was primarily a result of increased pricing at our Landal and Novasol European vacation rental businesses. The decline in rental transaction volume was primarily driven by lower rental volume at our Holiday Cottages business which we believe was due to (i) a continuing trend of customers booking their vacations closer to travel date and (ii) a reduction in internet search engine bookings. Such decline in rental transaction volume was partially offset by increased rentals at our Landal and Novasol businesses, both of which benefited from enhanced marketing programs initiated to support an expansion strategy to provide consumers with broader inventories and more destinations. In addition, our Landal business, which recognizes revenues on a customer arrival basis, also experienced increased arrivals due to the Easter holiday falling in the first quarter of 2008 as compared to the second quarter of 2007.

Annual dues and exchange revenues increased \$2 million (1%) during the first quarter of 2008 compared with the first quarter of 2007 due to a 5% increase in the average number of members, partially offset by a 3% decline in revenue generated per member. The decrease in revenue generated per member was driven by lower exchange transactions per member, partially offset by the impact of favorable transaction pricing. We believe that during the first quarter of 2008, exchange transactions per member were negatively impacted from having a shorter prime season booking window as a result of the Easter holiday falling during the third week in March of 2008, which was two weeks earlier than the holiday fell during 2007. In addition, we believe that recent trends among timeshare vacation ownership developers have been to enroll members in private label clubs, whereby the members have the option to exchange within the club or through other RCI channels. Such trends have a positive impact on the average number of members but an offsetting effect on the number of exchange transactions per average member. Ancillary revenues increased \$4 million during the first quarter of 2008 from various sources, which include fees from additional services provided to transacting members, club servicing revenues, fees from our credit card loyalty program and fees generated from programs with affiliates. The increase in annual dues and exchange revenues and ancillary revenues included the translation effects of foreign exchange movements, which favorably impacted revenues by \$3 million.

EBITDA further reflects an increase in expenses of \$19 million (8%) primarily driven by (i) the unfavorable impact of foreign currency translation on expenses of \$12 million, (ii) \$5 million of increased resort services expenses as a result of increased Landal park volume and the conversion of two of our Landal parks from franchised to managed, as discussed above, and (iii) a \$4 million increase in volume-related expenses, which was substantially comprised of incremental costs to support growth in rental transaction volume at our Landal and Novasol businesses, as discussed above, increased staffing costs to support member growth and increased call volumes.

Vacation Ownership

Net revenues and EBITDA decreased \$45 million (8%) and \$56 million (89%), respectively, during the first quarter of 2008 compared with the first quarter of 2007. The operating results reflect growth in gross VOI sales, consumer finance income and property management fees. Such growth was more than offset by increased deferred revenue related to the percentage-of-completion method of accounting and provision for loan losses. Incremental expenses primarily related to a trademark impairment charge and incremental marketing costs also offset such growth.

Gross sales of VOIs at our vacation ownership business increased \$28 million (7%) during the first quarter of 2008, driven principally by a 6% increase in tour flow and a 4% increase in VPG. Tour flow was positively impacted by the continued growth of our in-house sales programs and the opening of new sales locations. VPG benefited from a favorable tour mix, improved efficiency in our upgrade program and higher pricing. Net revenues were also favorably impacted by (i) \$11 million of incremental property management fees primarily as a result of growth in the number of units under management and (ii) \$6 million of increased ancillary revenues resulting from higher VOI sales. Such revenue increases were partially offset by an increase of \$31 million in our provision for loan losses primarily due to a higher estimate of uncollectible receivables as a percentage of VOI sales financed during the first quarter of 2008 as compared to the first quarter of 2007.

Under the percentage-of-completion method of accounting, a portion of the total revenue associated with the sale of a vacation ownership interest is deferred if the construction of the vacation resort has not yet been fully completed. Such revenue will be recognized in future periods as construction of the vacation resort progresses. Our sales mix during the first quarter of 2008 included higher sales of vacation resorts where construction was still in progress. Thus sales outpaced construction and, as a result, deferred revenue under the percentage-of-completion method of accounting was \$82 million

during the first quarter of 2008 as compared with a recognition benefit of \$4 million during the first quarter of 2007. Accordingly, net revenues and EBITDA comparisons were negatively impacted by \$76 million (after deducting the related provision for loan losses) and \$40 million, respectively, as a result of the net increase in deferred revenue under the percentage-of-completion method of accounting. We anticipate continued sales out of vacation resorts where construction is still in progress during the remainder of 2008. However, these deferred revenues will be somewhat offset by the recognition of previously deferred revenues as construction of these resorts progresses. We expect an increase in deferred revenue of approximately \$40 — \$100 million during the twelve months ended December 31, 2008, of which \$82 million occurred during the first quarter of 2008, as discussed above.

Net revenues and EBITDA comparisons were favorably impacted by \$18 million and \$8 million, respectively, during the first quarter of 2008 due to net interest income of \$66 million earned on contract receivables during the first quarter of 2008 as compared to \$58 million during the first quarter of 2007. Such increase was primarily due to growth in the portfolio, partially offset in EBITDA by higher interest costs during the first quarter of 2008. We incurred interest expense of \$33 million on our securitized debt at a weighted average rate of 4.9% during the first quarter of 2008 compared to \$23 million at a weighted average rate of 5.4% during the first quarter of 2007. Our net interest income margin decreased from 72% during the first quarter of 2007 to 67% during the first quarter of 2008 due to increased securitizations completed after the first quarter of 2007, partially offset by a 45 basis point decrease in interest rates, as described above.

EBITDA was also negatively impacted by \$37 million (8%) of incremental operating, marketing and administrative expenses, exclusive of incremental interest expense on our securitized debt, primarily resulting from (i) a \$28 million impairment charge due to our initiative to rebrand two of our vacation ownership trademarks to the Wyndham brand, (ii) \$11 million of incremental marketing expenses to support sales efforts, (iii) \$9 million of increased costs related to the property management services, as discussed above, (iv) \$7 million of incremental costs primarily incurred to fund additional staffing and sales overhead costs to support continued growth in the business and (v) \$4 million of costs related to sales incentives awarded to owners. Such increases were partially offset by (i) \$12 million of decreased cost of sales primarily due to increased estimated recoveries associated with the increase in our provision for loan losses, as discussed above, partially offset by the impact to cost of sales from increased VOI sales, (ii) the absence of \$3 million in costs related to our Separation recorded during the first quarter of 2007, (iii) \$3 million of decreased costs related to our trial membership marketing program and (iv) the absence of \$2 million of costs recorded during the first quarter of 2007 associated with the repair of one of our completed VOI resorts.

Corporate and Other

Corporate and Other expenses increased \$15 million during the first quarter of 2008 compared with the first quarter of 2007. Such increase primarily includes (i) the absence of a \$13 million net benefit related to the resolution of and adjustment to certain contingent liabilities and assets recorded during the first quarter of 2007, (ii) \$3 million of a net expense related to the resolution of and adjustment to certain contingent liabilities and assets recorded during the first quarter of 2008 and (iii) \$2 million of increased corporate costs incurred during the first quarter of 2008. Such amounts were partially offset by the absence of \$3 million of separation and related costs recorded during the first quarter of 2007 relating to consulting and legal services.

Interest Expense/Interest Income

Interest expense increased \$1 million in the first quarter of 2008 compared with the first quarter of 2007 primarily as a result of a \$2 million decrease in capitalized interest at our vacation ownership business due to lower development of vacation ownership inventory, partially offset by a \$1 million decrease in interest paid on our long-term debt facilities. Interest income remained flat in the first quarter of 2008 compared with the first quarter of 2007.

Other Income, Net

Other income, net includes \$1 million of net earnings primarily from equity investments and is included within our segment EBITDA results.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**FINANCIAL CONDITION**

	March 31, 2008	December 31, 2007	Change
Total assets	\$ 10,822	\$ 10,459	\$ 363
Total liabilities	7,285	6,943	342
Total stockholders' equity	3,537	3,516	21

Total assets increased \$363 million from December 31, 2007 to March 31, 2008 primarily due to (i) a \$134 million increase in trade receivables, net primarily due to the seasonality of bookings and travel at our European vacation rental and travel agency businesses, (ii) an \$83 million increase in vacation ownership contract receivables, net resulting from increased VOI sales, (iii) a \$53 million increase in property and equipment primarily due to building within our vacation ownership business, the impact of currency translation on land, building and capital leases at our vacation exchange and rentals business and construction in progress additions related to property development activity at our lodging business, (iv) a \$45 million increase in other current assets primarily due to increased restricted cash at our vacation ownership business resulting from contractually obligated repairs at one of our VOI resorts and increased VOI sales, (v) a \$29 million increase in other non-current assets primarily due to increased restricted cash and development deposits on VOI resorts at our vacation ownership business and an advance made to a developer at our vacation exchange and rentals business, (vi) an increase of \$19 million in cash and cash equivalents which is discussed in further detail in "Liquidity and Capital Resources—Cash Flows" and (vii) a \$17 million increase in prepaid expenses primarily related to increased maintenance fees and advertising payments at our vacation ownership business and increased camping site fees at our vacation exchange and rental business. Such increases were partially offset by a \$25 million reduction in trademarks primarily due to an impairment relating to our initiative to rebrand two of our vacation ownership trademarks to the Wyndham brand.

Total liabilities increased \$342 million primarily due to (i) a \$146 million increase in deferred income primarily due to increased sales of vacation ownership properties under development, cash received in advance on arrival-based bookings and increased deferred revenue resulting from new enrollments and renewals within our vacation exchange and rentals business, (ii) \$87 million in incremental accounts payable primarily due to seasonality of bookings and travel at our European vacation rental and travel agency businesses, (iii) \$64 million of additional net borrowings reflecting net changes of \$38 million in our securitized vacation ownership debt and \$26 million in our other long-term debt, (iv) a \$28 million increase in other non-current liabilities primarily due to a change in fair value of our derivative instruments due to reduced borrowing rates within our vacation ownership business and corporate and (v) a \$20 million increase in deferred income taxes primarily attributable to higher VOI sales.

Total stockholders' equity increased \$21 million principally due to (i) \$42 million of net income generated during the first quarter of 2008, (ii) a change of \$7 million in deferred equity compensation, (iii) \$7 million of currency translation adjustments and (iv) \$2 million as a result of the exercise of stock options during the first quarter of 2008. Such increases were partially offset by (i) \$19 million of unrealized losses on cash flow hedges, (ii) \$11 million of treasury stock purchased through our stock repurchase program and (iii) the payment of \$7 million in dividends.

LIQUIDITY AND CAPITAL RESOURCES

Currently, our financing needs are supported by cash generated from operations and borrowings under our revolving credit facility. In addition, certain funding requirements of our vacation ownership business are met through the issuance of securitized and other debt to finance vacation ownership contract receivables. We believe that access to our revolving credit facility and our current liquidity vehicles will be sufficient to meet our ongoing needs for the foreseeable future. See Liquidity Risk for a description of the anticipated impact on our securitizations from the adverse conditions suffered by the United States asset-backed securities and commercial paper markets.

CASH FLOWS

During the three months ended March 31, 2008 and 2007, we had a net change in cash and cash equivalents of \$19 million and \$(95) million, respectively. The following table summarizes such changes:

	Three Months Ended March 31,		
	2008	2007	Change
Cash provided by (used in):			
Operating activities	\$ 87	\$ (15)	\$ 102
Investing activities	(94)	(85)	(9)
Financing activities	27	6	21
Effects of changes in exchange rate on cash and cash equivalents	(1)	(1)	—
Net change in cash and cash equivalents	<u>\$ 19</u>	<u>\$ (95)</u>	<u>\$ 114</u>

Operating Activities

During the three months ended March 31, 2008, we generated \$102 million more cash from operating activities as compared to the three months ended March 31, 2007, which principally reflects (i) higher cash received in connection with VOI sales for which the revenue recognition is deferred and (ii) lower investments in vacation ownership inventory. Such changes were partially offset by (i) the timing of payments of accounts payable and accrued expenses and (ii) increased other current assets related to deferred commission costs in connection with the aforementioned deferred revenue from VOI sales.

Investing Activities

During the three months ended March 31, 2008, we used \$9 million more cash for investing activities as compared with the three months ended March 31, 2007. The increase in cash outflows primarily relates to an increase in restricted cash of \$33 million resulting from contractually obligated repairs at one of our VOI resorts and an increase in escrow amounts resulting from timing differences between our deeding and sales processes for certain VOI sales. Such increase in cash outflows were partially offset by a decrease of \$19 million in investments and development advances within our lodging business and investments made within our vacation exchange and rentals business.

Financing Activities

During the three months ended March 31, 2008, we generated \$21 million more cash from financing activities as compared with the three months ended March 31, 2007, which principally reflects (i) \$218 million lower spend on our stock repurchase program and (ii) \$25 million of higher net proceeds from non-securitized borrowings. Such cash inflows were partially offset by (i) \$213 million of lower net proceeds from securitized vacation ownership debt during 2008 and (ii) \$7 million of dividends paid to shareholders.

We intend to continue to invest in capital improvements and technological improvements in our lodging, vacation ownership and vacation exchange and rentals businesses. In addition, we may seek to acquire additional franchise agreements, property management contracts, ownership interests in hotel as part of our mixed-use properties strategy, and exclusive agreements for vacation rental properties on a strategic and selective basis, either directly or through investments in joint ventures. We spent \$39 million on capital expenditures during the first quarter of 2008 including the improvement of technology and maintenance of technological advantages and routine improvements. We anticipate spending approximately \$210 to \$230 million on capital expenditures during the twelve months ended December 31, 2008. In addition, we spent \$73 million relating to vacation ownership development projects during the first quarter of 2008. We anticipate spending approximately \$650 to \$750 million relating to vacation ownership development projects during the twelve months ended December 31, 2008. The majority of the expenditures required to complete our capital spending programs, strategic investments and vacation ownership development projects were financed with cash flow generated through operations. Additional expenditures are financed with general unsecured corporate borrowings, including through the use of available capacity under our \$900 million revolving credit facility.

On August 20, 2007, our Board of Directors authorized a stock repurchase program that enables us to purchase up to \$200 million of our common stock. During the three months ended March 31, 2008, we repurchased 520,199 shares at an average price of \$21.96. The Board of Directors' 2007 authorization included increased repurchase capacity for proceeds received from stock option exercises. During the three months ended March 31, 2008, repurchase capacity increased \$3 million from proceeds received from stock option exercises. During the period April 1, 2008 through May 7, 2008, we repurchased an additional 108,000 shares at an average price of \$19.74. We currently have \$154 million remaining availability in our program. The amount and timing of specific repurchases are subject to market conditions, applicable legal requirements and other factors. Repurchases may be conducted in the open market or in privately negotiated transactions.

