UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark one)
[ X ] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

FOR THE FISCAL YEAR ENDED JANUARY 31, 1996

or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 1-10308

CUC International Inc.
(Exact name of registrant as specified in its charter)

| Delaware | 06-0918165 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. employer identification no.) |
| 707 Summer Street, Stamford, Connecticut | 06901 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code (203) 324-9261

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, $.01 Par Value | New York Stock Exchange |
| Zero Coupon Convertible Debentures, $100 Face Amount | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None.

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 X No ____

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 29, 1996, was $5,391,322,648. All officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant. The number of shares of the registrant's Common Stock outstanding, $.01 par value, as of March 29, 1996 was 190,460,240 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be mailed to stockholders in connection with the registrant's annual shareholders' meeting to be held June 5, 1996 ("Proxy Statement") are incorporated by reference into Part III hereof.

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PART I
- ------

ITEM 1. BUSINESS

GENERAL

CUC International Inc. (the "Company") is a membership-based consumer services company, providing consumers with access to a variety of services. The Company currently has approximately 46.5 million members using its various services. The Company operates in one business segment, providing these services as individual, wholesale or discount program memberships ("memberships") (see "-Types of Memberships"). These memberships include such components as shopping, travel, auto, dining, home improvement, lifestyle, vacation exchange, credit card and checking account enhancement packages, financial products and discount programs. The Company also administers insurance package programs which are generally combined with discount shopping and travel for credit union members, distributes welcoming packages which provide new homeowners with discounts for local merchants, and provides travelers with value-added tax refunds (see "-Membership Services"). The Company believes it is the leading provider of membership based consumer services of these types in the United States (see "-Competition"). The Company's activities are conducted principally through its Comp-U-Card division ("Comp-U-Card") and the Company's wholly-owned subsidiaries, FISI* Madison Financial Corporation ("FISI"), Benefit Consultants, Inc. ("BCI"), Interval International Inc. ("Interval") and Entertainment Publications, Inc. ("Entertainment").

The Company derives its revenues principally from membership fees. Membership fees vary depending upon the particular membership program, and annual fees to consumers generally range from $6 to $250 per year. Most of the Company's memberships are for one-year renewable terms, and members are generally entitled to unlimited use during the membership period of the service for which the member has subscribed. Members generally may cancel their membership and obtain a full refund at any point during the membership term.

The Company arranges with client financial institutions, retailers, oil companies, credit unions, on-line networks, fundraisers and others to market certain membership services to such clients' individual account holders and customers. Participating institutions generally receive commissions on initial and renewal memberships, averaging twenty percent of the net membership fees. The Company's contracts with these clients generally grant the Company the right to continue providing membership services directly to such clients' individual account holders even if the client terminates the contract, provided that the client continues to receive its commission.

The Company solicits members for many of its programs by direct marketing and by using a direct sales force calling on financial institutions, fund raising charitable institutions and associations. Some of the Company's individual memberships are available on-line to interactive computer users via major on-line services and the Internet's World Wide Web (see"-Distribution Channels"). For the fiscal year ended January 31, 1996, approximately 442 million solicitation pieces were mailed, followed-up by approximately 59 million telephone calls.

Individual memberships represented 63%, 65% and 69% of consolidated revenues for the fiscal years ended January 31, 1996, 1995 and 1994, respectively. Wholesale memberships represented 14%, 13% and 14% of consolidated revenues for the fiscal years ended January 31, 1996, 1995 and 1994, respectively. Discount program memberships represented 23%, 22% and 17% of consolidated revenues for the fiscal years ended January 31, 1996, 1995 and 1994, respectively. Membership revenue is recorded net of anticipated cancellations (see Item 7: "Management's Discussion and Analysis of Financial Condition and Results of Operations - Membership Information").

TYPES OF MEMBERSHIPS

The Company offers Shoppers Advantage(R), Travelers Advantage(R), AutoVantage(R), Premier Dining(R), PrivacyGuard(R), Buyers Advantage(R), Credit Card Guardian(R) and other membership services. These benefits are offered as individual memberships, as components of wholesale membership enhancement packages and insurance products, and as components of discount program memberships. A brief description of the different types of memberships are as follows:

Individual Memberships. The Company classifies memberships as individual memberships if 1) the member pays directly for the services; 2) the Company pays for the marketing costs to solicit the member and primarily markets these services using direct marketing techniques; 3) the membership is sold at full price; and 4) the initial fulfillment kit consists of a variety of membership materials such as a membership card, information describing the service and discount coupons applicable to the service. Examples of these memberships include Shoppers Advantage(R), Travelers Advantage(R) and AutoVantage(R) and insurance products, which are sold at prices generally between $10 and $250 per year.

Wholesale Memberships. The Company classifies memberships as wholesale memberships if 1) the Company does not pay for the marketing costs to solicit the member; 2) the initial fulfillment kit consists of a variety of membership materials such as a membership card and information describing the service; 3) the memberships may be sold at full or discounted group prices; and 4) the member or the sponsor pays for the membership. Examples of these memberships include enhancement packages sold through banks and credit unions and insurance products sold to credit unions, for which the Company acts as a third party administrator. Fees for these memberships are generally between $6 and $50 per year.

Discount Program Memberships. The Company classifies memberships as discount program memberships if 1) the initial fulfillment materials consist of various offers of local or national discounts; 2) the primary marketing method is through either a direct sales force contacting primarily fundraising institutions, a participating merchant or general advertising; and 3) the member or a local merchant generally pays for the membership. Examples of these memberships include the Entertainment(R) and Gold C(R) coupon book programs. Fees to consumers for these memberships generally range from $10 to $50 per year.

MEMBERSHIP SERVICES

The various memberships may contain all or some of the features of the following services:

Shopping. Shoppers Advantage(R) is a discount shopping program whereby the Company, through Compu-U-Card Services, Inc., provides product price information and home shopping services to its members. The Company's merchandise database contains information on approximately 250,000 brand name products, including a written description of the product, the manufacturer's suggested retail price, the vendor's price, features and availability. All of these products may be purchased through the Company's independent vendor network. Vendors include manufacturers, distributors and retailers nationwide. Individual members are entitled to an unlimited number of toll-free calls seven days a week to the Company's shopping consultants, who access the merchandise database to obtain the lowest available fully delivered cost from participating vendors for the product requested and accept any orders that the member may place. The Company informs the vendor providing the lowest price of the member's order and that vendor then delivers the requested product directly to the member. The Company acts as a conduit between its members and the vendors; accordingly, it does not maintain an inventory of products.

As part of its individual member Shoppers Advantage(R) program, the Company distributes catalogs eight to twelve times per year to certain members. In addition, the Company automatically extends the manufacturer's warranty on all products purchased through the Shoppers Advantage(R) program and offers a low price guarantee.

Travel. Travelers Advantage(R) is a discount travel service program whereby the Company, through CUC Travel Services, Inc. ("CUC Travel") (a full-service travel agency), obtains information on schedules and rates for major scheduled airlines, hotel chains and car rental agencies from the American Airlines Sabre(R) Reservation System. In addition, the Company maintains its own database containing information on tours, cruises, travel packages and short-notice travel arrangements. Members book their reservations through CUC Travel, which earns commissions (ranging from 5%-25%) on all travel sales from the providers of the travel services. Certain Travelers Advantage(R) members can earn cash awards from the Company equal to a specified percentage (generally 5%) of the price of travel arrangements purchased by the member through CUC Travel.

Travel members may book their reservations by making toll-free telephone calls seven days a week, twenty-four hours a day to agents at CUC Travel. CUC Travel's agents reserve the lowest air, hotel and car rental fares available for the members' travel requests.

Auto. The Company's auto service, AutoVantage(R), offers members comprehensive new car summaries and discounts on new domestic and foreign cars purchased through the Company's independent dealer network (which includes approximately 2,000 dealers); discounts on maintenance, tires and parts at more than 25 chains and more than 23,000 locations, including well known chains such as Goodyear and Firestone; discounts on parts and labor at participating AutoVantage(R) new car dealers across the country; and used car valuations. AutoVantage Gold(R) offers members additional services including road and tow emergency assistance 24 hours a day in the United States.

Dining. Premier Dining(R) and Dinner on Us Club(R) feature two-for-one dining offers at more than 19,000 restaurants in major metropolitan areas across the United States. The Company also manages AAdvantage Dining, a program which allows American AAdvantage members to earn three miles for each dollar spent (pre-tip total) for dining at nearly 3,000 participating restaurants in the United States.

