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American Arbitration Association
Dispute Resolution Services Worldwide

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NEW YORK REGION FAX COVER LETTER

February 15, 2001

TO:

Richard F. Ziegler, Esq.
Cleary, Gottlieb, Steen & Hamilton
Atty for RAYMOND H. STANTON II and RAYMOND H. STANTON III
One Liberty Plaza
New York, NY 10006

Samuel Kadet, Esq.
Skadden, Arps, Slate, Meagher & Flom
Atty for CENDANT CORPORATION, formerly known as
4 Times Square
New York, NY 10036

Re: 13 181 00279 99
RAYMOND H. STANTON II and RAYMOND H. STANTON III
and
CENDANT CORPORATION, formerly known as
CUC INTERNATIONAL, INC.

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FROM: Monica M. Karim

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OPERATOR: _____

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February 15, 2001
VIA FACSIMILE ONLY

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and
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CUC INTERNATIONAL, INC.

Dear Counsel:

By direction of the Arbitrators, enclosed herewith is the duly executed Award of the Arbitrators in the above-captioned matter.

Very truly yours,

Monica M. Karim
Case Administrator
212-484-3267

cc: Arbitrators
Encls.

AMERICAN ARBITRATION ASSOCIATION
Arbitration Tribunal

In the Matter of the Arbitration between
Re: 13 181 00279 99
RAYMOND H. STANTON II and RAYMOND H. STANTON III
and
CENDANT CORPORATION, formerly known as
CUC INTERNATIONAL, INC.

AWARD OF ARBITRATORS

We, the UNDERSIGNED ARBITRATORS, having been designated in accordance with the Stock Purchase Agreement entered into by the above named Parties and dated September 23, 1996, and having been duly sworn, and having duly heard the proofs and allegations of the Parties, and having considered both the claims and the counterclaims of the Parties, **FIND** and **AWARD** as follows:

1. Claimants sold their business, "Dine-A-Mate", to CUC in September 1996 for 929,930 shares of CUC stock having an averaged market price of $35.825 per share and simultaneously entered into an employment agreement providing for Claimants to receive options for a further 100,000 shares of CUC stock at the grant date price and vesting in increments of two, three and four years. CUC stock split 3 for 2 a month later and Claimants received 1,394,895 split adjusted shares at $23.88 a share and 150,000 options.

2. In May 1997 CUC and HFS Corporation announced a stock merger which was consummated later in the year on December 17. Since the capitalization of the two companies was roughly equal, stockholders of each company ended up owning half the merged company. CUC was the surviving corporation and was renamed Cendant.

3. After the close of trading on April 15, 1998, Cendant announced that it had discovered potential accounting irregularities at certain business units of the former CUC that would likely require it to restate its reported earnings for 1997 downward by approximately $100 to $115 million and possibly restate reported earnings for other previous periods as well. Cendant's stock price declined substantially in the wake of this announcement. By the close of trading on April 16, 1998 Cendant's stock had fallen by approximately 46.5%. However, in the next few days the stock recovered to some degree.

4. On July 14 Cendant announced that the irregularities were both more substantial than it had realized in April and were made with intent to deceive (i.e., fraudulent), and that the 1995 and 1996 financials would need to be restated because of the conduct of CUC. Once again the stock price dropped significantly – more than 25%. An independent investigation was undertaken by Arthur Anderson, and Cendant made detailed restatements of earnings in August, with a further – but much less significant – market reaction.

5. Prior to the disclosure of the fraud the Stantons sold 240,000 shares of CUC, and after the April disclosure they purchased a number of puts and calls which were never exercised. In addition, Raymond Stanton III purchased a collar on 200,000 shares in early April, 1998 before the disclosure, and exercised the put side in April, 2000 at a profit.

6. The facts in this matter are not in dispute. What is disputed is the correct manner to treat the various transactions from an economic and legal point of view.

7. The Parties (and their experts) agree that the calculation of damages when stock is purchased at an inflated price due to fraud is the "out-of-pocket" theory which requires a calculation of the amount of inflation at the time the stock was purchased, that is, September 23, 1996, when the Stantons sold Dine-A-Mate to CUC. Both agree further that to establish the amount of inflation it is necessary to use an "event window" or windows at the time the fraud is revealed and apply that percentage of inflation retroactively to the stock price at the date of purchase. Both agree that in this case both the April and July dates are the appropriate ones, though the experts differ on the length of the event windows. Claimants find a one day window appropriate for the April 15 disclosure and a two day window for the July disclosure because of information leaked prior to July 10. Respondents contend the market took longer than a single day to react and selected as the appropriate windows the close of market on April 15 to the close on April 20, and from the July 10 close to that of July 14. While the Parties agree on the price reaction in July, because of their differences in the "event window" for April, they disagree overall, with the Claimants finding a total price reaction of 61.9% and the Respondent finding a price reaction of 49.2%. Both accept that the further events in August are unimportant to their calculation.

8. In addition to differences as to the length of the window in establishing the Stantons' out-of-pocket damages, the Parties disagree on the proper method to calculate the amount of fraudulent inflation on the date of the Stantons' sale. Claimants say simply taking the inflation percentage arrived at by the event windows and applying it to the shares received by the Stantons is appropriate. Respondents use an ICOBAM regression to calculate fraudulent inflation retroactively on a day by day basis.

9. The major difference between the Parties [and their experts] lies in the Respondent's theory that after the out-of-pocket damages are calculated those damages should be offset by any benefits received by Complainants as a result of the fraudulent inflation. Under this theory as calculated by Respondents, the Stantons received benefits from the fraud in excess of their September out-of-pocket damages and this is the basis for Respondent's denial of liability and counterclaim. As one illustration they demonstrate that all CUC stockholders benefited from the merger with HFS since the "real value" of their stock was increased as a result of the merger. Complainants do not deny the benefit, but say that it was already taken into account when the stock price dropped on revelation of the fraud. Were this not the case their out-of-pocket damages would have been greater.