The IRS has opened an examination for Cendant's taxable years 2003 through 2006 during which we were included in Cendant's tax returns. Although we and Cendant believe there is appropriate support for the positions taken on its tax returns, we have recorded liabilities representing the best estimates of the probable loss on certain positions. We believe that the accruals for tax liabilities are adequate for all open years, based on assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter. Although we believe the recorded assets and liabilities are reasonable, tax regulations are subject to interpretation and tax litigation is inherently uncertain; therefore, our and Cendant's assessments can involve both a series of complex judgments about future events and rely heavily on estimates and assumptions. While we believe that the estimates and assumptions supporting the assessments are reasonable, the final determination of tax audits and any other related litigation could be materially different than that which is reflected in historical income tax provisions and recorded assets and liabilities. Based on the results of an audit or litigation, a material effect on our income tax provision, net income, or cash flows in the period or periods for which that determination is made could result. The effect is the result of our obligations under the Separation and Distribution Agreement, as discussed in Note 13—Separation Adjustments and Transactions with Former Parent and Subsidiaries. We recorded \$239 million of tax liabilities pursuant to the Separation and Distribution Agreement at December 31, 2007. Such amount, which was \$238 million at March 31, 2008, is recorded within due to former Parent and subsidiaries on the Consolidated Balance Sheet. We expect the payment on a majority of these liabilities to occur during 2010. We expect to make such payment from cash flow generated through operations and the use of available capacity under our \$900 million revolving credit facility.

FINANCIAL OBLIGATIONS

Our indebtedness consisted of:

	<u>March 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
Securitized vacation ownership debt:		
Term notes	\$ 1,278	\$ 1,435
Bank conduit facility (a)	841	646
Total securitized vacation ownership debt	<u>\$ 2,119</u>	<u>\$ 2,081</u>
Long-term debt:		
6.00% senior unsecured notes (due December 2016) (b)	\$ 797	\$ 797
Term loan (due July 2011)	300	300
Revolving credit facility (due July 2011) (c)	95	97
Vacation ownership bank borrowings	181	164
Vacation rentals capital leases	165	154
Other	14	14
Total long-term debt	<u>\$ 1,552</u>	<u>\$ 1,526</u>

(a) Represents a 364-day vacation ownership bank conduit facility with availability of \$1,200 million, which expires in October 2008. The capacity is subject to our ability to provide additional assets to collateralize the facility (see below).

(b) The balance at March 31, 2008 represents \$800 million aggregate principal less \$3 million of unamortized discount.

(c) The revolving credit facility has a total capacity of \$900 million, which includes availability for letters of credit. As of March 31, 2008, we had \$68 million of letters of credit outstanding and, as such, the total available capacity of the revolving credit facility was \$737 million.

On May 1, 2008, we closed an additional series of term notes payable, Sierra Timeshare 2008-1 Receivables Funding, LLC, in the initial principal amount of \$200 million. These borrowings bear interest at a weighted average rate of 8% and are secured by vacation ownership contract receivables. The proceeds from these notes were used primarily to reduce the balance outstanding under the bank conduit facility.

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As of March 31, 2008, available capacity under our borrowing arrangements was as follows:

	<u>Total Capacity</u>	<u>Outstanding Borrowings</u>	<u>Available Capacity</u>
Securitized vacation ownership debt			
Term notes	\$ 1,278	\$ 1,278	\$ —
Bank conduit facility	1,200	841	359
Total securitized vacation ownership debt (a)	<u>\$ 2,478</u>	<u>\$ 2,119</u>	<u>\$ 359</u>
Long-term debt:			
6.00% senior unsecured notes (due December 2016)	\$ 797	\$ 797	\$ —
Term loan (due July 2011)	300	300	—
Revolving credit facility (due July 2011) (b)	900	95	805
Vacation ownership bank borrowings (c)	205	181	24
Vacation rentals capital leases (d)	165	165	—
Other	14	14	—
Total long-term debt	<u>\$ 2,381</u>	<u>\$ 1,552</u>	<u>829</u>
Less: Issuance of letters of credit (b)			<u>68</u>
			<u>\$ 761</u>

- (a) These outstanding borrowings are collateralized by \$2,667 million of underlying vacation ownership contract receivables and related assets. The capacity of our bank conduit facility is subject to our ability to provide additional assets to collateralize such facility.
- (b) The capacity under our revolving credit facility includes availability for letters of credit. As of March 31, 2008, the available capacity of \$805 million was further reduced by \$68 million for the issuance of letters of credit.
- (c) These borrowings are collateralized by \$224 million of underlying vacation ownership contract receivables. The capacity of this facility is subject to maintaining sufficient assets to collateralize these secured obligations.
- (d) These leases are recorded as capital lease obligations with corresponding assets classified within property and equipment on the Consolidated Balance Sheets.

The revolving credit facility and unsecured term loan include covenants, including the maintenance of specific financial ratios. These financial covenants consist of a minimum interest coverage ratio of at least 3.0 times as of the measurement date and a maximum leverage ratio not to exceed 3.5 times on the measurement date. The interest coverage ratio is calculated by dividing EBITDA (as defined in the credit agreement and Note 12 to the Consolidated Financial Statements) by Interest Expense (as defined in the credit agreement), excluding interest expense on any Securitization Indebtedness and on Non-Recourse Indebtedness (as the two terms are defined in the credit agreement), both as measured on a trailing 12 month basis preceding the measurement date. The leverage ratio is calculated by dividing Consolidated Total Indebtedness (as defined in the credit agreement) excluding any Securitization Indebtedness and any Non-Recourse Secured debt as of the measurement date by EBITDA as measured on a trailing 12 month basis preceding the measurement date. Covenants in these credit facilities also include limitations on indebtedness of material subsidiaries; liens; mergers, consolidations, liquidations, dissolutions and sales of all or substantially all assets; and sale and leasebacks. Events of default in these credit facilities include nonpayment of principal when due; nonpayment of interest, fees or other amounts; violation of covenants; cross payment default and cross acceleration (in each case, to indebtedness (excluding securitization indebtedness) in excess of \$50 million); and a change of control (the definition of which permitted our Separation).

The 6.00% senior unsecured notes contain various covenants including limitations on liens, limitations on sale and leasebacks, and change of control restrictions. In addition, there are limitations on mergers, consolidations and sales of all or substantially all assets. Events of default in the notes include nonpayment of interest, nonpayment of principal, breach of a covenant or warranty, cross acceleration of debt in excess of \$50 million, and bankruptcy related matters.

As of March 31, 2008, we were in compliance with all of the covenants described above including the required financial ratios.

LIQUIDITY RISK

Our vacation ownership business finances certain of its receivables through (i) an asset-backed commercial paper facility and (ii) periodically accessing the capital markets by issuing asset-backed securities. None of the currently outstanding asset-backed securities contain any recourse provisions to us other than interest rate risk related to swap counterparties (solely to the extent that the amount outstanding on our notes differs from the forecasted amortization schedule at the time of issuance).

Certain of these asset-backed securities are insured by monoline insurers. Currently, the monoline insurers that we have used in the past and other guarantee insurance providers are under ratings pressure and seeking capital to maintain their credit ratings. Since certain monoline insurers may not be positioned to write new policies, there is a substantial likelihood

that the cost of such insurance may increase or that the insurance may become difficult or impossible to obtain due to (i) decreased competition in that business, including a reduced number of monolines that may issue new policies due to either (a) loss of AAA/Aaa ratings from the rating agencies or (b) lack of confidence of market participants in the value of such insurance and (ii) the increased spreads paid to subordinate bond investors. Our \$200 million 2008-1 term securitization, which closed on May 1, 2008, is a senior/subordinate transaction with no monoline insurance.

Beginning in the third quarter of 2007 and continuing into 2008, the asset-backed securities market and commercial paper markets in the United States suffered adverse conditions and consequently, our cost of securitized borrowings increased due to (i) increased spreads over relevant benchmarks and (ii) increased monoline insurance costs. We expect to access the term securitization market and renew our asset-backed conduit (which is supported by commercial paper) in 2008. To the extent that the recent increases in funding costs in the securitization and commercial paper markets persist, it will negatively impact the cost of such borrowings. A long-term disruption to the asset-backed or commercial paper markets could jeopardize our ability to obtain such financings. While benchmark rates (such as LIBOR and U.S. Treasuries) have declined in recent months, there can be no assurance that such declines will persist, or that credit spreads over those benchmarks will not widen.

Our liquidity position may also be negatively affected by unfavorable conditions in the markets in which we operate. Our liquidity as it relates to our vacation ownership financings could be adversely affected if we were to fail to renew any of the facilities on their renewal dates or if we were to fail to meet certain ratios, which may occur in certain instances if the credit quality of the underlying vacation ownership contract receivables deteriorates. Our ability to sell securities backed by our vacation ownership contract receivables depends on the continued ability and willingness of capital market participants to invest in such securities.

As a result of the sale of Realogy on April 10, 2007, Realogy's senior debt credit rating was downgraded to below investment grade. Under the Separation Agreement, if Realogy experienced such a change of control and suffered such a ratings downgrade, it was required to post a letter of credit in an amount acceptable to us and Avis Budget Group to satisfy the fair value of Realogy's indemnification obligations for the Cendant legacy contingent liabilities in the event Realogy does not otherwise satisfy such obligations to the extent they become due. On April 26, 2007, Realogy posted a \$500 million irrevocable standby letter of credit from a major commercial bank in favor of Avis Budget Group and upon which demand may be made if Realogy does not otherwise satisfy its obligations for its share of the Cendant legacy contingent liabilities. The letter of credit can be adjusted from time to time based upon the outstanding contingent liabilities. The issuance of this letter of credit does not relieve or limit Realogy's obligations for these liabilities.

Our senior unsecured debt is rated BBB and Baa2 by Standard & Poor's and Moody's Investors Service, respectively. During August 2007, Standard & Poor's assigned a "negative outlook" to our senior unsecured debt. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal by the assigning rating organization. Each rating should be evaluated independently of any other rating.

SEASONALITY

We experience seasonal fluctuations in our net revenues and net income from our franchise and management fees, commission income earned from renting vacation properties, annual subscription fees or annual membership dues, as applicable, and exchange transaction fees and sales of VOIs. Revenues from franchise and management fees are generally higher in the second and third quarters than in the first or fourth quarters, because of increased leisure travel during the summer months. Revenues from rental income earned from booking vacation rentals are generally highest in the third quarter, when vacation rentals are highest. Revenues from vacation exchange transaction fees are generally highest in the first quarter, which is generally when members of our vacation exchange business plan and book their vacations for the year. Revenues from sales of VOIs are generally higher in the second and third quarters than in other quarters. The seasonality of our business may cause fluctuations in our quarterly operating results. As we expand into new markets and geographical locations, we may experience increased or different seasonality dynamics that create fluctuations in operating results different from the fluctuations we have experienced in the past.

SEPARATION ADJUSTMENTS AND TRANSACTIONS WITH FORMER PARENT AND SUBSIDIARIES

Transfer of Cendant Corporate Liabilities and Issuance of Guarantees to Cendant and Affiliates

Pursuant to the Separation and Distribution Agreement, upon the distribution of our common stock to Cendant shareholders, we entered into certain guarantee commitments with Cendant (pursuant to the assumption of certain liabilities and the obligation to indemnify Cendant, Realogy and Travelport for such liabilities) and guarantee commitments related to deferred compensation arrangements with each of Cendant and Realogy. These guarantee arrangements primarily relate to certain contingent litigation liabilities, contingent tax liabilities, and Cendant contingent and other corporate liabilities, of which we assumed and are responsible for 37.5% of these liabilities. The amount of liabilities which we assumed in

connection with the Separation approximated \$342 million and \$349 million at March 31, 2008 and December 31, 2007, respectively. These amounts were comprised of certain Cendant corporate liabilities which were recorded on the books of Cendant as well as additional liabilities which were established for guarantees issued at the date of Separation related to certain unresolved contingent matters and certain others that could arise during the guarantee period. Regarding the guarantees, if any of the companies responsible for all or a portion of such liabilities were to default in its payment of costs or expenses related to any such liability, we would be responsible for a portion of the defaulting party or parties' obligation. We also provided a default guarantee related to certain deferred compensation arrangements related to certain current and former senior officers and directors of Cendant, Realogy and Travelport. These arrangements, which are discussed in more detail below, have been valued upon our Separation in accordance with Financial Interpretation No. 45 ("FIN 45") "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" and recorded as liabilities on the Consolidated Balance Sheets. To the extent such recorded liabilities are not adequate to cover the ultimate payment amounts, such excess will be reflected as an expense to the results of operations in future periods.

The \$342 million of Separation related liabilities is comprised of \$36 million for litigation matters, \$238 million for tax liabilities, \$40 million for liabilities of previously sold businesses of Cendant, \$19 million for other contingent and corporate liabilities and \$9 million of liabilities where the calculated FIN 45 guarantee amount exceeded the SFAS No. 5 "Accounting for Contingencies" liability assumed at the date of Separation (of which \$7 million of the \$9 million pertain to litigation liabilities). In connection with these liabilities, \$109 million are recorded in current due to former Parent and subsidiaries and \$242 million are recorded in long-term due to former Parent and subsidiaries at March 31, 2008 on the Consolidated Balance Sheet. We are indemnifying Cendant for these contingent liabilities and therefore any payments would be made to the third party through the former Parent. The \$9 million relating to the FIN 45 guarantees is recorded in other current liabilities at March 31, 2008 on the Consolidated Balance Sheet. In addition, at March 31, 2008, we have \$9 million of receivables due from former Parent and subsidiaries primarily relating to income tax refunds, which is recorded in current due from former Parent and subsidiaries on the Consolidated Balance Sheet. Such receivables totaled \$18 million at December 31, 2007.

Following is a discussion of the liabilities on which we issued guarantees. The timing of payment, if any, related to these liabilities cannot be reasonably predicted because the distribution dates are not fixed:

- **Contingent litigation liabilities** We assumed 37.5% of liabilities for certain litigation relating to, arising out of or resulting from certain lawsuits in which Cendant is or was named as the defendant. We will indemnify Cendant to the extent that Cendant is required to make payments related to any of the underlying lawsuits until all of the lawsuits are resolved. Since the Separation, Cendant settled all but one of these lawsuits and we assumed a portion of the related indemnification obligations. As discussed above, for each settlement, we paid 37.5% of the aggregate settlement amount to Cendant. Our payment obligations under the settlements were greater or less than our accruals, depending on the matter. During 2007, Cendant received an adverse order in the remaining litigation matter for which we retain a 37.5% indemnification obligation. We increased our contingent litigation accrual for this matter by \$27 million as of December 31, 2007. Such accrual was increased by an additional \$1 million as of March 31, 2008.
- **Contingent tax liabilities** We are liable for 37.5% of certain contingent tax liabilities and will pay to Cendant the amount of taxes allocated pursuant to the Tax Sharing Agreement for the payment of certain taxes. This liability will remain outstanding until tax audits related to the 2006 tax year are completed or the statutes of limitations governing the 2006 tax year have passed. Our maximum exposure cannot be quantified as tax regulations are subject to interpretation and the outcome of tax audits or litigation is inherently uncertain.
- **Cendant contingent and other corporate liabilities** We have assumed 37.5% of corporate liabilities of Cendant including liabilities relating to (i) Cendant's terminated or divested businesses, (ii) liabilities relating to the Travelport sale, if any, and (iii) generally any actions with respect to the Separation plan or the distributions brought by any third party. Our maximum exposure to loss cannot be quantified as this guarantee relates primarily to future claims that may be made against Cendant. We assessed the probability and amount of potential liability related to this guarantee based on the extent and nature of historical experience.
- **Guarantee related to deferred compensation arrangements** In the event that Cendant, Realogy and/or Travelport are not able to meet certain deferred compensation obligations under specified plans for certain current and former officers and directors because of bankruptcy or insolvency, we have guaranteed such obligations (to the extent relating to amounts deferred in respect of 2005 and earlier). This guarantee will remain outstanding until such deferred compensation balances are distributed to the respective officers and directors. The maximum exposure cannot be quantified as the guarantee, in part, is related to the value of deferred investments as of the date of the requested distribution.