Credit Card Guardian. Credit Card Guardian(R) enables consumers to register their credit and debit cards with the Company so that account numbers of these cards may be kept securely in one place. If the member notifies the Company that any of these credit or debit cards are lost or stolen, the Company will notify the issuers of these cards, arrange for them to be replaced and reimburse the member for any amount for which the card issuer may hold the member liable.

Buyers Advantage. The Buyers Advantage(R) service extends the manufacturer's warranty on products purchased by the member. This service also rebates 20% of repair costs and offers members price protection by refunding any difference between the price the member paid for an item and its reduced price, should the item be sold at a lower price within sixty days after purchase.

CompleteHome. The CompleteHome(R) service is designed to save members time and money in maintaining and improving their homes. Members can order do-it-yourself "How-To Guides" or call the service for a tradesperson referral. Over 10,000 tradespersons are available nationally through a toll-free phone line. Members also receive discounts on a full range of home-related products and services.

Health Services. The HealthSaver membership provides discounts ranging from 10% to 60% off retail prices on prescription drugs, eyewear, eyecare, selected health-related services and fitness equipment, including sporting goods. The service also makes available to consumers health-related information through various services, including Nurseline, which provides members with general medical information explaining common medical conditions in simple language. Members also receive a subscription to a leading health newsletter. Members may also purchase prescription and over-the-counter drugs through the mail.

PrivacyGuard Service. The PrivacyGuard(R) service provides members with a comprehensive and understandable means of monitoring key personal information. The service offers a member access to information in four key areas: credit history, driving records maintained by state motor vehicle authorities, Social Security records and medical files maintained by third parties. This information is designed to assist members in updating and correcting information concerning themselves and in obtaining mortgages or loans, applying for insurance and planning for retirement.

Vacation Exchange Service. The Company, primarily through Interval, provides its members with the ability to exchange their timeshare vacation weeks with those of other members. Members receive an annual catalog detailing all properties available for exchange, as well as periodic communications and may use the Company's travel services.

Lifestyle Clubs. In September 1995, the Company acquired North American Outdoor Group, Inc. ("NAOG"). NAOG owns and operates the North American Hunting Club(R), the North American Fishing Club(R) and the Handyman Club of America(R). Members of these clubs receive fulfillment kits, discounts on related goods and services, magazines and other benefits.

Enhancement Package Service. The Company, primarily through FISI, sells enhancement package memberships for checking account holders. FISI's financial institution clients, with whom FISI has entered into written contracts, select a customized package of the Company's products and services. Each client then usually adds its own services (such as unlimited check writing privileges, personalized checks, cashiers' or travelers' checks without issue charge, or discounts on safe deposit box charges or installment loan interest rates). With the Company's marketing and promotional assistance, the financial institution then offers the complete package of account enhancements to its checking account holders as a special program for a monthly fee.

Most of the Company's financial institution clients choose a standard enhancement package, which generally includes $10,000 of accidental death insurance, travel discounts and a nationwide check cashing service. Others may choose the Company's shopping and credit card registration services, a financial newsletter or pharmacy, eyewear or entertainment discounts as enhancements. The accidental death coverage is underwritten under group insurance policies with independent insurers. These insurers, including Hartford Life Insurance Company, AMEX Life Assurance Company and Continental Casualty Company, a CNA insurance company, have agreed to return to the Company, as a commission, the excess, if any, of the total premiums paid during each year over the sum of the claims paid or reserved plus a specified percentage of the total premiums. The Company continuously seeks to develop new enhancement features which may be added to any package at an additional cost to the financial institution.

The Company generally charges a financial institution client an initial fee to implement this program and monthly fees thereafter based on the number of member accounts participating in that financial institution's program. The Company's enhancement packages are designed to enable a financial institution to generate additional fee income, because the institution should be able to charge participating accounts more than the combined costs of the services it provides and the payments it makes to the Company.

The Company, primarily through National Card Control Inc. ("NCCI"), a wholly-owned subsidiary, also sells enhancement package services to credit card issuers who make these services available to their credit card holders. NCCI's credit card issuer clients also select a customized package of the Company's products and services. These enhancements include many of those offered by FISI to the checking account customers of its financial institution clients, such as the Company's shopping, travel and credit card registration services.

Like FISI, NCCI generally charges its credit card issuer clients an initial fee to implement the program and monthly fees thereafter, based on the number of member accounts participating in that institution's program.

Financial Products. Essex Corporation ("Essex"), a subsidiary of the Company, is a third-party marketer of financial product memberships for banks, primarily marketing annuities through financial institutions. Essex generally markets annuities issued primarily by insurance companies or their affiliates, mutual funds issued by mutual fund companies or their affiliates, and proprietary mutual funds of banks. Essex's contracts with the insurance companies whose financial product memberships it distributes generally entitle Essex to a commission of slightly less than 1% on the premiums generated through Essex's sale of annuities for these insurance companies.

Discount Program Memberships. The Company, primarily through its wholly-owned subsidiary, Entertainment, offers discount program membership in specific markets throughout North America and certain international markets and enhances other of the Company's individual and wholesale memberships. The Company believes it is the largest marketer of discount program memberships of this type in the United States.

The Company solicits restaurants, hotels, motels, theaters, retailers and other businesses which agree to offer services and/or merchandise at discount prices (primarily on a two-entrees-for-the-price-of-one or 50% discount basis). The Company sells discount coupon memberships, under its Entertainment(R), Gold C(R) and other trademarks, typically containing coupons for hundreds of discount offers from participating establishments. Targeting middle to upper income consumers, Entertainment(R) coupon books also contain selected discount travel offers, including offers for hotels, restaurants and tourist attractions. More than 100,000 merchants participate in these programs. Entertainment has used this national base of merchants to develop other products, most notably, customized memberships. Membership books customized for major corporations typically contain portions of Entertainment(R) books, along with other discount offers.

Entertainment(R) coupon book memberships are distributed annually by geographic area. Members are solicited through nonprofit organizations, corporations and, to a lesser extent, through retailers and directly from the public. Customized books are distributed primarily by major corporations as premiums and incentives for their employees. The coupon books are generally provided to nonprofit organizations and corporations on a consignment basis.

While prices of local coupon memberships vary, the customary price for Entertainment(R) and Gold C(R) coupon book memberships ranges between $10 and $50. Customized book memberships are generally sold at significantly lower prices. In fiscal 1996, 147 Entertainment(R) editions (1996 Edition) were published in North America.

Sally Foster Gift Wrap, LP, a subsidiary of the Company, provides fundraising institutions with seasonal products, primarily through public and private elementary schools. The Company uses its Gold C(R) sales force to sell these products, often combining the sale of gift wrap with other membership services.

In February 1995, the Company acquired Welcome Wagon International, Inc. ("Welcome Wagon"), a 67-year old organization which has over 2,000 field representatives who visit households and campuses each year to provide consumers with discounts for local merchants. In June 1995, the Company acquired Getko Group Inc. ("Getko"). Getko distributes complimentary welcoming packages which provide new homeowners throughout the United States and Canada with discounts for local merchants. The Company plans to expand Welcome Wagon's and Getko's market penetration and the number of their membership offerings to include some of the Company's programs.

In January 1996, the Company acquired Advance Ross Corporation ("Advance Ross"), a processor of value-added tax ("VAT") refunds to travelers in over 20 European countries. Advance Ross, through its subsidiary, Europe Tax-free Shopping ("ETS") has affiliations with over 90,000 retailers as well as a presence in most major European airports. The Company plans to expand the services ETS provides to travelers to include Entertainment(R) coupon book memberships and Travelers Advantage(R).

Insurance Products. The Company, through BCI, serves as a third party administrator for marketing accidental death insurance throughout the country to the customers of BCI's financial institution clients. This accidental death insurance is often combined with other Company membership services to enhance their value. These products are generally marketed through direct mail solicitations, which generally offer $1,000 of accidental death insurance at no cost to the member and the opportunity to choose additional coverage of up to $250,000. The annual membership fee generally ranges from $10 to $250.

BCI's insurance products and other services are offered through credit unions to their account holders and to the account holders of FISI's and Comp-U-Card's financial institution clients. BCI also markets the Company's shopping, travel, automobile and discount coupon program membership services to its clients.

DISTRIBUTION CHANNELS

The Company markets its individual, wholesale, and discount program memberships through a variety of distribution channels. The consumer is ultimately reached in the following ways: 1) at financial institutions or other associations through direct marketing; 2) at financial institutions or other associations through a direct sales force, participating merchant or general advertising; and 3) through fundraisers such as schools and charitable institutions.