10. We agree with Complainants that the out-of-pocket damages should be calculated by applying the percentage drop due to the fraudulent inflation to the shares and options received in September 1966 adjusted for the stock split. We agree, however, with Respondents that the one-day window was too short and accept Respondent's view on a greater window. But we reject Respondent's use of ICOBAM as a method of calculation. Of necessity, both methods use assumptions and we believe the simpler analysis of Complainants is preferable. Use of ICOBAN is necessary in class action suits where purchase and sale occur on a variety of dates, but is unnecessary in a matter such as this case, and introduces more arbitrary assumptions.

11. We agree that Complainant has properly treated the Stantons' pre-disclosure sales by simply taking these shares out of any damage calculation. Other than removing the sales from that calculation, proceeds obtained from the sale of the securities by an innocent party should not be used to reduce Respondent's liability for its initial fraud. Similarly, the unexercised puts and

calls should simply be ignored as irrelevant to any damage calculation, but the sales made post-April on the put side of the collar should be used to reduce damages as Claimants acknowledge.

12. We reject Respondent's novel theory that once Complainants' damages are fixed a further calculation to determine any benefits they received from CUC's fraud is required. Those benefits have already been taken into account in determining the amount of inflation at the time of purchase. Put differently, the benefit CUC received from HFS merger is reflected in the market value of Cendant's shares after revelation of the fraud. HFS shareholders suffered a loss as a result of the merger and CUC shareholders benefited by the same amount. HFS stockholders have a claim against Cendant for that loss and CUC stockholders' claim against Cendant is in effect reduced by the benefit received because of the increase in the value of their stock over what it would have been without the HFS assets. If that benefit is again used to reduce the Stantons' damages, the effect is to charge them – not Cendant – with Cendant's fraud and reduce Cendant's liability. Calculating out-of-pocket damages at the time of the purchase does not mean that thereafter the innocent stockholders are considered Parties to the continuing fraud so that they must return any benefits received.

13. The figure for the April three day window appears to be 31.31% (see exhibit 6A to the McCann Report) which, when combined with McCann's August figure using the same equation he does, gives a decline of 51.87%. Applying that number to the $23.88 stock price gives an inflation $12.39.

14. Accordingly, we AWARD Complainants out-of-pocket damages calculated on the basis of fraudulent inflation of $12.39 per share to be paid by Respondents as follows: $17,282,749 for inflated shares plus $1,550,000* for options less $2,920.800 for 240,000 shares sold before fraud disclosure less $2,434,000 for 200,000 "put" shares sold, equaling **$13,477,949** with simple interest at 9% from September 23, 1996 until paid.

*[this figure represents a rough estimate of the inflation on the Black-Scholes value of the options received by the Stantons in September of 1996, based on the stock price inflation of $12.39. We ask the Parties to calculate the exact revised Black-Scholes value of the options, and the inflation, in good faith, and agree on that value.]

15. Respondent's Counterclaims are denied.

16. Claimants request that the Tribunal award it counsel fees and costs is denied.

17. Claimant's request that the Tribunal award it punitive damages is denied.

18. The compensation of the non-party appointed Arbitrator totaling TWENTY THREE THOUSAND EIGHT HUNDRED EIGHTY DOLLARS ($23, 880.00) shall be borne equally by the Parties. Therefore, Claimants shall pay to the American Arbitration Association the sum of FOUR THOUSAND SEVEN HUNDRED NINETY DOLLARS ($4,790.00), representing their balance of said compensation still due the Association, Respondent shall pay to the American Arbitration Association the sum of FOUR THOUSAND SEVEN HUNDRED NINETY DOLLARS ($4,790.00), representing its balance of said compensation still due the Association. Compensation of the party appointed arbitrators shall be borne by the appointing Party.

19. The administrative fees and expenses of the American Arbitration Association totaling SIX THOUSAND FIVE HUNDRED DOLLARS ($6,500.00) shall be borne equally by the Parties.

20. This Award is in full settlement of all claims submitted to this Arbitration.

Nicholas deB. Katzenbach, Esq./Dated

Honorable Frederick B. Lacey / Dated

David W. Leebron, Esq. / Dated

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

I, Nicholas deB. Katzenbach do hereby affirm upon my oath as Arbitrator that I am the individual described in and who executed this instrument which is my Award.

(Dated) (Signature)

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

I, Honorable Frederick B. Lacey, do hereby affirm upon my oath as Arbitrator that I am the individual described in and who executed this instrument which is my Award.

Feb. 14, 2001
(Dated) (Signature)

20. This Award is in full settlement of all claims submitted to this Arbitration.

Nicholas deB. Katzenbach, Esq./Dated Feb 13, 2001

Honorable Frederick B. Lacey / Dated

David W. Leebron, Esq. / Dated

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

I, Nicholas deB. Katzenbach do hereby affirm upon my oath as Arbitrator that I am the individual described in and who executed this instrument which is my Award.

Feb. 13, 2001
(Dated)

(Signature)

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

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(Dated)

(Signature)

20. This Award is in full settlement of all claims submitted to this Arbitration.

Nicholas deB. Katzenbach, Esq./Dated

Honorable Frederick B. Lacey / Dated

David W. Leebron Feb. 13, 2001
David W. Leebron, Esq. / Dated

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

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(Dated) (Signature)

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(Dated) (Signature)

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

I, David W. Leebron, Esq., do hereby affirm upon my oath as Arbitrator that I am the individual described in and who executed this instrument which is my Award.

Feb. 14, 2001
(Dated)

David W. Leebron
(Signature)