Transactions with Avis Budget Group, Realogy and Travelport

Prior to our Separation from Cendant, we entered into a Transition Services Agreement (“TSA”) with Avis Budget Group, Realogy and Travelport to provide for an orderly transition to becoming an independent company. Under the TSA, Cendant agrees to provide us with various services, including services relating to human resources and employee benefits, payroll, financial systems management, treasury and cash management, accounts payable services, telecommunications services and information technology services. In certain cases, services provided by Cendant under the TSA may be provided by one of the separated companies following the date of such company’s separation from Cendant. Such services were no longer required as of December 31, 2007. For the three months ended March 31, 2007, we recorded expenses of \$6 million in the Consolidated Statements of Income related to these agreements.

Separation and Related Costs

During the three months ended March 31, 2007, we incurred costs of \$6 million in connection with executing the Separation. Such costs consisted primarily of expenses related to the rebranding initiative at our vacation ownership business and certain transitional expenses. We do not expect to incur any separation and related costs during 2008.

CONTRACTUAL OBLIGATIONS

The following table summarizes our future contractual obligations for the twelve month periods beginning on April 1st of each of the years set forth below:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Thereafter</u>	<u>Total</u>
Securitized debt (a)	\$ 268	\$ 329	\$ 682	\$ 131	\$ 139	\$ 570	\$ 2,119
Long-term debt (b)	193	11	22	407	12	907	1,552
Operating leases	70	66	59	48	36	169	448
Other purchase commitments (c)	374	218	53	61	12	5	723
Contingent liabilities (d)	83	42	217	—	—	—	342
Total (e)	<u>\$ 988</u>	<u>\$ 666</u>	<u>\$ 1,033</u>	<u>\$ 647</u>	<u>\$ 199</u>	<u>\$ 1,651</u>	<u>\$ 5,184</u>

- (a) Amounts exclude interest expense, as the amounts ultimately paid will depend on amounts outstanding under our secured obligations and interest rates in effect during each period.
- (b) Excludes future cash payments related to interest expense on our 6.00% senior unsecured notes and term loan of \$66 million during each year from 2008 through 2010, \$54 million during 2011, \$48 million during 2012 and \$180 million thereafter.
- (c) Primarily represents commitments for the development of vacation ownership properties.
- (d) Primarily represents certain contingent litigation liabilities, contingent tax liabilities and 37.5% of Cendant contingent and other corporate liabilities, which we assumed and are responsible for pursuant to our Separation.
- (e) Excludes \$22 million of our liability for unrecognized tax benefits associated with FIN 48 since it is not reasonably estimatable to determine the periods in which such liability would be settled with the respective tax authorities.

CRITICAL ACCOUNTING POLICIES

In presenting our financial statements in conformity with generally accepted accounting principles, we are required to make estimates and assumptions that affect the amounts reported therein. Several of the estimates and assumptions we are required to make relate to matters that are inherently uncertain as they pertain to future events. However, events that are outside of our control cannot be predicted and, as such, they cannot be contemplated in evaluating such estimates and assumptions. If there is a significant unfavorable change to current conditions, it could result in a material adverse impact to our consolidated results of operations, financial position and liquidity. We believe that the estimates and assumptions we used when preparing our financial statements were the most appropriate at that time. These Consolidated Financial Statements should be read in conjunction with the audited Consolidated and Combined Financial Statements included in the Annual Report filed on Form 10-K with the SEC on February 29, 2008, which includes a description of our critical accounting policies that involve subjective and complex judgments that could potentially affect reported results. Since such date there have been no material changes to our critical accounting policies as to the methodologies or assumptions we apply under them.

Item 3. Quantitative and Qualitative Disclosures About Market Risks.

We assess our market risk based on changes in interest and foreign currency exchange rates utilizing a sensitivity analysis that measures the potential impact in earnings, fair values, and cash flows based on a hypothetical 10% change (increase and decrease) in interest and foreign currency rates. We used March 31, 2008 market rates to perform a sensitivity analysis separately for each of our market risk exposures. The estimates assume instantaneous, parallel shifts in interest rate yield curves and exchange rates. We have determined, through such analyses, that the impact of a 10% change in interest and foreign currency exchange rates and prices on our earnings, fair values and cash flows would not be material.

Item 4. Controls and Procedures.

- (a) *Disclosure Controls and Procedures.* Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective.
- (b) *Internal Control Over Financial Reporting.* There have been no changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the period to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

Wyndham Worldwide Litigation

We are involved in claims and legal actions arising in the ordinary course of our business including but not limited to: for our lodging business—breach of contract, fraud and bad faith claims between franchisors and franchisees in connection with franchise agreements and with owners in connection with management contracts, as well as consumer protection claims, fraud and other statutory claims and negligence claims asserted in connection with alleged acts or occurrences at franchised or managed properties; for our vacation exchange and rentals business—breach of contract claims by both affiliates and members in connection with their respective agreements, bad faith, and consumer protection, fraud and other statutory claims asserted by members and negligence claims by guests for alleged injuries sustained at resorts; for our vacation ownership business—breach of contract, bad faith, conflict of interest, fraud, consumer protection claims and other statutory claims by property owners’ associations, owners and prospective owners in connection with the sale or use of vacation ownership interests, land or the management of vacation ownership resorts, construction defect claims relating to vacation ownership units or resorts and negligence claims by guests for alleged injuries sustained at vacation ownership units or resorts; and for each of our businesses, bankruptcy proceedings involving efforts to collect receivables from a debtor in bankruptcy, employment matters involving claims of discrimination, harassment and wage and hour claims, claims of infringement upon third parties’ intellectual property rights and environmental claims.

Cendant Litigation

Under the Separation Agreement, we agreed to be responsible for 37.5% of certain of Cendant’s contingent and other corporate liabilities and associated costs, including certain contingent litigation. There is only one remaining contingent litigation for which we retain the 37.5% indemnification obligation. Such litigation is discussed in Note 13 to the consolidated financial statements.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed under “Risk Factors” in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2007. These factors could materially affect our business, financial condition and results of operations. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(c) Below is a summary of our Wyndham Worldwide common stock repurchases by month for the quarter ended March 31, 2008:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet Be Purchased Under Plan
January 1 - 31, 2008	471,600	\$ 22.19	471,600	\$ 153,759,220
February 1 - 29, 2008	1,200	\$ 23.98	1,200	\$ 155,706,455
March 1 - 31, 2008	47,399	\$ 19.62	47,399	\$ 154,776,708
Total	520,199	\$ 21.96	520,199	\$ 154,776,708

On August 20, 2007, the Company's Board of Directors authorized a stock repurchase program that enables the Company to purchase up to \$200 million of its common stock. The Board of Directors' authorization included increased repurchase capacity for proceeds received from stock option exercises. During the three months ended March 31, 2008, repurchase capacity increased \$3 million from proceeds received from stock option exercises. During the period April 1, 2008 through May 7, 2008, the Company repurchased an additional 108,000 shares at an average price of \$19.74. The Company currently has \$154 million remaining availability in its program. The amount and timing of specific repurchases are subject to market conditions, applicable legal requirements and other factors. Repurchases may be conducted in the open market or in privately negotiated transactions.

Item 3. Defaults Upon Senior Securities.

Not applicable.

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

Not applicable.

Item 5. Other Information.

Our stockholder rights plan expired by its terms on April 24, 2008.

Item 6. Exhibits.

The exhibit index appears on the page immediately following the signature page of this report.

SIGNATURES

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

WYNDHAM WORLDWIDE CORPORATION

Date: May 8, 2008

/s/ Virginia M. Wilson

Virginia M. Wilson
Chief Financial Officer

Date: May 8, 2008

/s/ Nicola Rossi

Nicola Rossi
Chief Accounting Officer

Exhibit Index

Exhibit No.	<u>Description</u>
2.1	Separation and Distribution Agreement by and among Cendant Corporation, Realogy Corporation, Wyndham Worldwide Corporation and Travelport Inc., dated as of July 27, 2006 (incorporated by reference to the Registrant's Form 8-K filed July 31, 2006).
2.2	Amendment No. 1 to Separation and Distribution Agreement by and among Cendant Corporation, Realogy Corporation, Wyndham Worldwide Corporation and Travelport Inc., dated as of August 17, 2006 (incorporated by reference to the Registrant's Form 10-Q filed November 14, 2006).
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to the Registrant's Form 8-K filed July 19, 2006).
3.2	Amended and Restated By-Laws (incorporated by reference to the Registrant's Form 8-K filed July 19, 2006).
10.1*	Second Amended and Restated FairShare Vacation Plan Use Management Trust Agreement, dated as of March 14, 2008, by and among Fairshare Vacation Owners Association, Wyndham Vacation Resorts, Inc., Fairfield Myrtle Beach, Inc., such other subsidiaries and affiliates of Wyndham Vacation Resorts, Inc. and such other unrelated third parties as may from time to time desire to subject property interests to this Trust Agreement.
12*	Computation of Ratio of Earnings to Fixed Charges.
15*	Letter re: Unaudited Interim Financial Information.
31.1*	Certification of Chief Executive Officer Pursuant to Rules 13(a)-14(a) and 15(d)-14(a) Promulgated Under the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Financial Officer Pursuant to Rules 13(a)-14(a) and 15(d)-14(a) Promulgated Under the Securities Exchange Act of 1934, as amended.
32*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed with this report

**SECOND AMENDED AND RESTATED
FAIRSHARE VACATION PLAN USE
MANAGEMENT TRUST AGREEMENT**

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FOR
SECOND AMENDED AND RESTATED
FAIRSHARE VACATION PLAN USE MANAGEMENT TRUST AGREEMENT

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**SECOND AMENDED AND RESTATED
FAIRSHARE VACATION PLAN USE
MANAGEMENT TRUST AGREEMENT**

THIS SECOND AMENDED AND RESTATED FAIRSHARE VACATION PLAN USE MANAGEMENT TRUST AGREEMENT (this "**Trust Agreement**") is effective as of the 14th day of March, 2008, by and among Fairshare Vacation Owners Association, an Arkansas nonprofit corporation; Wyndham Vacation Resorts, Inc., a Delaware corporation, Fairfield Myrtle Beach, Inc., a Delaware corporation, and such other subsidiaries and affiliates of Wyndham Vacation Resorts, Inc. as may from time to time subject Property Interests (or the Use Rights therein) to this Trust Agreement; and such other unrelated third parties as may from time to time desire to subject Property Interests (or the Use Rights therein) to this Trust Agreement, all in accordance with the terms and conditions set forth herein, and amends and restates the "Amended and Restated Trust Agreement" (as hereinafter defined) which, in turn, amended and restated the "Original Trust Agreement" (as hereinafter defined).

WHEREAS, Wyndham is the developer of certain resort communities and Vacation Plans with respect to which Wyndham sells timeshare and other interests; and

WHEREAS, Wyndham desires to establish a trust to permit the Beneficiaries to use and exchange the Use Rights available through the Trust; and

WHEREAS, Persons that (i) subject one or more Property Interest(s) to this Trust Agreement by an assignment to the Trust of the Use Rights attributable to such Property Interest(s), or (ii) purchase one or more Property Interests which have previously been subjected to this Trust Agreement, shall be allocated Points symbolic of the Use Rights and other attributes of their respective Property Interest(s) and shall be permitted to use their symbolic Points as described herein; and

WHEREAS, the Points allocated to a Member may be used to reserve Trust Properties pursuant to the procedures described in this Trust Agreement and the FairShare Plus Member's Directory; and

WHEREAS, the Trustee has agreed to develop, or contract with a third party to provide, a reservation system to enable Members to reserve the use of the Trust Properties; and

WHEREAS, the parties have agreed that the Trustee, as an administrative convenience to the Members, will (i) collect fees due from each Member to the owner's association or associations established with respect to such Member's Property Interest or if there is no such association, then the fees due to the operator or manager of the Vacation Plan creating such Property Interest, (ii) hold such fee in escrow on behalf of each such Member and (iii) remit such fee to the appropriate owners association or associations or operator(s)/manager(s), as the case may be, when such Member would be obligated to make payment thereof; and

WHEREAS, the Trust may, from time to time or at some future time, hold legal or equitable title to, or the Use Rights associated with, some or all of the Trust Properties; and

WHEREAS, from time to time, other subsidiaries of Wyndham and/or third parties may, with the written consent of Wyndham and Trustee, subject Property Interests or the Use Rights therein to this Trust Agreement; and

WHEREAS, Wyndham shall have the right (but not the obligation) to cause this Trust Agreement to be recorded in the various states and counties in which the Property Interests may be located or if recording is not appropriate based upon the nature of the Property Interest, then Wyndham shall have the right (but not the obligation) to cause this Trust Agreement to be filed, lodged or published in such other appropriate office or with any other appropriate governmental or quasi-governmental office or agency (hereinafter collectively called "**Filing Offices**") applicable to the Property Interests which are being subjected to this Trust Agreement by an assignment to the Trust of the Use Rights in such Property Interest(s).

NOW, THEREFORE, Wyndham and the Trustee hereby enter into this Trust Agreement and each Member and/or third party shall be deemed to have accepted and agreed to be bound by this Trust Agreement at the time their respective Property Interests or the Use Rights therein are subjected to the terms and conditions of this Trust Agreement by an assignment of Use Rights, or upon execution of a contract for the purchase of a Property Interest which has been previously subjected to this Trust Agreement or upon execution of such other documents as may be acceptable to the Trustee.

ARTICLE I

DEFINITIONS

As used herein, the following terms shall have the following meanings:

"**Accommodation**" means a Vacation Unit that has been, or the Use Rights with respect to which have been, subjected to this Trust Agreement. If a Property Interest (or the Use Rights therein) that has been subjected to this Trust Agreement (either directly or through an assignment to the Trust of the Use Rights therein), constitutes something other than a Vacation Unit (or the Use Rights therein) (such as, for example, a Property Interest that is a membership in a multi-site Vacation Plan), then "**Accommodation**" shall mean a Vacation Unit available through the Property Interest or Use Rights therein that has been so subjected to this Trust Agreement.