Some of the Company's individual memberships, such as shopping, travel and auto services, are available on-line to interactive computer users via on-line services and the Internet's World Wide Web. These users are solicited primarily through direct mail, inserts in newly-purchased computer equipment containers and interactive communications networks, such as the CompuServe Information Service, America Online and Prodigy. The Company believes that its interactive users account for less than 1% of its total members. The Company is currently working with a range of industry leaders developing interactive technologies. Strategic alliances have been formed with major phone companies, cable companies and on-line services. The Company has participated in the launch of interactive services including working with Time Warner in Orlando, Florida to market interactive TV home-shopping services.

RECENT DEVELOPMENTS

During February 1996, the Company entered into two separate agreements to acquire Davidson & Associates, Inc. and Sierra On-Line, Inc., two industry-leading publishers of education and entertainment software. These proposed acquisitions should open major new opportunities in those consumer markets (see Item 8: "Financial Statements and Supplementary Data - Note I - Subsequent Events").

During April 1996, the Company entered into an agreement to acquire Ideon Group, Inc. ("Ideon"), whose SafeCard Services unit is a leading provider of credit card enhancement services across the United States. The acquisition of Ideon should enhance the Company's product offerings as well as complement the Company's client and membership bases (see Item 8: "Financial Statements and Supplementary Data - Note J - Event (Unaudited) Subsequent to Date of Independent Auditors' Report").

REGULATION

The Company markets its products and services through a number of distribution channels including telemarketing, direct mail and on-line. These channels are regulated on the state and federal level and the Company believes that these activities will increasingly be subject to such regulation. Such regulation may limit the Company's ability to solicit new members or to offer one or more products and services to existing members and may materially affect the Company's business and revenues.

Certain of the Company's products and services (such as Buyers Advantage(R), certain insurance products and the Company's vacation exchange services) are also subject to state and local regulations. The Company believes that such regulations do not have a material impact on its business or revenues.

INTERNATIONAL

The Company has exclusive licensing agreements covering the use of its merchandising systems in Japan, Canada and Australia, under which licensees paid initial license fees and agree to pay royalties to the Company on membership fees, access fees and merchandise service fees paid to them. In March 1995, the Company acquired the parent of its European licensee, CUC Europe Limited, pursuant to an option granted to the Company in fiscal 1993. Royalties to the Company from these licenses and the Company's European license were less than 1% of the Company's revenues and profits in each of the fiscal years ended January 31, 1996, 1995 and 1994.

In March 1995, the Company acquired Credit Card Sentinel (U.K.) Limited ("CCS"). CCS is a leading provider of credit card enhancement services generally marketed through European financial institutions, with members throughout the United Kingdom and Sweden.

In fiscal 1996, in addition to Canadian coupon book memberships, Entertainment(R) coupon book memberships were distributed in six European markets and Australia. The Canadian coupon book memberships are published independently by a Canadian subsidiary of Entertainment and the European memberships are published by the Company's European subsidiaries. The Australian coupon book memberships are published by an Australian joint venture in which Entertainment has a controlling interest. United States and Canadian memberships are also made available to foreign travelers. With publication of these overseas memberships, the Company has created additional custom-designed programs for international use.

Interval's primary international operating facility is located in London. Interval's overseas operations also include field offices and affiliations with resorts in many countries.

ETS currently provides VAT refunds in over 20 European countries at refund points at most international airports, ferry terminals and border crossings in those countries. ETS' primary international operating facility is located in Sweden.

The economic impact of currency exchange rate movements on the Company is complex because it is linked to variability in real growth, inflation, interest rates and other factors. Because the Company operates in a mix of membership services and numerous countries, management believes currency exposures are fairly well diversified (see Item 7: "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources; Inflation; Seasonality").

## SEASONAL NATURE OF BUSINESS

Except principally for the sale of discount coupon program memberships, the Company's business is not seasonal. Publication of Entertainment(R) and Gold C Savings Spree(R) books is generally completed in October of each year with significant member solicitations beginning soon thereafter. Most cash receipts from these coupon book memberships are received in the fourth quarter and, to a lesser extent, in the first and third quarters of each fiscal year. For financial statement purposes, the Company recognizes these membership fees over the service period.

## COMPETITION

Individual Memberships. The Company believes that there are competitors which offer membership programs similar to the Company's and some of these entities, which include large retailers, travel agencies, insurance companies and financial service institutions, have financial resources, product availability, technological capabilities or customer bases substantially greater than those of the Company. To date, the Company has been able to compete effectively with such competitors. However, there can be no assurances that it will continue to be able to do so. In addition, the Company competes with traditional methods of merchandising that enjoy widespread consumer acceptance, such as catalog and in-store retail shopping and shopping clubs (with respect to its discount shopping service), and travel agents (with respect to its discount travel service). The Company's systems are not protected by patent. In its vacation exchange business, the Company believes there are various travel providers and exchange companies with greater financial resources than itself.

Wholesale Memberships. Each of the Company's account enhancement membership services competes with similar services offered by other companies, including insurance companies. Many of the competitors are large and more established, with far greater resources and financial capabilities than those of the Company. Finally, in attempting to attract any relatively large financial institution as

a client, the Company also competes with that institution's in-house marketing staff and the institution's possible perception that it could establish programs with comparable features and customer appeal without paying for the services of an outside provider.

Discount Program Memberships. The Company believes that there are a number of competitors in most markets throughout North America which offer similar discount program memberships. The majority of these competitors are relatively small, with coupon books in only a few markets. To date, the Company has been able to compete effectively in markets that include these competitors, primarily on the basis of price and product performance. The Company does not anticipate that these competitors will significantly affect the Company's ability to expand.

EMPLOYEES

As of March 29, 1996, the Company had approximately 11,000 employees. None of the Company's employees are represented by a labor union. The Company has never experienced a strike or work stoppage, and believes its relations with its employees are good.

OTHER

As certain of the statements made in this Annual Report on Form 10-K are "forward-looking statements" (within the meaning of the Private Securities Litigation Reform Act of 1995), they involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

ITEM 2.

PROPERTIES

The Company's principal executive offices are located in Stamford, Connecticut. The Company also leases office space in Brentwood, Tennessee; San Carlos, California; Spartanburg, South Carolina; Troy, Michigan; and Trumbull, Connecticut, as well as several smaller locations throughout the world. In addition, the Company owns and leases operation centers in several other states.

Management expects that, in the normal course of business, most leases will be renewed or replaced by other leases upon expiration. The Company believes that its properties and those of its subsidiaries and divisions are suitable to their respective businesses and have productive capacities adequate to the needs of such businesses.

ITEM 3.

LEGAL PROCEEDINGS

None.

ITEM 4.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended January 31, 1996.

PART II

ITEM 5.

MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's common stock, par value $.01 per share ("Common Stock"), is traded on the New York Stock Exchange ("NYSE") under the symbol CU. The following table sets forth for the periods indicated the high and low closing sale prices per share as reported on the NYSE.

| | High | Low |
|---|---|---|
| Fiscal Year Ended January 31, 1996 | | |
| First Quarter | 27 1/8 | 23 1/8 |
| Second Quarter | 31 1/8 | 24 1/2 |
| Third Quarter | 36 3/8 | 29 7/8 |
| Fourth Quarter | 38 | 30 |
| Fiscal Year Ended January 31, 1995 | | |
| First Quarter | 21 7/8 | 18 |
| Second Quarter | 20 3/8 | 17 1/8 |
| Third Quarter | 23 1/8 | 20 3/8 |
| Fourth Quarter | 24 1/8 | 19 1/8 |

The stock prices have been adjusted to give retroactive effect to the three-for-two stock split effective June 30, 1995 for shareholders of record on June 19, 1995. The closing sale price for the Common Stock on March 29, 1996 was $29 1/4, with approximately 6,854 shareholders of record as of that date.

The Company has not paid any dividends with respect to the Common Stock, since inception, other than a special dividend of cash and convertible subordinated debentures paid in connection with a recapitalization of the Company effected in fiscal 1990 (the "Recapitalization"). The Amended and Restated Credit Agreement entered into by the Company and General Electric Capital Corporation ("GECC"), as Agents, as of June 30, 1994 (the "GECC Credit Agreement"), was terminated effective March 19, 1996 (see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources; Inflation; Seasonality"). However, the GECC Credit Agreement contained restrictions that precluded the payment of cash dividends on shares of Common Stock.

ITEM 6.