"**Amended and Restated Trust Agreement**" means that certain Amended and Restated Fairshare Vacation Plan Use Management Trust Agreement dated as of January 1, 1996 by and among Wyndham, the Association and Third Parties, as amended by a First Amendment to the Amended and Restated Fairshare Vacation Plan Use Management Trust Agreement dated as of February 29, 2000 and a Second Amendment to the Amended and Restated Fairshare Vacation Plan Use Management Trust Agreement dated as of February 19, 2003.

"**Annual Lodging Point Value**" means the sum of the Points required for occupancy of an Accommodation for an entire year.

“**Assignment Agreement**” shall mean that provision in a Member’s Purchase Agreement, the FairShare Vacation Ownership Assignment Agreement or other document whereby a Property Interest is, or the Use Rights in a Property Interest are, subjected to the conditions and restrictions of this Trust Agreement (by an assignment or other conveyance to the Trust of the Use Rights in such Property Interest) and assigned a number of Points.

“**Association**” means the Fairshare Vacation Owners Association, an Arkansas non-profit corporation.

“**Beneficiaries**” means the beneficiaries of this Trust Agreement, which beneficiaries shall include the Members, the Association, the Plan Manager, Wyndham and the Third Parties.

“**Board**” or “**Board of Directors**” shall mean the Board of Directors of the Association.

“**Directory**” means the FairShare Plus Member’s Directory which describes the Trust Properties and the terms and conditions of the FairShare Vacation Plan, as may be amended, supplemented, updated and/or replaced from time to time. Subject to the right of Wyndham under Section 11.01 below, the Plan Manager, with the consent of the Trustee, will, from time to time, issue the Directory and revisions thereof and supplements thereto.

“**Escrow Account**” means the account established by the Trustee into which the OA Fees paid by the Members are deposited.

“**FairShare Plus Assessment**” means the annual fee paid to the Trustee by a Member. The FairShare Plus Assessment consists of the Program Fee and the OA Fee.

“**Governing Instruments**” means the documents and instruments that create a Vacation Plan and the Property Interests therein and govern the use of Property Interests and the occupancy of Accommodations pursuant to said Vacation Plan and may include, without limitation, articles of incorporation for any OA; by-laws for the OA; rules and regulations concerning operation of the Vacation Plan, the use of Property Interests therein and/or the occupancy of Accommodations thereunder; any declaration of covenants, conditions and restrictions and grant of easements encumbering the Property Interests in the Vacation Plan and any master trust agreement to which any Property Interest (or the Use Rights therein) subject to this Trust Agreement is also subject.

“**Member**” means Wyndham and the holder of a right to occupy an Accommodation as a consequence of such holder having his Property Interests (or the Use Rights therein) subjected to this Trust Agreement, and such holder’s heirs, and permitted successors and assigns. Wyndham may also be a Member to the extent it has subjected Property Interests (or the Use Rights therein) to this Trust Agreement which have not yet been sold; provided, however, Wyndham is not required to pay any OA Fees or Program Fees except as provided by Section 11.08 of this Trust Agreement. Each Member of the FairShare Vacation Plan shall also be a “**Member**” of the Association with the voting and other rights in the Association as are established and governed by the Articles of Incorporation and By-Laws of the Association.

“**Membership**” means the relationship of a Member to the FairShare Vacation Plan and the bundle of rights, duties and benefits, including, without limitation, the Points, a Member receives by reason of his Property Interest (or the Use Rights therein) having being subjected to this Trust Agreement. It also means the relationship of a Member to the Association and the bundle of rights, duties and benefits a Member receives by reason of being a “**Member**” in the Association.

“**OA**” means an underlying condominium, townhouse or timeshare homeowners association, master association or community club/association in which the owners of Property Interest therein become members, as well as any other type of association (whether or not incorporated) of owners of Property Interests and includes, without limitation, the owners association for a multi-site real or personal property based Vacation Plan. If the Governing Instrument(s) for a Vacation Plan do not require the establishment of an association or similar owners organization for the owners of Property Interests therein, then “**OA**” shall mean the operator and/or manager of that Vacation Plan.

“**OA Fees**” means the annual fee or fees due from each Member in respect of his Property Interest which fees shall be paid by the Member to, and held in escrow in accordance with the terms of this Trust Agreement by, the Trustee and which fees include all recreation, maintenance and reserve fees and assessments that a Member is obligated to pay on an annual basis in respect of his Property Interest that was subjected (either directly or by reason of the assignment to the Trust of the Use Rights in such Property Interest) to this Trust Agreement. “**OA Fees**” also mean all amounts due to the operator or manager of a Vacation Plan where no association of owners therein has been or is intended to be established representing fees and assessments that are imposed on an annual basis to cover the cost of operation of such Vacation Plan, including maintenance, repair and/or replacement of the Vacation Units in that Vacation Plan.

“**Plan**” means the FairShare Vacation Plan established by this Trust Agreement. The Plan is also known as the FairShare Plus Program.

“**Plan Manager**” means the manager of the FairShare Vacation Plan, its successors and permitted assigns.

“**Points**” means the symbolic value allocated to a Member in connection with such Member’s Membership in the Plan and is based upon the Property Interest (or Use Rights in such Property Interest) which such Member caused to be subjected to this Trust Agreement. “**Points**” also means the symbolic value assigned to the right to occupy an Accommodation.

“**Program Fee(s)**” shall mean the fees payable to the Trustee under Article X below by the Members for the expenses incurred in connection with the operation and administration of the Plan which includes, among other things, operation and administration of the Trust and the Association and operation, maintenance, repair and replacement of the Trust Properties.

“**Program Fund**” means the account or accounts in which the Program Fee is deposited to pay the expenses incurred in connection with the operation and administration of the Plan.

“**Property Interest**” means an interest in a Vacation Unit or in a Vacation Plan or an undivided interest in one or more Vacation Units, each of which interests or the Use Rights therein is/are subjected to this Trust Agreement and such interest is (i) a fixed or floating timeshare interval, as defined in the applicable Governing Instrument(s), (ii) an estate for years, with or without a remainder over with other owners, (iii) a leasehold “right to use” interest, (iv) an interest in a multi-site Vacation Plan, or (v) such other type of interest as Trustee may elect to accept from time to time, in Trustee’s sole discretion. A “**Property Interest**” may be an interest in any type of property, including real, personal, mixed or otherwise.

“**Purchase Agreement**” means any documents evidencing the purchase of a Property Interest by a Member.

“**Recording Office**” means the appropriate local clerk’s office in any county in which any of the Property Interests which constitute real property are located.

“**Third Party**” or “**Third Parties**” means all individuals or entities not affiliated with Wyndham who develop Property Interests for sale to the public and who subject such Property Interests (or the Use Rights in such Property Interests) to this Trust Agreement.

“**Trust**” means the trust established by this Trust Agreement, as amended from time to time.

“**Trust Properties**” means all Property Interests subjected to this Trust Agreement and all Use Rights in Property Interests conveyed, assigned or subjected to this Trust Agreement in accordance with the terms of this Trust Agreement, which conveyance/assignment includes all rights and privileges appurtenant to each such Property Interest. Trust Properties may further include personal property and/or services used in connection with the Property Interests or the Use Rights therein or otherwise made available to the Members and all substitutions, replacements and/or proceeds therefrom. Property Interests(and/or the Use Rights in such Property Interests) may be added to the Trust Properties from time to time by Wyndham, the Plan Manager or the Trustee. Among other things, the Trust Properties shall not include the Program Fees, the OA Fees or the Plan Manager’s reservation system.

“**Trustee**” means Fairshare Vacation Owners Association, any substitute trustee, or its successors and assigns.

“**Use Rights**” shall mean those rights a Member has to use, occupy and/or possess a Vacation Unit as a consequence of the ownership of a Property Interest in a Vacation Plan which includes that Vacation Unit.

“**Vacation Plan**” means any arrangement, plan, or similar device, other than an exchange program, whether by membership, agreement, tenancy in common, sale, lease, deed, rental agreement, license, right to use agreement, shareholders agreement, partnership or joint venture agreement, or limited liability company/operating agreement or by any other means, whereby a purchaser, for consideration, receives ownership rights in or a right to use a Vacation Unit or a group of Vacation Units (which may be located in one site or at a number of sites) and in any

event, the facilities, if any, that are appurtenant to each such Vacation Unit, for a period of time less than a full year during any given year, but not necessarily for consecutive years.

“**Vacation Unit**” means (i) an apartment, condominium or cooperative unit, townhouse unit, house, cabin, lodge, hotel or motel room, mobile home, recreational vehicle, houseboat, cabin of a ship, pleasure yacht or other private or commercial vessel, vehicle or structure designed and available for use and suitable for overnight lodging for one or more individuals or (ii) a campsite designed and suitable for providing overnight parking and utility services for a recreational vehicle.

“**Voting Designee**” means the person or entity, its successors or assigns, who has been designated by a Member, to exercise such Member’s voting privileges in his OA.

“**Voting Member**” is the person or entity designated on behalf of multiple owners of a Membership to exercise the vote of such multiple owners in the Association.

“**Wyndham**” means Wyndham Vacation Resorts, Inc., a Delaware corporation, formerly known as Fairfield Resorts, Inc. and before that, as Fairfield Communities, Inc.; Fairfield Myrtle Beach, Inc., a Delaware corporation, and such other subsidiaries and affiliates of Wyndham Vacation Resorts, Inc. that may from time to time desire to subject Property Interests or the Use Rights therein to this Trust Agreement in accordance with the terms and conditions set forth herein. Wyndham Vacation Resorts, Inc., f/k/a Fairfield Resorts, Inc., is the successor by merger to Fairfield Harbor, Inc., Fairfield in the Carolina’s, Inc., Fairfield Ocean Ridge, Inc., Fairfield Pagosa, Inc., Fairfield Plantation, Inc., Fairfield Williamsburg, Inc., and Fairfield Ventura, Inc.

ARTICLE II

DECLARATION AND TITLE, PURPOSE AND EFFECTIVE DATE OF TRUST

2.01 **Declaration and Title of the Trust** Effective as of the 26th day of June, 1991, there was established a Trust, which Trust is irrevocable during the time any Member has a right to occupy an Accommodation as a consequence of his Property Interest or the Use Rights in his Property Interest being subjected to the terms of this Trust Agreement and which Trust shall be known as the “FairShare Vacation Plan Use Management Trust”. The Trust shall hold the Trust Properties on behalf of the Beneficiaries, all for the use and purposes as set forth in this Trust Agreement.

2.02 **Purpose of the Trust** The purpose of the Trust shall be to secure for the Beneficiaries their respective rights and interests as set forth in this Trust Agreement and in the Purchase Agreements and/or Assignment Agreements executed by the Members.

2.03 **Governing Law** This Trust Agreement shall be deemed an Arkansas Trust and shall be governed by the laws of the State of Arkansas.

ARTICLE III

BENEFICIARIES

3.01 **Interest of Beneficiaries.** The interest of a Beneficiary under this Trust Agreement shall consist of the rights set forth in this Trust Agreement. No Beneficiary shall have any right of partition as to any real or personal property held in Trust hereunder except for the right of each Member to have his respective Property Interest (or the Use Rights therein) reconveyed (a) upon termination of the Trust, if applicable, and (b) with respect to each Member who subjected his Property Interest (or the Use Rights therein) to this Trust pursuant to an Assignment Agreement, upon any termination of his Membership in the Plan in accordance with the terms of his Assignment Agreement. The death of a Beneficiary shall not terminate this Trust nor in any manner affect the powers of the Trustee.

3.02 **Beneficiary Acts.** No Beneficiary, in his/her/its capacity as a beneficiary of the Trust, shall have the authority to contract for or in the name of the Trust or any other Beneficiary or to bind the Trust or any Beneficiary.

3.03 **Assignment.** Until the Trustee receives written notice of an assignment or transfer, by operation of law or otherwise, to the Trust from a Member of his Property Interest or the Use Rights therein, or of any other event upon which such Property Interest hereunder may depend, the Trust shall not be liable for any assignments or transfers with respect to such Property Interest or Use Rights or other action which would have been proper prior to such assignment or other transfer, or other event, unless such action is done in bad faith.

3.04 **Wyndham.** Wyndham, in its capacity as the developer of resort communities and Vacation Plans, shall have the right to sell Property Interests to purchasers who, after such purchase, voluntarily elect to subject such Property Interests (or the Use Rights therein) to this Trust Agreement or to sell Property Interests which have been subjected to this Trust Agreement prior to such sale, in either case for cash or other terms acceptable to Wyndham. With respect to the Property Interests subjected to this Trust Agreement which it owns (and therefore prior to the sale thereof by Wyndham), Wyndham, as such developer, may finance, with one or more lenders, such Property Interests, and may deliver to any such lender, deeds of trust, mortgages or other security instruments or liens against such Property Interests. Wyndham, as such developer, may also pledge to one or more lenders the Purchase Agreements or promissory notes given by Members secured by UCC-1 Financing Statements, mortgages, deeds of trust, or other security instruments. Any such liens or security interests shall contain subordination language which subordinates the lenders' interest in the Property Interest encumbered by such lien or security interest to that of the Member so long as such Member is not in default of the contractual obligations under the Member's Purchase Agreement or promissory note.

ARTICLE IV

ASSETS

4.01 **Trust Properties.** The assets of the Trust shall be the Trust Properties. Neither the OA Fees held in escrow pursuant to Article X, the Program Fees nor the reservation system owned by the Plan Manager shall be part of the Trust Properties.

4.02 **Allocation of Points.** For administrative convenience in operation of the Plan, the Plan Manager, on behalf of the Trustee, has established or will establish Point values for use of the Trust Properties. The Points assigned to a Property Interest or the Use Rights therein are based on the location, size, season, capacity, furnishings, demand, cost to acquire, build and maintain and other features of the Accommodation or Accommodations available as a part of such Property Interest, as well as other factors that may affect the experience of occupancy of such Accommodation or Accommodations (such as, holidays, ski seasons and local events). When a Property Interest or the Use Rights therein is/are subjected to this Trust Agreement, it will be allocated Points by the Plan Manager, on behalf of the Trustee. The total number of Points required to reserve all Accommodations available in respect of all of the Property Interests (or Use Rights therein) that have been subjected to this Trust Agreement during all use days shall always equal or exceed the total number of Points allocated to all of the Members.

4.03 **Adjustment of Point Allocation.** The ownership interest of a Member in a Property Interest subjected to this Trust Agreement (by assignment of the Use Rights therein or otherwise) as stated in such Member's Purchase Agreement or FairShare Vacation Ownership Assignment Agreement may not be changed. However, from time to time the Plan Manager, on behalf of the Trustee, may adjust the number of Points required to reserve an Accommodation available through a Property Interest in order to respond to actual use patterns and changes in use demand. Any increase or decrease in the total number of Points required to reserve such Accommodations shall also result in a pro-rata increase or decrease in the number of Points allocated to all Members that own the Property Interests through which such Accommodations are available (including Wyndham or such other applicable Third Party if all Property Interests in the applicable Vacation Plan which have been subjected to this Trust Agreement have not yet been sold). However, any such adjustments made by the Plan Manager, on behalf of the Trustee, shall not result in an increase or decrease in the number of the Points assigned to an Accommodation in one season of a year by more than twenty percent (20%), unless those Members entitled to cast a majority of the votes of all Members present, in person or by proxy, at an annual or special meeting of the Members of the Association held in accordance with the terms and provisions of the By-Laws of the Association vote for such increase or decrease in the number of Points assigned to such Accommodation.

ARTICLE V

**TERMINATION OF THE TRUST, WITHDRAWALS,
ADDITIONS, SUBSTITUTIONS, AND TERMINATION OF POINTS**

5.01 **Termination.** Unless terminated in accordance with the terms hereof or not extended as provided for in Section 14.09 below, the Trust and this Trust Agreement shall terminate on December 31, 2025. Upon any termination of the Trust, the Association shall be dissolved and the following shall occur:

(a) The Trustee shall cause all Use Rights to be reconveyed to the assigning Member or his successors or assigns, if such Use Rights were assigned to the Trust after the Member acquired the corresponding Property Interest;

(b) The Trustee shall take all steps necessary to release from the encumbrance of this Trust Agreement all Property Interests whose Use Rights were subjected to this Trust Agreement by Wyndham prior to being sold by Wyndham;

(c) The Board of Directors of the Association shall convert all non-cash assets of the Association and the Trust (other than the individual Members' Use Rights and Property Interests) to cash and that cash, together with all amounts then in the Program Fund, shall be used to pay the outstanding costs and expenses of the Trust and the Association, including all costs and expenses incurred in connection with the termination of the Trust and the dissolution of the Association, and to establish any reserves which the Board deems appropriate to cover any additional costs and expenses to be incurred with the balance to be distributed to the Members on a pro-rata basis based upon the number of Points owned by each Member; and

(d) The Board shall cause any surplus then held in the Escrow Account (representing amounts collected as OA Fees from the Members) to be returned to the depositing Member(s) thereof and shall advise each of the OAs that it will no longer be collecting and remitting to it OA fees paid by Members who are also members of that OA.

5.02 **Withdrawal of Property Interests.** The Trustee may withdraw a Property Interest or the Use Rights therein from this Trust Agreement and cancel the Points allocated to any Member owning such Property Interest by executing an appropriate withdrawal document and if necessary, recording it in the Recording Office or, if appropriate, filing it in the Filing Office, under any one of the following conditions:

(a) **Default Under Purchase Agreement** If a Purchase Agreement for a Property Interest is cancelled due to default or if a mortgage, deed of trust or other security interest encumbering a Property Interest is foreclosed as a result of the Member owning such Property Interest defaulting thereunder, the Trustee, upon the direction of Wyndham or the Third Party who completed such foreclosure, shall execute the documents necessary to (i) cancel the Assignment Agreement and withdraw the Property

Interest/Use Rights from this Trust Agreement, where the Property Interest/Use Rights was/were subjected to this Trust Agreement after being acquired by the Member or (ii) terminate the Membership of the defaulting Member where such Member's Property Interest/Use Rights was/were subjected to this Trust Agreement prior to being acquired by the Member. In the event of a cancellation or termination due to default, the defaulting Member (A) shall forfeit all previously paid FairShare Plus Assessments (with all OA fees not theretofore paid to the applicable OA to be forwarded to such OA), (B) shall no longer have any right to participate in the Plan and (C) shall no longer be a Member of the Plan or of the Association.

(b) **Changed Circumstances.** If the Trustee, in its discretion, has determined that a Property Interest (or Use Rights therein) should be withdrawn due to circumstances that render the Accommodation(s) applicable to such Property Interest unsuitable for continued use in the Plan, the Trustee shall have the authority to cause such Property Interest/Use Rights to be withdrawn from this Trust Agreement and to cause all Points attributable to the withdrawn Property Interest/Use Rights to be canceled and the Members owning such withdrawn Property Interest/Use Rights shall no longer have the right to participate in the Plan and shall no longer be Members of the Association. The Trustee shall execute any and all documents necessary to reconvey the Use Rights and/or transfer title to the withdrawn Property Interest to the appropriate Member or Wyndham, if necessary.

(c) **Destruction, Condemnation or Temporary Loss of Use.** If the Use Rights in one or more Property Interests are, in the Trustee's discretion, (i) permanently no longer suitable for use in the Plan as the result of one or more Accommodations available through that or those Property Interests having been condemned or such Accommodations are destroyed or damaged and the OA, pursuant to the Governing Instruments establishing said Property Interests, elects not to rebuild or restore the affected Accommodations, then (A) the Trustee shall withdraw the applicable Property Interest(s)/Use Rights from this Trust Agreement (and if applicable, reconvey said Property Interests(s)/Use Rights to the corresponding Members) and cancel, by written notice to such Members, the Points attributable to such Property Interest(s)/Use Rights; (B) such Members shall no longer have any right to participate in the Plan and shall no longer be Members in the Association; (C) the Trustee shall cause any surplus then held in the Escrow Account which represents amounts collected from such Members to be returned to them, but such Members shall have no right to any Program Fees that they have previously paid; and (D) if the Trustee receives any funds on account of such condemnation or damage/destruction, the Trustee shall, to the extent such funds exceed the Trustee's costs in achieving the withdrawal of the Property Interest(s)/Use Rights from the Plan and cancellation of the Membership(s), distribute the excess to such Members on a pro-rata basis; or (ii) temporarily not suitable for use in the Plan as a result of one or more Accommodations available through that or those Property Interests having been rendered unoccupiable as a result of damage or destruction where the OA, pursuant to the Governing Instruments establishing said Property Interests, has elected to re-build, restore or repair, as applicable, the affected Accommodations or as a result of the OA undertaking a significant renovation of the Accommodations which results in such

Accommodations not being available for use by all of the owners of Property Interests in such affected Accommodations and in any such case, the applicable OA is not providing alternative Accommodations to the owners of Property Interests therein during the period of unavailability, then the Trustee shall use commercially reasonable efforts to obtain the right to occupy substitute Accommodations in the area where the affected Accommodations are located which substitute Accommodations may become Trust Properties on either a temporary or permanent basis and shall have Annual Lodging Point Values equal to or greater than the Annual Lodging Point Values of the affected Accommodations.

(d) **Termination or Partition.** If a Vacation Plan is terminated or one or more Property Interests in a Vacation Plan are partitioned pursuant to the Governing Instruments establishing said Vacation Plan, the Points in the Plan attributable to the Property Interests in such terminated Vacation Plan or the Property Interests (or Use Rights therein) affected by such partition shall be removed from the Plan and the Members owning such terminated or partitioned Property Interests shall no longer have the right to participate in the Plan and shall no longer be Members of the Association.

(e) **Expiration.** If a Property Interest which is a leasehold interest or "right to use" interest expires, the Members owning Points associated with such expired Property Interests shall have no further right to participate in the Plan and shall no longer be Members of the Association and the Points associated with such expired Property Interests shall be cancelled.

(f) **Wyndham Withdrawal.** Wyndham may withdraw Accommodations applicable to Property Interests subjected by Wyndham to this Trust Agreement if no such Property Interests have been sold or Wyndham has reacquired all previously sold Property Interests.

5.03 **Addition of Accommodations.** Wyndham, in its capacity as the developer of resort communities and Vacation Plans, may, from time to time, in its sole and absolute discretion, (a) cause the Property Interests in additional Accommodations, interests or rights in other real or personal property and/or rights in or to services to be transferred or otherwise made available to the Members through the Plan and (b) as noted in Section 3.04 above, cause such resort communities and Vacation Plans to enter into affiliation arrangements with the intention that either (i) the purchaser of a Property Interest therein would have the right, on a voluntary basis, to assign the Use Rights therein to the Trust after such purchase or (ii) the Property Interests therein would have been previously subjected to this Trust Agreement and therefore, the purchaser thereof would automatically become a Member, all of such actions to occur without the consent of any of the other Members or the Trustee; but under no circumstances shall Wyndham be required to make any such transfers. The addition to the Plan of Property Interests (or the Use Rights therein) in Accommodations, interests or rights in other real and personal property and/or rights in or to services may result in the addition of new Members who will compete with existing Members in making reservations for the use of the Trust Properties, and may also result in an increase in the Program Fee.

5.04 **Substitutions.** Wyndham, in its capacity as the developer of resort communities and Vacation Plans, and the Trustee may, from time to time, in their sole and absolute discretion, substitute Property Interests in Vacation Units, rights or interests in other real or personal property and/or rights in or to other services for Property Interests in Accommodations, rights or interests in real or personal property available through the Plan and/or rights in or to services available through the Plan, so long as the Property Interests in the Accommodations, the rights or interests in other real or personal property and/or the rights in or to services which are being withdrawn are not owned by any Member (other than Wyndham). The determination of whether to substitute will be based on the use by the Members of the Accommodations, the other real or personal property and/or the services to be withdrawn, the availability of similar property in the same general vicinity or of the same general quality or utility as the property being withdrawn, the availability of services substantially the same or better than the services being withdrawn, the age of the Accommodations, the other real or personal property and/or the services being withdrawn, the expenses incurred in connection with maintaining the Accommodations, the other real or personal property and/or services being withdrawn and such other factors as may be determined by Wyndham and/or the Trustee from time to time. The Members have no right to consent to the substitution of Property Interests in other Vacation Units, interests in other real or personal property and/or rights in or to other services for Property Interests relating to existing Accommodations, interests in real or personal property then available through the Plan and/or rights in or to existing services. The replacement Trust Properties shall provide Members with an opportunity to enjoy a substantially similar experience as was available with the replaced Trust Properties. In determining whether the replacement Trust Properties will provide a substantially similar experience, all relevant factors will be considered, including, but not limited to, some or all of the following: size, capacity, furnishings, maintenance, location (geographic, topographic, and scenic), demand and availability for Member use, quality and availability of a service, and recreational capabilities.

ARTICLE VI

DUTIES AND OBLIGATIONS OF THE TRUSTEE

6.01 **Duties and Obligations.** The Trustee shall, without limiting the other duties and obligations set forth in other provisions of this Trust Agreement, provide the following services with respect to the Trust:

(a) **Ownership.** The Trustee shall, on behalf of the Trust, accept and hold ownership of the Trust Properties for the beneficial use of each Member. In the event ownership to any Property Interest is transferred to the Trust, said Property Interest shall be subject in all respects to the provisions of this Trust Agreement. The Trustee shall have no equitable rights in any of the Property Interests or Use Rights subjected to this Trust Agreement nor any right to the income or profits to be derived from the sale of any Property Interests owned by the Trust. The Trustee will not, without the consent of Wyndham, accept on behalf of the Trust, Property Interests or Use Rights from any person or entity other than Wyndham.

(b) **Liens.** The Trustee shall use reasonable efforts to ascertain that at the time a Property Interest or the Use Rights therein is/are subjected to this Trust Agreement that either (i) no liens affect such Property Interest which would prevent the use by the Members of the Accommodation(s) available in respect of that Property Interest, or (ii) in the case there is such a lien, (A) the holder of any lien has agreed that such lien is subordinated to the rights of a Member that satisfies the terms of his Purchase Agreement, mortgage, deed of trust and/or other security instrument, and (B) the holder of any blanket lien has entered into a non-disturbance instrument pursuant to which such holder agrees that a Member that satisfies the terms of his Purchase Agreement, mortgage, deed of trust and/or other security agreement shall be entitled to exercise the Use Rights attributable to such Property Interest pursuant to the terms of this Trust Agreement; provided, however, the Trustee may, on behalf of the Trust, accept Property Interests or the Use Rights therein that do not satisfy such conditions if, in the Trustee's sole discretion, the failure to satisfy such conditions with respect to such Property Interests does not materially adversely affect the total availability of Accommodations to the Members.

(c) **Recording of Trust Agreement.** The Trustee shall have the right, but not the obligation, to record or cause to be recorded in the Recording Office and to file or cause to be filed, as appropriate, in any Filing Office a copy of this Trust Agreement and the appropriate amendments or addendums thereto and shall take such steps as are required by law to assure that notice of the terms and provisions of this Trust Agreement, as amended from time to time, is given in all jurisdictions where any Trust Properties held by the Trust are located and where the giving of such notice is necessary to protect the interests of the Beneficiaries in such Trust Properties.

(d) **Accounting.** The Trustee shall cause the Plan Manager to maintain the information necessary to enable reports covering the following information to be prepared from time to time: (1) the inventory of the Trust Properties and the cumulative number of Points represented by the Trust Properties; (2) the cumulative number of Points allocated to Property Interests/Use Rights; and (3) all financial transactions, if any, of the Trust. The Trustee has the right (but not the obligation) to employ, from time to time, at the expense of the Association, an independent accounting firm for such purposes related to the administration or operation of the Plan (including the administration and operation of the Trust and the Association) as the Trustee deems appropriate.

(e) **Property Maintenance.** Trustee shall provide for the maintenance, repair, and replacement of all Accommodations, including, without limitation all personal property located in the Accommodations, available in respect of all Property Interests (or the Use Rights therein) that have been subjected to this Trust Agreement from time to time, if the applicable OA, if any, is not obligated to provide such maintenance, repair and replacement.

(f) **Tax Returns.** Trustee shall cause to be prepared and filed on behalf of the Trust all state and federal income tax returns.

(g) **Member List.** Trustee shall maintain a record of the names and addresses of, and the number of Points held by, all Members and the cumulative number of Points allocated to the Trust Properties.

(h) **Insurance.** The Trustee shall cause to be maintained adequate insurance on the Trust Properties against fire and other unavoidable casualties if the applicable OA, if any, is not obligated to provide such insurance. The Trustee shall hold any insurance proceeds received from such insurance pending the reconstruction of an Accommodation or the acquisition of a replacement Accommodation. Subject to the last sentence of this Section 6.01(h), the Trustee shall be responsible for reconstruction of the Accommodation or the acquisition of a replacement Accommodation if the applicable OA, if any, is not obligated to so reconstruct or acquire and whether or not the Trustee is responsible for such reconstruction or replacement, the Trustee shall assure that adequate arrangements are made for alternate accommodations during the time an Accommodation is being reconstructed or a replacement Accommodation is being sought. In the event a destroyed Accommodation is not reconstructed or replaced, the Trustee shall distribute any net proceeds from insurance it may receive to the appropriate Members whose Points were cancelled as a consequence thereof, as provided in Section 5.02(c) above .

(i) **OA Agreements.** The Trustee may enter into agreements with each OA to set forth the delegation of duties between the Trust and the OA. If an OA for a Vacation Plan is not a party to such an agreement or such Vacation Plan does not have an OA, then the Trustee, on behalf of the Trust as the holder of the Use Rights in Property Interests in such Vacation Plan, may take any action it deems necessary to enforce the rights of the Beneficiaries with respect to those Property Interests and the Accommodations available in respect thereof.