SELECTED FINANCIAL DATA

(In thousands, except for per common share data)

| | Year Ended January 31, | | | | |
|---|---|---|---|---|---|
| | 1996 (b) | 1995 (e) | 1994 | 1993 (f) | 1992 |
| Income Statement Data (a) | | | | | |
| Total revenues | $1,414,964 | $1,182,896 | $984,801 | $800,971 | $699,049 |
| Income from continuing operations before income taxes | 266,343 (c) | 201,785 | 153,258 | 101,402 | 60,536 (g) |
| Income from continuing operations | 163,374 (c) | 124,566 | 94,151 | 63,667 | 33,901 (g) |
| Income per common share from continuing operations (d) | $ .84(c) | $ .66 | $ .51 | $ .38 | $ .21 (g) |
| Weighted average number of common and dilutive common equivalent shares outstanding (d) | 194,666 | 189,219 | 183,113 | 167,908 | 163,690 |
| Balance Sheet Data (a) | | | | | |
| Total assets | $1,141,306 | $ 878,637 | $708,018 | $569,077 | $378,339 |
| Long-term debt (h) | 5,451 | 16,965 | 23,601 | 29,855 | 16,330 |
| Zero coupon convertible notes | 14,410 | 15,046 | 22,176 | 37,295 | 69,228 |
| Stockholders' equity (i) | 727,212 | 480,163 | 312,047 | 167,381 | 19,604 |
| Working capital | 617,862 | 424,437 | 281,384 | 134,230 | 99,887 |

(a) Includes Getko Group Inc. ("Getko"), North American Outdoor Group, Inc. ("NAOG") and Advance Ross Corporation ("Advance Ross") (see Note B to Consolidated Financial Statements).

(b) During fiscal 1996, the Company acquired Welcome Wagon International, Inc. ("Welcome Wagon"), CUC Europe Limited and Credit Card Sentinel (U.K.) Limited (see Note B to the Consolidated Financial Statements).

(c) Includes provision for costs incurred in connection with the acquisition of Advance Ross. The charge aggregated $5.2 million ($4.2 million or $.02 per common share after-tax effect).

(d) Adjusted to give retroactive effect to the three-for-two stock split effective June 30, 1995 for shareholders of record on June 19, 1995.

(e) During fiscal 1995, the Company acquired Essex Corporation and subsidiaries ("Essex") (see Note B to the Consolidated Financial Statements).

(f) During fiscal 1993, the Company acquired Leaguestar plc and Sally Foster Gift Wrap, LP ("Sally Foster").

(g) Includes provision for costs incurred in connection with the integration of the operations of the Company and Entertainment Publishing Corp. (acquired during fiscal 1992 in a transaction accounted for in accordance with the pooling-of-interests method) and costs of professional fees and other expenses related to the merger with Entertainment Publishing Corp. The charge aggregated $20.7 million ($15 million or $.09 per common share after-tax effect). Also includes a gain from the sale of an unconsolidated affiliate of Advance Ross. The gain aggregated $11.7 million ($7 million or $.04 per common share after-tax effect).

(h) Includes current portion of long-term debt of $1.4 million, $9 million, $6.3 million, $3.4 million and $1.2 million at January 31, 1996, 1995, 1994, 1993 and 1992, respectively. Excludes $5.5 million, $23.2 million and $26.7 million of amounts due under revolving credit facilities at January 31, 1994, 1993 and 1992, respectively, and $6 million due at January 31, 1993 under a note payable issued in connection with the acquisition of Sally Foster.

(i) No Common Stock cash dividends have been paid or declared during the five years ended January 31, 1996. However, an insignificant amount of cash dividends were paid in respect of the NAOG common stock for the fiscal years ended January 31, 1994, 1993 and 1992.

ITEM 7.

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

YEAR ENDED JANUARY 31, 1996 VS. YEAR ENDED JANUARY 31, 1995

The Company's overall membership base continues to grow at a rapid rate (from 33.9 million members at January 31, 1995 to 46.5 million members at January 31, 1996), which is the largest contributing factor to the 20% increase in revenues (from $1,182.9 million in fiscal 1995 to $1,415 million in fiscal 1996). While the overall membership base increased by 12.6 million members, or 37%, during the year (of which approximately 8 million members came from acquisitions completed during the year (members resulting from acquisitions being "Acquired Members")), the average annual fee charged for the Company's membership services increased by 3.5%. The Company divides its memberships into three categories: individual, wholesale and discount program memberships. Individual memberships consist of members that pay directly for the services and the Company pays for the marketing costs to solicit the member primarily using direct marketing techniques. Wholesale memberships include members that pay directly for the services to their sponsor and the Company does not pay for the marketing costs to solicit the members. Discount program memberships are generally marketed through a direct sales force, participating merchant or general advertising and the related fees are either paid directly by the member or the local retailer. All of these categories share various aspects of the Company's marketing and operating resources.

In the 1996 fiscal year, individual, wholesale and discount program memberships grew by 14%, 19% and 11%, respectively, in addition to the increase due to Acquired Members. For the year ended January 31, 1996, individual, wholesale and discount program memberships represented 63%, 14% and 23% of revenues, respectively. Discount program memberships have incurred the largest increase from Acquired Members. Welcome Wagon, Getko and Advance Ross, all acquired in fiscal 1996, are classified in this membership category as their businesses provide local discounts to consumers. The Company maintains a flexible marketing plan so that it is not dependent on any one service for the future growth of the total membership base. The Company completed a number of acquisitions accounted for under the purchase method of accounting during fiscal 1996. The total revenues contributed by these acquisitions are not material to the Company's total reported revenues (see Note B to the Consolidated Financial Statements).

As the Company's services continue to mature, a greater percentage of the total individual membership base is in its renewal years. This results in increased profit margins for the Company due to the significant decrease in certain marketing costs incurred on renewing members. Improved response rates for new members also favorably impact profit margins. As a result, operating income before interest, amortization of restricted stock compensation, merger costs and income taxes ("EBIT") increased from $202.4 million to $270.7 million and EBIT margins improved from 17.1% to 19.1%.

Individual membership usage continues to increase, which contributes to additional service fees and indirectly contributes to the Company's strong renewal rate. Historically, an increase in overall membership usage has had a favorable impact on renewal rates. Actual membership cancellations were $335 million, $315 million and $285 million, respectively, for the fiscal years ended January 31, 1996, 1995 and 1994. This represents 19%, 21% and 22%, respectively, of the gross revenues accrued for all services. The Company records its deferred revenue net of estimated cancellations which are anticipated in the Company's marketing programs. The number of cancellations has increased due to the increased level of marketing efforts, but has decreased as a percentage of the total number of members.

Operating costs increased 18% (from $320.8 million to $379.9 million). The major components of the Company's operating costs continue to be personnel, telephone, computer processing and participant insurance premiums (the cost of obtaining insurance coverage for members). In addition, operating costs include travel cash awards. Travel members are entitled to receive cash awards based on travel booked with the Company. For the year ended January 31, 1996, these awards represent less than 5% of total operating costs. The increase in overall operating costs is due principally to the variable nature of many of these costs and, therefore, the additional costs incurred to support the growth in the membership base. Historically, the Company has seen a direct correlation between providing a high level of service to its members and improved retention.

Marketing costs decreased as a percentage of revenues, from 41% to 39%. This decrease is primarily due to improved per member acquisition costs and an increase in renewing members. Membership acquisition costs incurred increased 19% (from $388.4 million to $464 million) as a result of the increased marketing effort which resulted in an increased number of new members acquired. Marketing costs include the amortization of membership acquisition costs and other marketing costs, which primarily consist of membership communications and sales expenses. Amortization of membership acquisition costs increased by 16% (from $361 million to $417.1 million). Other marketing costs increased by 18% (from $118.6 million to $139.8 million). This increase resulted primarily from the costs of servicing a larger membership base. The marketing functions for the Company's consumer services are combined for its various services and, accordingly, there are no significant changes in marketing costs by service.

The Company routinely reviews all renewal rates and has not seen any material change over the last year in the average renewal rate. Renewal rates are calculated by dividing the total number of renewing members not requesting a refund during their renewal year by the total members up for renewal.

General and administrative costs remained constant as a percentage of revenue (15%). This is the result of the Company's ongoing ability to control overhead. Interest (income) expense, net, decreased from $.6 million to $(.9) million due to the reduced level of amortization associated with the Company's restricted stock and zero coupon convertible notes and the net interest income from the increased level of cash generated by the Company for investment.