6.02 **Delegation of Duties.** The Trustee may delegate any or all of its duties under this Article VI or any other Article of this Trust Agreement to the Plan Manager. In performing all of the Trustee's duties delegated to it, the Plan Manager shall at all times insure that the total number of Points required to reserve all Accommodations available in respect of all of the Property Interests (or Use Rights therein) that have been subjected to this Trust Agreement during all use days shall always equal or exceed the total number of Points allocated to all of the Members.

6.03 **Plan Manager.** The initial Plan Manager shall be Wyndham, its successors or assigns. The Plan Manager shall operate the Plan pursuant to this Trust Agreement, the Management Agreement between Plan Manager and the Trustee and all other agreements entered into between either the Trustee or the Plan Manager and one or more Members or the developer or the OA for any Trust Property or Vacation Plan. The Management Agreement is incorporated herein by reference and made a part hereof as though set forth word for word. The Plan Manager may be removed only if those Members entitled to cast at least seventy-five percent (75%) of the then total votes of all of the Members vote, at an annual or special meeting of the Members of the Association held in accordance with the terms and provisions of the By-Laws of the Association, for the removal of the Plan Manager. In order to assure continuity, the Plan

Manager shall be prohibited from resigning prior to the appointment of a successor Plan Manager.

6.04 **Expenses.** Trustee shall have no liability for any expenses attributable to the operation and administration of the Plan or the Trust or the operation, maintenance, repair or replacement of any of the Trust Properties, all such expenses to be paid out of, and to the extent of, the FairShare Plus Assessments collected from time to time.

ARTICLE VII

RIGHTS AND POWERS OF THE TRUSTEE

7.01 **Resignation of the Trustee.** The Trustee may resign upon not less than 90 days prior written notice of intent to resign delivered to Wyndham, the Plan Manager (if not then Wyndham) and the other Beneficiaries; provided, however, that the Trustee shall continue to perform pursuant to this Trust Agreement until a successor Trustee has been appointed. The successor Trustee must agree to perform the functions specified in this Trust Agreement. Wyndham and the Plan Manager (if not then Wyndham) shall agree on, or Wyndham (if it is then the Plan Manager) shall designate, a successor Trustee. In the event Wyndham and the Plan Manager (if not then Wyndham) fail to agree on, or Wyndham (if it is then the Plan Manager) shall fail to designate, a successor Trustee, then the Board of Directors may appoint a successor Trustee. In the event the Board of Directors fails to appoint a successor Trustee, any interested party may petition the applicable State Court for Pulaski County, Arkansas or the Federal District Court for the Eastern District of Arkansas, for the appointment of a successor Trustee. Upon appointment, a successor Trustee shall have all the powers and duties and shall perform the functions as described in this Trust Agreement. Nothing herein shall prohibit or preclude the appointment by the Trustee of a co-Trustee or a substitute Trustee under such circumstances as the Trustee shall deem necessary.

7.02 **Insurance by Trustee.** Trustee shall obtain and maintain errors and omissions insurance coverage in an amount not less than the amount required by Wyndham, or as may be required by law.

7.03 **Compensation and Reimbursement of Trustee.** For its services performed in connection with the Trust, the Trustee shall receive a reasonable fee as may be agreed upon by Wyndham and the Trustee. In addition, the Trustee shall be reimbursed for all costs and expenses which the Trustee incurs from time to time (a) in operating and administering the Trust and the Plan and operating, maintaining, repairing, and replacing the Trust Properties and (b) in connection with any escrow which may be established (including without limitation, the escrow for the OA Fees). It is expressly understood, however, that the Trustee is not required to take any action resulting in any expense of any kind unless there are funds on deposit in the Program Fund to pay such expense, or unless the Trustee receives a satisfactory written guarantee that such expenses will be promptly paid.

7.04 General and Permissive Acts.

(a) **Actions.** The Trustee may commence or defend any actions at law or in equity relating to the Trust, this Trust Agreement, the Plan or the Trust Properties. If a court action should be instituted in connection with the Trust, this Trust Agreement, the Plan and/or the Trust Properties or any part thereof, and the Trustee is named and served as a party, the Trustee shall be reimbursed out of the Program Fund for all fees, expenses, judgments and awards incurred in connection with such action. To the extent not prohibited by law, this Trust Agreement, the Association's Articles of Incorporation or the Association's By-Laws, the Trustee may also take any action deemed necessary by the Trustee to manage the Trust Properties, to carry out the purposes for which the Trust was established, to administer and/or operate the Plan (including the Trust and the Association), to implement any of the terms or provisions of this Trust Agreement, or to enhance the benefits of the Plan available to some or all of the Beneficiaries.

(b) **Employment of Others.** The Trustee may employ counsel, accountants and such other persons as in its judgment shall be necessary to perform, or to assist the Trustee in performing, any of its duties as Trustee. Trustee shall not be liable to any Beneficiary and shall be indemnified and held harmless by the Beneficiaries and the Trust (i) for the default, defalcation or wrongdoing of any such person so employed by the Trustee, if Trustee exercised due care in the selection of such person, or (ii) for any non-negligent action taken or suffered by Trustee in good faith in reliance upon the instructions or advice of any person so selected.

(c) **Compliance with Laws.** The Trustee may do any and all things as may be necessary to comply with all applicable laws, ordinances and regulations promulgated by any governmental authority concerning the Trust, this Trust Agreement, the Plan and the Trust Properties or any portion thereof, including, but not limited to, modifying, amending or restating this Trust Agreement to comply with such laws, ordinances and regulations.

(d) **Execution of Documents.** The Trustee may join with Wyndham or other necessary parties, upon request, in executing any necessary amendment or supplement to, or any restatement of, this Trust Agreement or any underlying Governing Instruments, documents, plats, or similar documents.

ARTICLE VIII

TRUSTEE MAY NOT ENCUMBER PROPERTY

8.01 **Restrictions on Encumbrances.** Trustee, in its capacity as Trustee under this Trust Agreement, shall not encumber any of the Trust Properties or other assets of the Plan (including the escrowed OA Fees), except to the extent of the lien or security interest in favor of the Trustee for the payment of the Program Fees (as provided in Section 10.07 below); provided, however, the Trustee shall not be restricted from accepting on behalf of the Trust a conveyance of a Property Interest (or the Use Rights therein) which Property Interest has encumbrances or

other interests which are or may be prior to those of any Beneficiary provided the provisions of ARTICLE VI, Section 6.01 (b) have been met.

ARTICLE IX

TRUSTEE LIABILITY

9.01 **Reliance on Opinion of Counsel.** The Trustee and the Board of Directors may, in the performance of any of its duties hereunder or in the taking of any action with respect to the Trust or this Trust Agreement, rely upon the advice of counsel selected and employed by the Trustee. The opinion of any such counsel with respect to the construction of this Trust Agreement or the rights, obligations and powers of any person affected hereby shall constitute full protection and be a justification to the Trustee and the Board of Directors for any action taken by the Trustee or the Board of Directors in good faith in reliance on such opinion.

9.02 **Protection of Trustee and the Board.** The Trustee and its Board of Directors are hereby relieved of any and all liability to any Beneficiary for any losses to his interest resulting from the Trustee or its Board of Directors acting in accordance with the terms hereof. So long as the Trustee and its Board of Directors shall undertake to carry out their responsibilities under this Trust Agreement in good faith, neither the Trustee nor any of the Board of Directors shall be liable in damages or otherwise to the Beneficiaries or their representatives or to any third party who may rely on the terms of this Trust Agreement. Trustee and its Board of Directors shall not be required to verify the validity of any Purchase Agreement or Assignment Agreement which is valid on its face. Neither the Trustee nor its Board of Directors guarantees to any Member that said Member will be entitled to use or occupy any Accommodation available through his Property Interest or any other Accommodation for which the Trust holds Use Rights. If any dispute or difference arises between any of the Beneficiaries hereof and any third person or if any conflicting demands shall be made upon the Trustee or its Board of Directors, Trustee or the Board of Directors, as the case may be, shall not be required to determine the same or take any action; but Trustee or the Board of Directors, as the case may be, may await settlement of the controversy by final, appropriate legal proceedings or otherwise as it may require, or Trustee or the Board of Directors, as the case may be, may file suit in interpleader in the applicable State Court for Pulaski County, Arkansas or the Federal District Court for the Eastern District of Arkansas, for the purpose of having the respective rights of the parties adjudicated and may deposit with said court any and all Trust Properties held hereunder and any and all documents, contracts, accounts and/or rights of any form or character. Upon institution of any such interpleader suit and upon giving notice thereof to the parties thereto by personal service in accordance with the order of the court or in accordance with the requirements of the laws of Arkansas, Trustee and its Board of Directors shall be fully released and discharged from all further obligations hereunder with respect to the property and documents so deposited.

9.03 **Payment by Trustee.** Trustee may pay on demand, from the funds on deposit in the Program Fund, any and all costs, damages, judgments, attorney's fees, expenses, obligations and liabilities of every kind and nature reasonably suffered or incurred in connection with (a) the interpretation of this Trust Agreement or any amendments or supplements to, or restatements of, this Trust Agreement, (b) the taking of any action or acts taken pursuant to this Trust Agreement,

as it may be amended and/or restated from time to time, in order to establish the validity of same, (c) the institution by the Trustee of any interpleader in accordance with the terms of this Trust Agreement or (d) any other proceeding to which the Trustee is made a party and which relates to the Trust, this Trust Agreement, the Plan or the Trust Properties.

ARTICLE X

FAIRSHARE PLUS ASSESSMENT; PROGRAM FUND

10.01 **FairShare Plus Assessment** Each Member other than Wyndham is required to pay the FairShare Plus Assessment. The FairShare Plus Assessment consists of the sum of the Program Fee and the OA Fee, each of which will be determined on an annual basis prior to the beginning of each year. Upon receipt of the FairShare Plus Assessment, the OA Fee shall be deposited in the Escrow Account and the Program Fee shall be deposited in the Program Fund.

10.02 **Program Fee.**

(a) **Amount.** The amount of the Program Fee shall be determined by the Trustee as needed to cover the cost of the operation and administration of the Plan (including the operation and administration of the Trust and the Association and, to the extent that the Trust is responsible therefor, the operation, maintenance, repair and replacement of the Trust Properties). The Trustee may establish varying fees among Members provided there is a reasonable basis for such a fee structure. The Program Fee shall be determined prior to January 1 of each year in connection with the budget process for the Plan.

(b) **Use.** The Program Fee will be used by the Trustee to fund the operation and administration of the Plan (including, the operation and administration of the Trust and the Association and, to the extent that the Trust is responsible therefor, the operation, maintenance, repair and replacement of the Trust Properties).

10.03 **OA Fees.**

(a) **Amount.** Each Member's OA Fee shall be equal to the sum of all annual amounts, including without limitation recreation, maintenance and reserve fees and assessments and real estate taxes (to the extent payable through the OA), that each such Member agreed to pay the OA which governs the Property Interest which such Member used as the basis for his Membership. The amount of the OA Fee will be determined by each Member's respective OA and not by the Trustee. The amount of the OA Fee will vary from Member to Member as determined by the board of directors or other governing or managing authority of the OA which governs such Member's Property Interest.

(b) **Use.** The OA Fee will be collected by the Trustee in accordance with the terms of each Member's Purchase Agreement and/or Assignment Agreement and held in the Escrow Account for each such Member until the OA Fee is due to each such Member's respective OA. This fee will be paid by the Trustee to the applicable OA on or

before the date the fee is due, on behalf of each Member that has fully deposited his or her OA Fees in the Escrow Account. The OA Fee will be collected by the Trustee on behalf of the Member and neither the Trustee nor the Plan Manager shall have any discretionary power over the disposal or use of the OA Fee.

(c) **Escrow Account.** All OA Fees will remain in the Escrow Account until paid to the appropriate OA.

10.04 **Method of Payment.** FairShare Plus Assessments may be paid annually or in monthly installments. Members who elect to pay their FairShare Plus Assessments on an annual basis must pay for an entire twelve-month period in advance of the date that their OA Fee is due to their respective OAs.

10.05 **Escrow Account.** Funds on deposit in the Escrow Account may from time to time be invested in accordance with the Trust's investment policy. Investment income, if any, shall be used by the Trustee to offset the Program Fees for the year or years following the year in which the investment income is recorded.

10.06 **Special Assessments.**

(a) **Program Fees.** The determination of the amount of the Program Fee will be based upon the best available information at the time of the preparation of the budget for the Plan. Members will be required to pay or reimburse the Trustee in the event that for any year the total amount of Program Fees due from all Members is not sufficient to pay all expenses of administration and operation of the Plan (including administration and operation of the Trust and the Association and, to the extent that the Trust is responsible therefor, operation, maintenance, repair and replacement of the Trust Properties) for that year. Adjustments, if any, to cover such shortfalls will be allocated among Members in an equitable fashion as determined by the Board of Directors of the Trustee in its sole discretion.

(b) **OA Fees.** To the extent not then known, the OA Fees will be estimated at the beginning of each year based upon the best available information at the time of the determination of the FairShare Plus Assessment. The amounts due for the OA Fees will be adjusted at the end of each year upon receipt of the invoices for the actual amounts of the fees due the OAs and each Member will be billed for any increase in his OA Fees on or about January 31 of the following year. Any surplus resulting from a decrease in any Member's OA Fees will be held in the Escrow Account and used by the Trustee to offset the amount due from that Member for his OA Fees for the following year. Refunds may be requested by a Member if the amount of such Member's "excess" OA Fees held in the Escrow Account exceeds five percent (5%) of the anticipated OA Fee for the next year.

10.07 **Delinquent Payment of FairShare Plus Assessment** A Member shall be deemed to be delinquent in the payment of his FairShare Plus Assessment or any installment thereof if such Member shall fail to pay the delinquent amount within thirty (30) days of the date that the Trustee (or the Plan Manager on behalf of the Trustee) sends written notice thereof.

Once a Member is so delinquent, as provided in Section 11.07 below, such Member shall no longer be entitled to use his Points in the Plan unless and until such delinquency is cured. In addition, the Trustee shall have (and each Member, by acquiring a Property Interest subject to this Trust Agreement or by assigning to the Trust the Use Rights in his Property Interest, shall be deemed to have granted to the Trustee) a lien or security interest in such Member's Use Rights (or Property Interest) to the extent of the portion of the delinquency that constitutes Program Fees, which lien or security interest shall, in all respects, be subordinate to the lien or security of the underlying OA to the extent of the portion of the delinquency that constitutes OA fees and to the lien or security interest of any lender who has a previously recorded or perfected lien or security interest on such Member's Property Interest. Upon the occurrence of a delinquency, the Trustee is hereby authorized to take all steps necessary to perfect its lien or security interest and to enforce its lien or security interest in any manner permitted by applicable law, including, but not limited to, a suit at law or a power of sale or enforcement of its lien or security interest in the manner provided for under applicable law.

10.08 **Withdrawal from Trust.** In the event a Member withdraws his Property Interest (or the Use Rights therein) from the Trust for any reason, such Member shall be entitled to receive a refund of the prepaid OA Fee held in the Escrow Account on his behalf. The amount of the refund shall equal the balance of the withdrawing Member's prepaid OA Fees less any administrative fees charged by the Trustee and/or the Plan Manager in connection with such withdrawal. Program Fees are not refundable.

10.09 **Payment History.** Each Member may request a payment history report from the Trustee showing receipts and disbursements related to such Member's Membership; provided, however, no more than two such reports may be requested in any twelve (12) month period without an additional administrative charge.

10.10 **Member Directions Regarding OA Fees.** Each Member by acquiring a Property Interest previously subjected to this Trust Agreement or by assigning to the Trust the Use Rights in his Property Interest is deemed to have instructed the Trustee to collect the OA Fees, deposit such amount in the Escrow Account and remit them when due to the appropriate OA which instruction shall be irrevocable unless and until such Member withdraws his Property Interest (or the Use Rights therein) from the Trust.

ARTICLE XI

TRUST PROPERTY RESERVATIONS

11.01 **Directory.** Set forth below in summary form are certain of the most important features of the Plan. The rules, regulations, guidelines, policies and procedures related to the allocation of Points to the Trust Properties and the use of Points by Members in connection with the Trust Properties and the Plan are fully described in the Directory. In the event of a conflict between the information described in this Article XI and the information set forth in the Directory, the information set forth in the Directory shall be controlling. Wyndham, in its sole discretion, reserves the right to amend the Directory and the provisions therein from time to time as may be necessary to implement the Plan.

11.02 **Use Year.** All Members shall be assigned a “Use Year” which determines the expiration date of such Member’s Points for that particular year. Each Member shall have as the end date of his “Use Year” one of the following four quarterly dates: March 31, June 30, September 30 or December 31.

11.03 **Reservations.** The rules, regulations and guidelines concerning reservations and exchanges shall be set forth in the Directory. Reservations canceled thirty (30) days or more prior to the first day of intended use shall not result in a loss of Points. Reservations canceled less than thirty (30) days prior to the first day of intended use shall affect the use of the Member’s Points in the manner described in the Directory (and may include the loss of the Points used by the Member for the reservation.)

11.04 **Wait List.** A “wait list” system has been established by the Trustee for those Members who desire reservation dates that are unavailable and who want to be on a list in the event there are cancellations. The Trustee may charge a fee for the maintenance of the “wait list”, which fee may change, without any guarantee that the reservation date requested will become available. Use of the “wait list”, however, does not prevent a Member from making other reservations during the time such Member might be on the “wait list”.

11.05 **Rotating Priority List.** Holidays and other high demand vacation periods are a popular vacation time at many of the Accommodations. Accordingly, a Rotating Priority List may be established by the Trustee to provide all Members the opportunity to enjoy their choice of Accommodations during such time periods. The rules, regulations and guidelines for the Rotating Priority List are set forth in the Directory.

11.06 **The Points Credit Pool.** The Trustee has established a “Points Credit Pool” for the deposit of certain qualified Points that will not be used by a Member. The rules, regulations, guidelines and restrictions for the Points Credit Pool are set forth in the Directory.

11.07 **Delinquent Assessments.** The Trustee reserves the right to prohibit a Member from utilizing his Points to reserve or use Accommodations, in the event of a delinquency in the payment of any amounts due to Wyndham or any other seller, lender or lienholder related to such Member’s Property Interest or Points, or in the event of a delinquency in the payment of the FairShare Plus Assessment to the Trustee or the payment of any amounts due from such Member to a OA.

11.08 **Wyndham Use.** In addition to the right of Wyndham, as a Member and owner of Points, to make reservations using those Points at any time, Wyndham, in its capacity as the developer of resort communities and Vacation Plans, may reserve available Accommodations up to 60 days in advance of the first day of anticipated occupancy, for its own purposes, including renting to the public, provided it pays or otherwise causes a third party to pay the occupancy related expenses of such Accommodations for each night to be used. All such occupancy related expenses shall be determined by the Trustee. As a result of Wyndham’s use there will be less space available for Member use; however, Wyndham may not reserve the last 10% of available occupancy for a type of Accommodation until 30 days prior to the first day of intended use. In addition, to the extent more Points are available in the Plan than are allocated to Members other

than Wyndham, Wyndham may sell or lease Points on such terms as Wyndham and the Trustee deem reasonable. The purchasers or lessees of such Points shall have such Membership rights as Wyndham and the Trustee deem appropriate.

11.09 **Presales.** In the event Wyndham presells Property Interests with proper regulatory approval and the purchaser of such Property Interest has subjected such Property Interest (or the Use Rights therein) to this Trust Agreement, such Purchaser shall be entitled to reserve Accommodations prior to the time the Accommodation(s) in the Vacation Plan in which such purchaser has purchased a Property Interest is/are available for occupancy, if the Trustee has determined that Accommodations available in the Plan are sufficient to accommodate such purchaser. Should the Trustee determine that there are insufficient Points available in the Plan to accommodate a purchaser who has purchased and subjected to this Trust Agreement a Property Interest (or the Use Rights therein) in a Vacation Plan, the Accommodation(s) of which is/are not available for use, said purchaser shall not be entitled to reserve Accommodations until such time as said Accommodation(s) is/are available for occupancy.

11.10 **Additional Exchange and Other Programs**

(a) **Internal.** Wyndham may develop an internal exchange program for Members by which the Members may reserve time in Vacation Plans outside of the Vacation Plans applicable to the Trust Properties. Wyndham may enter into agreements with one or more affiliated or unaffiliated resorts or resort developers at resorts whose Vacation Plan or Vacation Plans are not a part of the Vacation Plans applicable to the Trust Properties and/or one or more affiliated or unaffiliated owners/developers of hotel and non-timeshare resort properties which may provide additional Vacation Units that Members would be able to utilize. Finally, Wyndham may also enter into agreements with the developers of other types of programs or experiences (such as motor homes, houseboats, etc.,) which Members would be able to utilize. The number and location of available resorts and types of vacation and travel programs and experiences will change from time to time as set forth in the Directory and availability will be subject to the provisions of the Plan Manager's reservation system. Wyndham may charge a fee for each transaction it consummates on behalf of a Member, which fee will be subject to change. Wyndham's internal exchange system, called "FAX", may be made available to Members who wish to use their Points to reserve time in Vacation Units which are included in the "FAX" exchange network but are not available through the Plan. Wyndham may charge a fee, which will be subject to change, for each transaction which involves an exchange into the "FAX" exchange network. Persons who have acquired Property Interests in other Wyndham resorts and who are therefore entitled to the privileges of the "FAX" exchange network may also be entitled to exchange the Use Rights attributable to their Property Interests for use of Accommodations in the Plan, but such persons who are members of the "FAX" exchange network and who wish to exchange for Accommodations in the Plan may not submit reservations more than seven months in advance of their requested use period and they must have banked their Property Interest with FAX in advance of making such reservation request. All Points which Members use to avail themselves of any of the foregoing "internal" exchanges or programs shall be deemed to belong to Wyndham for the Use Year attributable to such

Points and Wyndham shall be entitled to use such Points in the same fashion as any other Member, including, without limitation, making reservations for Accommodations and renting out those Accommodations to the public.

(b) **External.** An external exchange program may from time to time be available to qualified Members. Each Member, however, must determine whether he is eligible and desires to become a member of such external exchange program. Each participating Member will be required to pay any fees associated with membership in or the use of any such external exchange program. These external exchange programs are independent companies with no affiliation or relationship to Wyndham, other than RCI, LLC (“RCI”), which is a subsidiary of Wyndham Worldwide Corporation (“WWC”), WWC being the parent company of Wyndham. The guidelines for exchanging through an external exchange company are subject to change and, when available, will be set forth in the Directory.

(c) **Availability of Exchange.** Wyndham does not guarantee to the Members that any exchange as set forth in the exchange programs referenced above will be available to the Members.

11.11 **Priority Reservation Rights.** The Trustee may establish different rules and reservation rights for Members based upon (a) levels of Points owned, or (b) the location of the Accommodations available through the Property Interest purchased by a Member, or (c) the specific Use Rights assigned to the Trust, or (d) any other criteria determined by Trustee. Such rules and reservation rights, including priorities, fees, reservation periods, and other policies, guidelines and restrictions shall be set forth in the Directory.

ARTICLE XII

OTHER RIGHTS AND RESPONSIBILITIES OF MEMBERS

12.01 **Sale or Transfer.** A Member may sell or otherwise transfer his Property Interest and Points provided such Member gives notice to the Trustee at the address specified herein and provided further that the Points allocated to a Property Interest (or the Use Rights therein) may not be sold separate from such Property Interest. A Member may not transfer his Property Interest nor permit others to use the Points associated therewith unless such Member is current in the payment of his FairShare Plus Assessment. The transfer of a Property Interest and the Points associated therewith may not result in a Member owning less than the minimum number of Points needed to reserve one week in an Accommodation. A Member desiring to transfer his Property Interest must also obtain the written consent of Wyndham, which consent may be withheld if the Member is delinquent in the payment of any obligations then due Wyndham under his Purchase Agreement, or under a mortgage, deed of trust or other security instrument encumbering his Property Interest, or if the terms and conditions of the Member’s Assignment Agreement prohibit the sale, conveyance or transfer of the Membership to persons other than Wyndham. Wyndham and/or the Plan Manager has the right, in its discretion, to charge the purchaser a reasonable transfer fee for documenting the transfer of a Property Interest and the appurtenant Points.

12.02 **No Sale Assistance.** The Trustee and Wyndham have no obligation to repurchase or assist a Member with the sale of his Property Interest and the Points associated therewith.

ARTICLE XIII

MEMBERSHIP IN THE FAIRSHARE VACATION OWNERS ASSOCIATION AND OTHER OWNERS ASSOCIATIONS

13.01 **Fairshare Vacation Owners Association.** As noted above, all Members are also “Members” of the Association and are entitled to one vote at all Association meetings held in accordance with the Association’s By-Laws without regard to the number of Points allocated to such Member. If there are multiple owners of a Membership, then the multiple owners shall designate one owner as the Voting Member and such Members shall be required to advise the Trustee of his selection. All Members are eligible to be members of the Board of Directors pursuant to the provisions set forth in the Articles of Incorporation and By-Laws of the Association. Any Member who is a member of the Board of Directors will pay his own expenses involved in traveling to and from the location of Board meetings. In addition, Wyndham shall be a Member of the Association.

13.02 **OA.** All Members shall remain or become members of the OA that governs their respective Property Interests, if applicable, and may also be members of the site or master association should one exist. Where allowed by law, each Member (with the exception, unless otherwise agreed between the Trustee and the respective OA, of those Members owning Property Interests in Vacation Plans which have not been developed by Wyndham, either as primary developer or as a co-developer with another entity), by executing an Assignment Agreement or a contract or accepting a deed for a Property Interest subject to this Trust Agreement, shall, if the Assignment Agreement or the contract or deed expressly so provides, delegate to the Voting Designee the authority to exercise any voting privileges such Member may have in the OA having jurisdiction over his Property Interest. Each Member who has so delegated his/her voting privileges also agrees to execute any additional documentation that may be requested from time to time by the Trustee to further evidence or continue the effectiveness of such delegation. In exercising the voting privilege of a Member, the Voting Designee agrees in its reasonable discretion to act at all times in the best interest of the Member. The Voting Designee agrees that it will notify the Member and vote as directed by the Member in writing on the following issues:

- (a) **Waiver of Material Rights.** Waiver of any material rights of the OA or of the Members against the Plan Manager, Wyndham or a Third Party;
- (b) **Fee Increases.** Any increase in the OA’s annual maintenance fee or common expense in excess of 115% of the previous year’s budget, excluding reserves; or
- (c) **Termination.** Voluntary termination of the timeshare, condominium or townhouse regime or any proposal not to reconstruct any unit or common element after destruction or casualty.

The Voting Designee shall serve in such capacity until such time as the Property Interest or the Use Rights therein is/are no longer subject to the terms of this Trust Agreement. All OA Fees shall remain the personal obligation of Member, its heirs, successors or assigns; provided, however, it is agreed that all OA Fees shall be paid to the Trustee and held in the Escrow Account on behalf of the Member until such amount is due to the OA.

13.03 **Payment of Delinquent FairShare Plus Assessments.** Neither the Plan Manager, the Trustee, the Association nor Wyndham shall be responsible for paying any FairShare Plus Assessments or any delinquencies in any FairShare Plus Assessments.

ARTICLE XIV

MISCELLANEOUS

14.01 **Construction of Trust Agreement.** Nothing contained herein shall preclude the Trustee or any Beneficiary from the right to judicial construction of any of the terms to this Trust Agreement. This Trust Agreement shall be construed in accordance with the laws of the State of Arkansas. This Trust Agreement shall be interpreted liberally in favor of an interpretation which will give this Trust Agreement full force and effect. Any action brought to enforce the terms or interpret any provision of this Trust Agreement or any other action in any manner relating to the Trust, the Trustee, the Trust Properties or the Plan shall be brought in the State Courts in Orange County, Florida or the Federal District Courts for the Middle District of Florida.

14.02 **Arbitration.** The Trustee may, upon request by all Members involved, arbitrate disputes arising between Members concerning the use and occupancy of Trust Properties and the interpretation of this Trust Agreement. The parties agree to abide by the findings of the Trustee.

14.03 **Severability.** In the event any one or more of the phrases, sentences, clauses or paragraphs contained herein should be invalid, this Trust Agreement shall be construed as if such invalid phrase or phrases, sentence or sentences, clause or clauses, and paragraph or paragraphs had not been inserted, and the remaining provisions will therefore be valid and fully enforceable in accordance with the terms thereof.

14.04 **Notice to the Parties.** Except for notices of Association meetings, any other notice to be given to a Beneficiary shall be given by certified mail, return receipt requested, addressed to the post office address last shown on the records of the Trustee or the Plan Manager. Every notice so given shall be effective from the date of the mailing of such notice and the date of the mailing of such notice shall be the date such notice is deemed given for all purposes. Notices of Association meetings shall be given in accordance with the requirements of the By-Laws.

Notice to be given to the Plan Manager or the Trustee shall be given by certified mail, return receipt requested to the following address:

Plan Manager FairShare Vacation Plan
Wyndham Vacation Resorts, Inc.
8427 SouthPark Circle
Orlando, Florida 32819
Attention: President

Trustee
Fairshare Vacation Owners Association
8427 SouthPark Circle
Orlando, Florida 32819
Attention: President

14.05 **Amendments.** The Trustee, with the consent of Wyndham, may amend this Trust Agreement in writing from time to time and shall have the right, but not the obligation, to cause any such amendment to be recorded in the Recording Offices of all counties in which Property Interests (or the Use Rights therein) subject to this Trust Agreement are located (as well as in or with all other Filing Offices). The Trustee, with the consent of Wyndham, may, from time-to-time, add a Third Party or additional Wyndham subsidiary as a party to this Trust Agreement on terms and conditions acceptable to the Trustee and Wyndham.