YEAR ENDED JANUARY 31, 1995 VS. YEAR ENDED JANUARY 31, 1994

The Company's overall membership base continues to grow at a rapid rate (from 30.9 million members at January 31, 1994 to 33.9 million members at January 31, 1995), which is the largest contributing factor to the 20% increase in revenues (from $984.8 million in fiscal 1994 to $1,182.9 million in fiscal 1995). While the overall membership base increased by 3 million members before adjustment for Acquired Members resulting from the fiscal 1996 pooling-of-interests transactions, or 10%, during the past year, the average annual fee charged for the Company's membership services increased by 3%. The Company divides its memberships into three categories: individual, wholesale and discount program memberships. All of these categories share various aspects of the Company's marketing and operating resources. In the 1995 fiscal year, individual, wholesale and discount program memberships grew by 11%, 6% and 11%, respectively. For the year ended January 31, 1995, individual, wholesale and discount program memberships represented 65%, 13% and 22% of revenues, respectively. The Company maintains a flexible marketing plan so that it is not dependent on any one service for the future growth of the total membership base. The Company completed an acquisition of Essex, a privately

owned third-party marketer of financial products for banks, and certain other entities, during fiscal 1995. The total revenues contributed by this acquisition are not material to the Company's total reported revenues. This acquisition was accounted for in accordance with the purchase method of accounting and, accordingly, the results of operations have been included in the consolidated results of operations from the date of acquisition (see Note B to the Consolidated Financial Statements).

As the Company's services continue to mature, a greater percentage of the total individual membership base is in its renewal years. This results in increased profit margins for the Company due to the significant decrease in certain marketing costs incurred on renewing members. As a result, EBIT increased from $160.3 million to $202.4 million and EBIT margins improved from 16.3% to 17.1%.

Individual membership usage continues to increase, which contributes to additional service fees and indirectly contributes to the Company's strong renewal rate. Historically, an increase in overall membership usage has had a favorable impact on renewal rates. Actual membership cancellations were $315 million, $285 million and $270 million, respectively, for the fiscal years ended January 31, 1995, 1994 and 1993. This represents approximately 21%, 22% and 25% of the gross revenues accrued for all services. The Company records its deferred revenue net of estimated cancellations which are anticipated in the Company's marketing programs. The number of cancellations has increased due to the increased level of marketing efforts, but has decreased as a percentage of the total number of members.

Operating costs increased 20% (from $267.8 million to $320.8 million). The major components of the Company's operating costs continue to be personnel, telephone, computer processing, participant insurance premiums (the cost of obtaining insurance coverage for members) and travel cash awards. Travel members are entitled to receive cash awards based on travel booked with the Company. For the year ended January 31, 1995, these awards represent less than 5% of total operating costs. The increase in overall operating costs is due principally to the variable nature of many of these costs and, therefore, the additional costs incurred to support the growth in the membership base. Historically, the Company has seen a direct correlation between providing a high level of service to its members and improved retention.

Marketing costs increased as a percentage of revenue, from 40% to 41%. This increase is primarily due to a higher volume of membership communications distributed throughout the year as well as servicing a larger membership base. Membership acquisition costs incurred increased 13% (from $344 million to $388.4 million). Marketing costs include the amortization of membership acquisition costs and other marketing costs, which primarily consist of membership communications and sales expenses. Amortization of membership acquisition costs increased by 15% (from $314.2 million to $361 million). Other marketing costs increased by 48% (from $80.3 million to $118.6 million). This increase resulted primarily from the costs of servicing a larger membership base as well as costs to establish the American Airlines AAdvantage Dining program. The marketing functions for the Company's consumer services are combined for its various services and, accordingly, there are no significant changes in marketing costs by products.

The Company routinely reviews all renewal rates and has not seen any material change over the last year in the average renewal rate. Based on current information, the Company does not anticipate that the average renewal rate will change significantly. Renewal rates are calculated by dividing the total number of renewing members not requesting a refund during their renewal year by the total members up for renewal.

General and administrative costs decreased as a percentage of revenue, from 16% to 15%. This is the result of the Company's ongoing ability to control overhead. Interest (income) expense, net decreased from $7 million to $.6 million primarily due to the reduction of the Company's average outstanding loan balance.

MEMBERSHIP INFORMATION

The following chart sets forth the approximate number of members and net additions for the last three fiscal years:

| Year Ended | Number of Members | Net New Member Additions for the Period |
|---|---|---|
| January 31, 1996 | 46,480,000 | 12,630,000* |
| January 31, 1995 | 33,850,000 | 3,000,000 |
| January 31, 1994 | 30,850,000 | 3,250,000 |

*Includes approximately 8 million Acquired Members.

The membership acquisition costs incurred applicable to obtaining a new member, for memberships other than coupon book memberships, generally approximates the initial membership fee. Initial membership fees for coupon book memberships generally exceed the membership acquisition costs incurred applicable to obtaining a new member.

Cancellations for memberships processed by the Company for the years ended January 31, 1996, 1995 and 1994 were $335 million, $315 million and $285 million, respectively. This cancellation data does not reflect cancellations processed by certain of the Company's clients which report membership information only on a net basis. Accordingly, the Company does not receive actual numbers of gross additions and gross cancellations for certain types of memberships. In calculating the number of members, the Company has deducted its best estimate of cancellations which may occur during the trial membership periods offered in its marketing programs. Typically, these periods range from one to three months.

LIQUIDITY AND CAPITAL RESOURCES; INFLATION; SEASONALITY

Funds for the Company's operations have been provided principally through cash flow from operations and credit facilities, while acquisitions have also been funded through the issuance of Common Stock. The Company terminated the GECC Credit Agreement effective March 19, 1996 and entered into the New Credit Agreement during March 1996 as defined and described in Note D to the Consolidated Financial Statements. The New Credit Agreement provides for a $500 million revolving credit facility with a variety of different types of loans available thereunder. The New Credit Agreement contains certain customary restrictive covenants including, without limitation, financial covenants and restrictions on certain corporate transactions, and also contains various events of default provisions including, without limitation, defaults arising from certain changes in control of the Company.

The Company invested approximately $60.6 million in acquisitions, net of cash acquired, during fiscal 1996. These acquisitions have been fully integrated into the Company's operations. The Company is not aware of any trends, demands or uncertainties that will have a material effect on the Company's liquidity other than those relating to accounts receivable. The Company anticipates that cash flow from operations and its credit agreement will be sufficient to achieve its current long-term objectives.

During fiscal 1991, the Board of Directors authorized the repurchase of up to 10.125 million shares of Common Stock and during fiscal 1995 the Board of Directors reauthorized such repurchase. As of January 31, 1996, 2,475,552 shares of Common Stock had been repurchased at an aggregate cost of $8.7 million, of which $8.6 million relates to fiscal 1991 repurchases. Future repurchases will be based upon market conditions and cannot be currently ascertained. Repurchases, if any, would be funded through the Company's available cash or availability under its credit agreement and would thus reduce liquidity.

The Company does not anticipate any material capital expenditures for the next year. Total capital expenditures were $30.2 million for the year ended January 31, 1996.

The Company intends to continue to review potential acquisitions that it believes would enhance the Company's growth and profitability. Any acquisitions will initially be financed through excess cash flow from operations and the Company's credit agreement. However, depending on the financing necessary to complete an acquisition, additional funding may be required.

The Accounting Standards Executive Committee's Statement of Position ("SOP") 93-7, "Reporting on Advertising Costs," requires that all advertising expenditures that are not for direct response advertising, be expensed as incurred or the first time the advertising takes place. The Company adopted the new method of accounting for advertising costs in the first quarter of fiscal 1996. The impact of adopting the new method did not have a significant effect on the Company's financial statements.

The Company accounts for stock option grants in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Under the Company's current plans, options may be granted at not less than the fair market value on the date of grant and therefore no compensation expense is recognized for the stock options granted. In fiscal 1997, the Company intends to adopt the disclosure provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation."

In 1995, the Financial Accounting Standards Board issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The Company will adopt SFAS No. 121 in fiscal 1997, and the impact, if any, is not expected to be material.

To date, the overall impact of inflation on the Company has not been material. Except for the cash receipts from the sale of coupon book memberships, the Company's business is generally not seasonal. Most cash receipts from these coupon book memberships are received in the fourth quarter and, to a lesser extent, in the first and the third quarters of each fiscal year.

In fiscal 1996, the Company's international businesses represented less than 10% of EBIT. Operating in international markets involves dealing with sometimes volatile movements in currency exchange rates. The economic impact of currency exchange rate movements on the Company is complex because it is linked to variability in real growth, inflation, interest rates and other factors. Because the Company operates in a mix of membership services and numerous countries, management believes currency exposures are fairly well diversified. To date, currency exposure has not been a significant competitive factor at the local market operating level. As international operations continue to expand and the number of cross-border transactions increases, the Company intends to continue monitoring its currency exposures closely and take prudent actions as appropriate.

ITEM 8.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## Report of Independent Auditors

Board of Directors and Shareholders
CUC International Inc.

We have audited the accompanying consolidated balance sheets of CUC International Inc. as of January 31, 1996 and 1995, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended January 31, 1996. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. We did not audit the financial statements of Advance Ross Corporation, a wholly-owned subsidiary, which statements reflect total assets of $64.1 million as of December 31, 1994 (included in the January 31, 1995 consolidated balance sheet), and total revenues of $66.5 million and $50.3 million, for the years ended December 31, 1994 and 1993, respectively (included in the consolidated statements of income for the years ended January 31, 1995 and 1994, respectively). Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for Advance Ross Corporation, is based solely on the report of the other auditors.

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

In our opinion, based upon our audits and as to the January 31, 1995 and 1994 consolidated financial statements the report of other auditors referred to above, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CUC International Inc. at January 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 31, 1996, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Stamford, Connecticut
March 19, 1996

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
Advance Ross Corporation
Chicago, Illinois

We have audited the consolidated balance sheet of Advance Ross Corporation and subsidiaries as of December 31, 1994, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years ended December 31, 1994 and 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Advance Ross Corporation and subsidiaries at December 31, 1994, and the results of their operations and their cash flows for the years ended December 31, 1994 and 1993, in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

Chicago, Illinois
March 13, 1995

CUC International Inc. and Subsidiaries

Consolidated Balance Sheets

(Dollar amounts in thousands)

| | January 31 1996 | 1995 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 269,987 | $209,054 |
| Receivables, less allowance of $10,705 and $10,548 | 297,842 | 224,856 |
| Membership solicitations in process | 60,713 | 45,636 |
| Prepaid membership materials | 39,061 | 33,268 |
| Prepaid expenses, deferred income taxes, and other | 100,104 | 71,892 |
| Total current assets | 767,707 | 584,706 |
| Contract renewal rights, net | 37,943 | 44,705 |
| Excess of cost over net assets acquired, net | 238,104 | 167,311 |
| Properties, net | 61,441 | 43,357 |
| Deferred income taxes and other | 36,111 | 38,558 |
| Total assets | $1,141,306 | $878,637 |
| Liabilities and shareholders' equity | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 124,902 | $134,578 |
| Federal and state income taxes | 24,943 | 25,691 |
| Total current liabilities | 149,845 | 160,269 |
| Deferred membership income, net | 240,117 | 209,885 |
| Zero coupon convertible notes (net of unamortized original issue discount of $588 and $2,507) | 14,410 | 15,046 |
| Other | 9,722 | 13,274 |
| Shareholders' equity: | | |
| Common stock--par value $.01 per share; authorized 400 million shares; issued 191,820,896 shares and 185,359,196 shares | 1,918 | 1,854 |
| Additional paid-in capital | 323,704 | 222,660 |
| Retained earnings | 434,407 | 271,128 |
| Treasury stock, at cost, 3,410,631 shares and 2,757,894 shares | (30,998) | (10,505) |
| Unearned ESOP | | (1,758) |
| Foreign currency translation adjustment | (1,819) | (3,216) |
| Total shareholders' equity | 727,212 | 480,163 |
| Total liabilities and shareholders' equity | $1,141,306 | $878,637 |

See accompanying notes.

CUC International Inc. and Subsidiaries

Consolidated Statements of Income

(Dollar amounts in thousands, except per common share amounts)

| | Year ended January 31, 1996 | 1995 | 1994 |
|---|---|---|---|
| Revenues | | | |
| Membership and service fees | $1,414,964 | $1,182,896 | $984,801 |
| Expenses (income) | | | |
| Operating | 379,919 | 320,773 | 267,772 |
| Marketing | 556,920 | 479,590 | 394,505 |
| General and administrative | 207,401 | 180,166 | 162,231 |
| Merger costs | 5,247 | | |
| Interest (income) expense, net | (866) | 582 | 7,035 |
| Total expenses | 1,148,621 | 981,111 | 831,543 |
| Income before income taxes | 266,343 | 201,785 | 153,258 |
| Provision for income taxes | 102,969 | 77,219 | 59,107 |
| Net income | $ 163,374 | $ 124,566 | $ 94,151 |
| Net income per common share | $ .84 | $ .66 | $ .51 |

See accompanying notes.

CUC International Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity

(Dollar amounts in thousands, except per common share amounts)

| | Common Stock | | Additional Paid-in | Retained | Treasury | Unearned | Foreign Currency Translation | Total Shareholders' |
|---|---|---|---|---|---|---|---|---|
| | Shares Issued | Par Value | Capital | Earnings | Stock | ESOP | Adjustment | Equity |
| BALANCE AT JANUARY 31, 1993 | 117,179,308 | $ 1,172 | $133,608 | $ 57,651 | $(9,745) | $(11,667) | $(3,638) | $ 167,381 |
| Three-for-two stock split | 58,589,162 | 586 | | (586) | | | | 0 |
| As restated | 175,768,470 | 1,758 | 133,608 | 57,065 | (9,745) | (11,667) | (3,638) | 167,381 |
| Exercise of stock options ($.36 to $12.67) | 1,810,588 | 18 | 6,351 | | | | | 6,369 |
| Issuance of stock under stock purchase plan ($12.67 to $17.92) | 71,031 | | 1,364 | | | | | 1,364 |
| Cancellation of stock under restricted stock plan | (113,063) | (1) | (240) | | | | | (241) |
| Stock issued in conversion of notes | 3,897,290 | 39 | 18,316 | | | | | 18,355 |
| Tax benefit arising from exercise of stock options and vesting of restricted stock | | | 20,748 | | | | | 20,748 |
| Amortization of restricted stock plan | | | 871 | | | | | 871 |
| Amortization of ESOP obligation | | | | | | 4,507 | | 4,507 |
| Dividends on preferred stock | | | | (25) | | | | (25) |
| Foreign currency translation adjustment | | | | | | | (1,433) | (1,433) |
| Net income | | | | 94,151 | | | | 94,151 |
| BALANCE AT JANUARY 31, 1994 | 181,434,316 | 1,814 | 181,018 | 151,191 | (9,745) | (7,160) | (5,071) | 312,047 |
| Exercise of stock options ($.36 to $17.92) | 1,875,533 | 19 | 10,016 | | | | | 10,035 |
| Exercise of stock options ($1.52 to $8.11) by payment of cash and common stock (37,500 shares) | 187,500 | 2 | 1,165 | | (760) | | | 407 |
| Issuance of stock under stock purchase plan ($17.40 to $21.07) | 48,984 | 1 | 1,010 | | | | | 1,011 |
| Stock issued in conversion of notes | 1,737,863 | 17 | 8,781 | | | | | 8,798 |
| Tax benefit arising from exercise of stock options and vesting of restricted stock | | | 18,816 | | | | | 18,816 |
| Stock issued in connection with acquisition | 75,000 | 1 | 1,551 | | | | | 1,552 |
| Amortization of restricted stock plan | | | 303 | | | | | 303 |
| Amortization of ESOP obligation | | | | | | 2,331 | | 2,331 |
| Dividends on Getko and Advance Ross preferred stock | | | | (562) | | | | (562) |
| Charge to reflect change in Getko and NAOG fiscal years | | | | (4,067) | | 3,071 | | (996) |
| Foreign currency translation adjustment | | | | | | | 1,855 | 1,855 |
| Net income | | | | 124,566 | | | | 124,566 |
| BALANCE AT JANUARY 31, 1995 | 185,359,196 | 1,854 | 222,660 | 271,128 | (10,505) | (1,758) | (3,216) | 480,163 |
| Exercise of stock options ($0.01 to $27.00) | 4,319,513 | 43 | 32,626 | | | | | 32,669 |
| Exercise of stock options ($1.52 to $18.00) by payment of cash and common stock (445,899 shares) | 1,658,334 | 17 | 13,076 | | (13,090) | | | 3 |
| Payment of withholding taxes on options by payment of common stock (206,838 shares) | | | | | (7,403) | | | (7,403) |
| Issuance of stock under stock | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| purchase plan ($23.31 to $32.63) | 53,824 | | 1,624 | | | | | 1,624 |
| Stock issued in conversion of notes | 387,882 | 4 | 2,279 | | | | | 2,283 |
| Tax benefit arising from exercise of stock options | | | 49,203 | | | | | 49,203 |
| Stock issued in connection with acquisition | 42,147 | | 994 | | | | | 994 |
| Amortization of ESOP obligation | | | 1,242 | | | 1,758 | | 3,000 |
| Charge to reflect change in Advance Ross fiscal year | | | | (95) | | | | (95) |
| Foreign currency translation adjustment | | | | | | | 1,397 | 1,397 |
| Net income | | | | 163,374 | | | | 163,374 |
| BALANCE AT JANUARY 31, 1996 | 191,820,896 | $1,918 | $323,704 | $434,407 | $(30,998) | $ 0 | $(1,819) | $727,212 |