14.06 **Further Assurances.** Any party to this Trust Agreement or any Beneficiary will execute any additional document necessary or convenient to carry out the intent and purposes of the parties to this Trust Agreement.

14.07 **Acceptance and Ratification by Members.** All Members, by executing a Purchase Agreement or an Assignment Agreement or by accepting a deed to a Property Interest subjected to this Trust Agreement, shall be deemed to have accepted, and agreed to be bound by, the terms and provisions of this Trust Agreement and the Management Agreement executed in connection herewith and each Member, by making reservations through the Plan, paying his FairShare Plus Assessment and otherwise using the Plan from time to time, shall be deemed to have ratified and confirmed his prior acceptance of, and agreement to be bound by, this Trust Agreement and such Management Agreement.

14.08 **Exchange Programs.** The Trustee is authorized to enter into an agreement with exchange programs for the exchange of occupancy rights in the Trust Properties.

14.09 **Extensions.** This Trust Agreement shall be extended for successive ten (10) year periods unless and until those Members entitled to cast at least 50% of the then total votes of all Members vote, either at the annual meeting of the Association occurring during the last year of the then expiring term or at a special meeting of the Association, in either event, held in accordance with the terms of the By-Laws of the Association, to not extend the term of this Trust Agreement.

14.10 **Successors and Assigns.** This Trust Agreement shall be binding upon and shall inure to the benefit of the Beneficiaries (including the Members), their heirs, and permitted successors and assigns, as well as the parties hereto, their successors and assigns. This Trust Agreement may, as provided in Section 14.05 above, only be amended by the Trustee with the consent of Wyndham.

14.11 **Miscellaneous.** Unless the context of this Trust Agreement clearly requires otherwise, references to the plural shall be deemed to include the singular and vice versa and references to one gender shall be deemed to include all other genders. In furtherance of the foregoing, any use of a masculine pronoun herein (such as “his”) shall be deemed to include the feminine gender and the neuter (in the case of a corporation or other entity).

IN WITNESS WHEREOF, the parties have executed this Second Amended and Restated Fairshare Vacation Plan Use Management Trust Agreement as of the 14th day of March, 2008.

WYNDHAM VACATION RESORTS, INC.,
a Delaware corporation

By: _____ /s/ Gary T. Byrd
Its: _____ Executive Vice President
Name (Printed) _____ Gary T. Byrd (SEAL)

FAIRFIELD MYRTLE BEACH, INC.,
a Delaware corporation

By: _____ /s/ George B. Hewes
Its: _____ Senior Vice President
Name (Printed) _____ George B. Hewes (SEAL)

FAIRSHARE VACATION OWNERS ASSOCIATION,
an Arkansas nonprofit corporation, in its capacity as TRUSTEE

By: _____ /s/ Brian D. Keller
Its: _____ President
Name (Printed) _____ Brian D. Keller (SEAL)

WYNDHAM VACATION RESORTS, INC.,
a Delaware corporation, in its capacity as PLAN MANAGER

By: _____ /s/ Gary T. Byrd
Its: _____ Executive Vice President
Name (Printed) _____ Gary T. Byrd (SEAL)

FAIRSHARE VACATION OWNERS ASSOCIATION,
an Arkansas nonprofit corporation

By: _____ /s/ Brian D. Keller
Its: _____ President
Name (Printed) _____ Brian D. Keller (SEAL)

ACKNOWLEDGMENT

STATE OF FLORIDA)
) **SS.**
COUNTY OF ORANGE)

On February 26, 2008 before me, the undersigned, a Notary Public in and for said State, personally appeared Gary T. Byrd personally known to me or proved to me on the basis of satisfactory evidence to be the person who executed the within named instrument as Executive_Vice President of Wyndham Vacation Resorts, Inc., a Delaware corporation, executed same in accordance with a resolution of the Board of Directors of the corporation or the corporate by-laws.

WITNESS my hand and official seal.

Signature _____ /s/ Anna L. Walton

_____ Anna L. Walton

Notary's Name (Typed or Printed)

STATE OF FLORIDA)
) **SS.**
COUNTY OF ORANGE)

On February 26, 2008 before me, the undersigned, a Notary Public in and for said State, personally appeared George B. Hewes personally known to me or proved to me on the basis of satisfactory evidence to be the person who executed the within named instrument as Senior Vice President of Fairfield Myrtle Beach, Inc., a Delaware corporation, executed same in accordance with a resolution of the Board of Directors of the corporation or the corporate by-laws.

WITNESS my hand and official seal.

Signature _____ /s/ Anna L. Walton

_____ Anna L. Walton

Notary's Name (Typed or Printed)

ACKNOWLEDGMENT

STATE OF FLORIDA)
) **SS.**
COUNTY OF ORANGE)

On February 26, 2008 before me, the undersigned, a Notary Public in and for said State, personally appeared Brian D. Keller personally known to me or proved to me on the basis of satisfactory evidence to be the person who executed the within named instrument as President of Fairshare Vacation Owners Association, an Arkansas non-profit corporation, in its capacity as “**Trustee**”, executed same in accordance with a resolution of the Board of Directors of the corporation or the corporate by-laws.

WITNESS my hand and official seal.

Signature _____ /s/ Anna L. Walton

_____ Anna L. Walton

Notary’s Name (Typed or Printed)

STATE OF FLORIDA)
) **SS.**
COUNTY OF ORANGE)

On February 26, 2008 before me, the undersigned, a Notary Public in and for said State, personally appeared Gary T. Byrd personally known to me or proved to me on the basis of satisfactory evidence to be the person who executed the within named instrument as Executive Vice President of Wyndham Vacation Resorts, Inc., a Delaware corporation, in its capacity as “**Plan Manager**”, executed same in accordance with a resolution of the Board of Directors of the corporation or the corporate by-laws.

WITNESS my hand and official seal.

Signature _____ /s/ Anna L. Walton

_____ Anna L. Walton

Notary’s Name (Typed or Printed)

ACKNOWLEDGMENT

STATE OF FLORIDA)
) **SS.**
COUNTY OF ORANGE)

On February 26, 2008 before me, the undersigned, a Notary Public in and for said State, personally appeared Brian D. Keller personally known to me or proved to me on the basis of satisfactory evidence to be the person who executed the within named instrument as President of Fairshare Vacation Owners Association, an Arkansas non-profit corporation, in its capacity as **“Trustee”**, executed same in accordance with a resolution of the Board of Directors of the corporation or the corporate by-laws.

WITNESS my hand and official seal.

Signature _____ /s/ Anna L. Walton

_____ Anna L. Walton
Notary's Name (Typed or Printed)



The following EXHIBIT A was attached to the Second Amended and Restated
FairShare Vacation Plan Use Management Trust Agreement

EXHIBIT A

Original "FairShare Vacation Plan Use Management Trust Agreement"

Recorded in the following counties:

<u>SITE</u>	<u>STATE</u>	<u>COUNTY OFFICE</u>	<u>DATE</u>	<u>BOOK, PAGE ET SEQ.</u>
Bay	AR	Cleburne Clerk of Court	07/09/91	Bk. Vol. 345, pp 675
	AR	Van Buren Clerk of Court	07/09/91	Doc. #91-3367
Branson	MO	Taney Recorder of Deeds	06/18/93	Bk. 320, pp 4761
Flagstaff	AZ	Coconino County Recorder	07/11/91	Doc. 1408, pp 544
Glade	TN	Cumberland Office of Register	07/09/91	Bk. 401, pp 648
Harbour	NC	Craven Register of Deeds	07/09/91	Bk. 1288, pp 534
Mountains	NC	Rutherford Register of Deeds	07/08/91	Bk. 579, pp 102
Myrtle Beach	SC	Horry RMC Office	07/10/91	Bk. 1480, pp 726
Nashville	TN	Davidson Office of Register	10/11/94	Bk. 9489, pp 981
Ocean Ridge	SC	Colleton RMC Office	07/12/91	Bk. 529, pp 135

<u>SITE</u>	<u>STATE</u>	<u>COUNTY OFFICE</u>	<u>DATE</u>	<u>BOOK, PAGE ET SEQ.</u>
Orlando	FL	Orange Comptroller	04/28/95	Bk. 4885, pp 2488
	FL	Osceola Clerk of Circuit Ct.	03/24/93	Bk. 1115, pp 2135
Pagosa	CO	Archuleta Office of Recorder	07/09/91	Receipt. 180408
Plantation	GA	Carroll Office of Clerk	07/17/91	D. Book 706, pp 312
Sapphire Valley	NC	Jackson Register of Deeds	07/10/91	Bk. 782, pp 15
	NC	Transylvania Register of Deeds	07/16/91	Bk. 341, pp 174
Ventura	CA	Ventura Office of Recorder	08/02/91	Doc. #91-111853
Williamsburg	VA	York Office of Clerk	07/12/91	Bk. 620, pp 260

**RECORDED INFORMATION FOR
AMENDED AND RESTATED FAIRSHARE VACATION PLAN USE MANAGEMENT TRUST AGREEMENT**

<u>SITE</u>	<u>STATE</u>	<u>COUNTY</u>	<u>DATE</u>	<u>BOOK AND PAGE, ET SEQ.</u>	<u>OFFICE</u>
Bay	Arkansas	Cleburne	06/17/98	Book 449, Page 451	Circuit Clerk
	Arkansas	Van Buren	06/05/98	Document #9802893	Circuit Clerk
Branson	Missouri	Taney	06/18/98	Book 352, Page 3589	Recorder
Daytona	Florida	Volusia	06/22/99	Book 4448, Page 1125	Clerk of the Court
Destin	Florida	Okaloosa	06/22/99	Book 2213, Page 4999	Clerk of Court
	Florida	Walton	06/23/99	Book 2034, Page 214	Clerk of Court
Durango	Colorado	La Plata	05/31/02	Reception #831285	City of Clerk
Flagstaff	Arizona	Coconino	07/06/98	Docket 2122, Page 214	County Recorder
Ft. Lauderdale	Florida	Broward	03/12/98	Book 27856, Page 727	Recorder
Glade	Tennessee	Cumberland	05/11/98	Book 1015, Page 2261	Register of Deeds
Harbour	North Carolina	Craven	06/19/98	Book 1635, Page 234	Register of Deeds
Las Vegas	Nevada	Clark	05/13/98	Book 970513, Instrument 1787	County Recorder
Mountains	North Carolina	Rutherford	06/08/98	Book 712, Page 822	Register of Deeds
Myrtle Beach	South Carolina	Horry	05/18/98	Book 2037, Page 1219	Register of Deeds
Nashville	Tennessee	Davidson	05/12/98	Book 10928, Page 959	Register of Deeds
Ocean Ridge	South Carolina	Colleton	06/12/98	Book 818, Page 01	Clerk of Court
Orlando	Florida	Orange	05/01/98	Book 5472, Page 2613	Recorder
	Florida	Osceola	04/30/98	Book 1493, Page 738	Clerk of Court
Pagosa	Colorado	Archuleta	04/28/98	Reception #98003095	Clerk of Circuit Court
Plantation	Georgia	Carroll	05/08/98	Book 1044, Page 165	Clerk of Court
Sapphire Valley	North Carolina	Jackson	04/27/98	Book 993, Page 322	Register of Deeds
	North Carolina	Transylvania	05/15/98	Book 431, Page 782	Register of Deeds
Sedona	Arizona	Yavapai	12/15/99	Book 3717, Page 571	Recorder
Smoky Mountains	Tennessee	Sevier	07/01/99	Book M359, Page 64	Register of Deeds
Ventura	California	Ventura	05/06/98	Reception #98-070333	County Recorder
Washington DC	Virginia	City/Alexandria	03/23/98	Book 1634, Page 1995	Clerk of Circuit Court
Williamsburg	Virginia	York	04/28/98	Book 1009, Page 209	Office of Clerk

WYNDHAM WORLDWIDE CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Dollars in millions)

	<u>Three Months Ended March 31,</u>	
	<u>2008</u>	<u>2007</u>
Earnings available to cover fixed charges:		
Income before income taxes	\$ 70	\$ 139
Plus: Fixed charges	60	47
Amortization of capitalized interest	5	3
Less: Capitalized interest	4	6
Earnings available to cover fixed charges	<u>\$ 131</u>	<u>\$ 183</u>
Fixed charges (*):		
Interest, including amortization of deferred financing costs	\$ 52	\$ 41
Interest portion of rental payments	8	6
Total fixed charges	<u>\$ 60</u>	<u>\$ 47</u>
Ratio of earnings to fixed charges	<u>2.18x</u>	<u>3.89x</u>

(*) Consists of interest expense on all indebtedness (including amortization of deferred financing costs) and the portion of operating lease rental expense that is representative of the interest factor.

* * *

May 8, 2008

Wyndham Worldwide Corporation
Seven Sylvan Way
Parsippany, NJ 07054

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Wyndham Worldwide Corporate and subsidiaries (the "Company") for the three-month periods ended March 31, 2008 and 2007, and have issued our report dated May 8, 2008 (which included an explanatory paragraph relating to the fact that, prior to its separation from Cendant Corporation ("Cendant": known as Avis Budget Group since August 29, 2006), the Company was comprised of the assets and liabilities used in managing and operating the lodging, vacation exchange and rental and vacation ownership businesses of Cendant; included in Notes 13 and 14 of the interim consolidated financial statements is a summary of transactions with related parties; discussed in Note 13 to the interim consolidated financial statements, in connection with its separation from Cendant, the Company entered into certain guarantee commitments with Cendant and has recorded the fair value of these guarantees as of July 31, 2006; the Company adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 on January 1, 2007; the Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements on January 1, 2008, except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in FASB Staff Position ("FSP") FAS 157-2, which was issued on February 12, 2008); as indicated in our report because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended March 31, 2008, is incorporated by reference in Wyndham Worldwide Corporation's Registration Statement No. 333-136090 on Form S-8.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of such Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ Deloitte & Touche LLP
Parsippany, New Jersey

* * *

CERTIFICATION

I, Stephen P. Holmes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Wyndham Worldwide Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13(a)-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15(d)-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2008

/s/ Stephen P. Holmes
Chief Executive Officer

CERTIFICATION

I, Virginia M. Wilson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Wyndham Worldwide Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13(a)-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15(d)-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2008

/s/ Virginia M. Wilson
Chief Financial Officer

**CERTIFICATION OF CEO AND CFO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Wyndham Worldwide Corporation (the "Company") on Form 10-Q for the period ended March 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Stephen P. Holmes, as Chief Executive Officer of the Company, and Virginia M. Wilson, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his/her knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Stephen P. Holmes

Stephen P. Holmes
Chief Executive Officer
May 8, 2008

/s/ Virginia M. Wilson

Virginia M. Wilson
Chief Financial Officer
May 8, 2008