CUC International Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Dollar amounts in thousands)

| | Year ended January 31, 1996 | 1995 | 1994 |
|---|---|---|---|
| Operating activities | | | |
| Net income | $ 163,374 | $ 124,566 | $ 94,151 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Membership acquisition costs | (463,958) | (388,366) | (344,024) |
| Amortization of membership acquisition costs | 417,104 | 361,038 | 314,207 |
| Deferred membership income | 65,235 | 45,450 | 54,073 |
| Amortization of prepaid commissions | | | 472 |
| Amortization of contract renewal rights and excess cost | 19,702 | 15,375 | 15,747 |
| Deferred income taxes | 16,276 | 6,356 | (1,734) |
| Amortization of original issue discount on convertible notes and restricted stock | 1,646 | 1,965 | 3,854 |
| Depreciation | 15,417 | 10,959 | 10,290 |
| Change in working capital items, net of acquisitions: | | | |
| Increase in receivables, net | (67,975) | (41,582) | (25,975) |
| Increase in membership solicitations in process | (15,077) | (2,693) | (2,889) |
| Increase in prepaid membership materials | (5,562) | (5,844) | (6,350) |
| Increase in prepaid expenses | (26,963) | (19,506) | (13,648) |
| Net increase in members' deposits, accounts payable and accrued expenses and federal and state income taxes payable | 18,944 | 12,011 | 38,971 |
| Other, net | (14,144) | (1,413) | (868) |
| Net cash provided by operating activities | 124,019 | 118,316 | 136,277 |
| Investing activities | | | |
| Acquisitions, net of cash acquired | (60,603) | (26,601) | (14,729) |
| Acquisitions of properties | (30,242) | (21,765) | (8,912) |
| Net cash used in investing activities | (90,845) | (48,366) | (23,641) |
| Financing activities | | | |
| Issuance of common stock | 30,316 | 13,368 | 7,250 |
| Repayments of long-term obligations | (2,557) | (13,624) | (25,766) |
| Dividends paid | | (562) | (673) |
| Net cash provided by (used in) financing activities | 27,759 | (818) | (19,189) |
| Net increase in cash and cash equivalents | 60,933 | 69,132 | 93,447 |
| Cash and cash equivalents at beginning of year | 209,054 | 139,922 | 46,475 |
| Cash and cash equivalents at end of year | $ 269,987 | $ 209,054 | $ 139,922 |

See accompanying notes.

## NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of CUC International Inc. and its wholly-owned subsidiaries (collectively, the "Company"). The Company operates in one business segment providing a variety of membership services to consumers. These services are distributed through various channels which include financial institutions, credit unions, charities, other cardholder based organizations and retail establishments. All significant intercompany transactions have been eliminated in consolidation.

### USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### FAIR VALUE OF INVESTMENTS AND CONCENTRATION OF CREDIT RISKS

The estimated fair value of amounts reported in the consolidated financial statements has been determined by using available market information and appropriate valuation methodologies. All current assets and current liabilities are carried at cost, which approximates fair value, because of their short-term nature. The fair value of zero coupon convertible notes at January 31, 1996 was $84 million based on the quoted market price.

Financial instruments which potentially subject the Company to concentration of credit risk consist primarily of accounts receivable. This risk is limited due to the large number of entities representing the Company's membership base. These entities include major banks, financial institutions and large oil companies and retailers which are primarily located throughout the United States.

### DEFERRED MEMBERSHIP INCOME, NET

In accordance with the provisions of Statement of Position 93-7, "Reporting on Advertising Costs," membership acquisition costs are deferred and charged to operations as membership fees are recognized. These costs, which relate directly to membership solicitations (direct response advertising costs), principally include: postage, printing, kits, mailings, publications (including coupon books) and telemarketing costs. Substantially all of these costs are incurred for services performed by outside sources. Such costs are amortized on a straight-line basis as revenues are realized over the membership period which averages twelve months. The membership acquisition costs incurred applicable to obtaining a new member, for memberships other than coupon book memberships, generally approximate the initial membership fee. Initial membership fees for coupon book memberships generally exceed the membership acquisition costs incurred applicable to obtaining a new member. However, if membership acquisition costs were to exceed the membership fee, an appropriate adjustment would be made for any significant impairment.

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amortization of membership acquisition costs, including deferred renewal costs, which consist principally of charges from sponsoring institutions and publications, amounted to $417.1 million, $361 million and $314.2 million for the years ended January 31, 1996, 1995 and 1994, respectively. All advertising costs other than direct response advertising costs are expensed in the period incurred. Such amounts were $139.8 million, $118.6 million and $80.3 million for the years ended January 31, 1996, 1995 and 1994, respectively.

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

Deferred membership income, net, is classified as a non-current liability since working capital will not be required as the deferred income is recognized over future periods. Deferred membership income, net, as of January 31 is comprised of the following (in thousands):

| | 1996 | 1995 |
|---|---|---|
| Deferred membership income | $ 513,219 | $ 425,601 |
| Less unamortized membership acquisition costs | (273,102) | (215,716) |
| Deferred membership income, net | $ 240,117 | $ 209,885 |

Provisions for membership cancellations were $27.4 million at January 31, 1996 and 1995. Such amounts are included in accrued expenses. In addition, accrued expenses include commissions payable of $21 million and $21.4 million at January 31, 1996 and 1995, respectively, and accrued solicitation costs of $14.6 million at January 31, 1995.

MEMBERSHIP SOLICITATIONS IN PROCESS

These costs consist of initial membership acquisition costs pertaining to membership solicitation programs that were in process at year-end. Accordingly, no membership fees had been received or recognized at year-end. The costs are generally accumulated over a two or three month solicitation period and are transferred to membership acquisition costs when the membership begins.

CONTRACT RENEWAL RIGHTS

Contract renewal rights represent the value assigned to acquired contracts and are being amortized over 2 to 16 years using the straight-line method. As of January 31, 1996 and 1995, accumulated amortization amounted to $50.4 million and $44.4 million, respectively.

EXCESS OF COST OVER NET ASSETS ACQUIRED

The excess of cost over net assets acquired is being amortized over 5 to 30 years using the straight-line method. As of January 31, 1996 and 1995, accumulated amortization amounted to $42 million and $30.1 million, respectively. The carrying value of the excess of cost over net assets acquired will be reviewed by management if the facts and circumstances suggest that the value may be impaired. If this review indicates that the carrying amounts will not be recoverable, as determined based on the undiscounted cash flows of the entities acquired over the remaining amortization period, management will reduce the carrying amount by the estimated shortfall of cash flows.

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET INCOME PER COMMON SHARE

Net income per common share of the Company's common stock, par value $.01 per share ("Common Stock") has been computed using the weighted average number of common and dilutive common equivalent shares outstanding (after giving effect to the acquisitions of Getko Group Inc. ("Getko"), North American Outdoor Group ("NAOG") and Advance Ross Corporation ("Advance Ross") (see Note B)). The weighted average number of common and dilutive common equivalent shares was 194.7 million, 189.2 million and 183.1 million for the years ended January 31, 1996, 1995 and 1994, respectively. Fully diluted earnings per share did not differ significantly from primary earnings per share in any year.

CASH AND CASH EQUIVALENTS

The Company considers highly liquid investment instruments with terms of three months or less at the time of acquisition to be cash equivalents.

IMPAIRMENT OF LONG-LIVED ASSETS

In 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The Company will adopt SFAS No. 121 in fiscal 1997, and the impact, if any, is not expected to be material.

STOCK BASED COMPENSATION

The Company accounts for stock option grants in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Under the Company's current plans, options may be granted at not less than the fair market value on the date of grant and therefore no compensation expense is recognized for the stock options granted. In fiscal 1997, the Company intends to adopt the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation."

NOTE B--MERGERS AND ACQUISITIONS

During February 1995, the Company acquired all of the outstanding capital stock of Welcome Wagon International, Inc. ("Welcome Wagon") and substantially all of the assets of a related entity, Gifts International, Inc., for $19.5 million in cash. Welcome Wagon provides discounts for local merchants through direct visits by its representatives to households. In connection with this acquisition, the Company received current assets of $4.8 million and noncurrent assets of $3.6 million and assumed current liabilities of $4.7 million. The excess of cost over the fair value of net assets acquired ($15.8 million) is included in the excess of cost over net assets acquired.

During March 1995, the Company acquired all of the outstanding capital stock of the parent of its European licensee, CUC Europe Limited, for $13 million. The purchase price was satisfied by the payment of $12 million in cash and the issuance of 42,147 shares of Common Stock. In connection with this acquisition, the Company received current assets of $4.5 million and noncurrent assets of $9.6 million and assumed current liabilities of $6.2 million and noncurrent liabilities of $3.3 million. The

NOTE B--MERGERS AND ACQUISITIONS (CONTINUED)

excess of cost over the fair value of net assets acquired ($8.4 million) is included in the excess of cost over net assets acquired. In addition, during March 1995, the Company paid $2.4 million in cash to acquire its European license. This amount has been included in the excess of cost over net assets acquired.

During March 1995, the Company acquired all of the outstanding capital stock of Credit Card Sentinel (U.K.) Limited ("CCS") for $22.5 million in cash. CCS is a leading provider of credit card enhancement services, which are generally marketed through European financial institutions. In connection with this acquisition, the Company received current assets of $7.5 million and noncurrent assets of $2.3 million and assumed current liabilities of $6.6 million and noncurrent liabilities of $10.5 million. The excess of cost over the fair value of net assets acquired ($29.8 million) is included in the excess of cost over net assets acquired.

During fiscal 1996, the Company acquired several small privately-held discount coupon book publishing companies, certain assets from insurance marketers and franchisees and certain marketing and future renewal rights for an aggregate cost of $4.2 million. The cost of these acquisitions has been included in the excess of cost over net assets acquired ($3.7 million) and contract renewal rights ($.5 million). In addition, during fiscal 1996 the Company acquired certain assets from three timeshare-related businesses for an aggregate cost of $5.2 million and paid $3.7 million to satisfy contingent payment requirements in connection with previous acquisitions. These amounts have been included in the excess of cost over net assets acquired.

The preceding acquisitions were accounted for in accordance with the purchase method of accounting and, accordingly, their results of operations have been included in the consolidated results of operations from the respective dates of acquisition. The results of these entities' operations for the periods prior to their respective dates of acquisition were not significant to the Company's operations.

During June 1995, the Company acquired all of the outstanding capital stock of Getko for a purchase price of approximately $100 million, which was satisfied by the issuance of approximately 3.7 million shares of Common Stock. Getko distributes complimentary welcoming packages to new homeowners throughout the United States and Canada.

During September 1995, the Company acquired all of the outstanding capital stock of NAOG for a purchase price of approximately $52 million, which was satisfied by the issuance of approximately 1.5 million shares of Common Stock. NAOG owns one of the largest for-profit hunting and general interest fishing membership organizations in the United States, and also owns a handyman membership organization.

During January 1996, the Company acquired all of the outstanding capital stock of Advance Ross for a purchase price of approximately $183 million, which was satisfied by the issuance of 5.9 million shares of Common Stock. Advance Ross processes value-added tax refunds to travelers in over 20 European countries.

NOTE B--MERGERS AND ACQUISITIONS (CONTINUED)

The acquisitions of Getko, NAOG and Advance Ross (collectively, the "Pooled Entities") were accounted for in accordance with the pooling-of-interests method of accounting. Therefore, the Company's financial statements have been restated for all prior periods to include these entities. Further, all common share and per common share data have been restated for prior periods and certain reclassifications have been made to the historical financial statements to conform to the Company's presentation.

The following represents revenues and net income of the Company and the Pooled Entities for the two years and the last complete interim periods preceding the mergers.

| | Nine Months Ended October 31, 1995 | Year ended January 31, 1995 | Year ended January 31, 1994 |
|---|---|---|---|
| | (Unaudited) | | |
| Revenues: | | | |
| The Company | $ 949,886 | $ 1,044,669 | $ 879,324 |
| Pooled Entities | 87,130 | 138,227 | 105,477 |
| | $1,037,016 | $ 1,182,896 | $ 984,801 |
| Net Income: | | | |
| The Company | $ 113,656 | $ 117,591 | $ 87,371 |
| Pooled Entities | 7,103 | 6,975 | 6,780 |
| | $ 120,759 | $ 124,566 | $ 94,151 |

Getko, NAOG and Advance Ross previously used the fiscal years ended November 30, December 31 and December 31, respectively for their financial reporting. To conform to the Company's January 31 fiscal year end, Getko's operating results for December 1993 and January 1994 and NAOG's operating results for January 1994 have been excluded from the year ended January 31, 1995 operating results in the accompanying financial statements. The excluded periods have been adjusted by a $4.1 million charge to retained earnings at January 31, 1995. In addition, Advance Ross' operating results for January 1995 have been excluded from the year ended January 31, 1996 operating results in the accompanying financial statements. This excluded period has been adjusted by a $95,000 charge to retained earnings at January 31, 1996.

In connection with the Advance Ross acquisition, the Company charged $5.2 million ($4.2 million or $.02 per common share after-tax effect) to fiscal 1996 operations for merger costs. These costs are nonrecurring and comprised primarily of transaction costs and other professional fees. Costs incurred in connection with the acquisitions of Getko and NAOG were not significant to the Company's results of operations.

NOTE B--MERGERS AND ACQUISITIONS (CONTINUED)

During January 1995, the Company acquired all of the outstanding capital stock of Essex Corporation and subsidiaries ("Essex") for $27.5 million. The purchase price was satisfied by the payment of $25.9 million in cash and the issuance of 75,000 shares of Common Stock. The former shareholders of Essex may receive additional payments over the next two years, not to exceed $57.5 million in the aggregate, based on the achievement of certain objectives. The Company's management believes that payments to such shareholders aggregating in excess of $30 million would be extremely remote. Essex is a third-party marketer of financial products for banks, primarily marketing annuities through financial institutions. In connection with this acquisition, the Company received current assets of $8.1 million and noncurrent assets of $1.4 million and assumed current liabilities of $7 million. The excess of cost over the fair value of net assets acquired ($25 million) was included in the excess of cost over net assets acquired.

During fiscal 1995, the Company acquired certain assets from three insurance marketers for an aggregate cost of $4.1 million. The cost of these acquisitions has been included in the excess of cost over net assets acquired ($3.9 million) and contract renewal rights ($.2 million). In addition, during fiscal 1995 the Company acquired a privately-held discount coupon book publishing company for $1 million and paid $.9 million to satisfy contingent payment requirements in connection with previous acquisitions. These amounts have been included in the excess of cost over net assets acquired.

During fiscal 1994, the Company acquired a privately owned insurance marketer for $6 million. The cost of this acquisition has been included in contract renewal rights. In addition, during fiscal 1994 the Company acquired a marketer of accidental death and dismemberment insurance and a company which markets other insurance products for an aggregate cost of approximately $2.6 million. The cost of these acquisitions has been included in the excess of cost over net assets acquired ($1.4 million) and contract renewal rights ($1.2 million), respectively. During fiscal 1994, an additional $5.8 million was paid to satisfy contingent payment requirements in connection with previous acquisitions. This amount was included in the excess of cost over net assets acquired.

These fiscal 1995 and fiscal 1994 acquisitions were accounted for in accordance with the purchase method of accounting and, accordingly, the results of operations have been included in the consolidated results of operations from the respective dates of acquisition. The results of operations for the periods prior to the respective dates of acquisition were not significant to the Company's operations in fiscal 1995 and 1994.

NOTE C--PROPERTIES

Property acquired is recorded at cost. Depreciation of properties is provided for using the straight-line method over the estimated useful lives of the assets. The following is a summary of properties as of January 31 (in thousands):

| | 1996 | 1995 |
|---|---|---|
| Computer equipment | $ 48,593 | $ 33,798 |
| Telephone equipment | 14,366 | 10,907 |
| Furniture and other equipment | 55,332 | 42,051 |
| Building | 3,758 | 2,649 |
| Leasehold improvements | 12,967 | 10,364 |
| Less accumulated depreciation | (73,575) | (56,412) |
| Properties, net | $ 61,441 | $ 43,357 |

NOTE D--REVOLVING CREDIT FACILITY AND ZERO COUPON CONVERTIBLE NOTES

During the second quarter of fiscal 1995, the Company renegotiated its revolving credit facility provided by General Electric Capital Corporation ("GECC"). The Amended and Restated Credit Agreement, which was entered into as of June 30, 1994 (the "GECC Credit Agreement"), amended and restated an agreement that the Company and GECC initially entered into in 1989 and was scheduled to expire June 1, 1997. The GECC Credit Agreement provided for a $100 million revolving credit facility with interest at LIBOR plus 2 1/4% (7 11/16% at January 31, 1996) on that portion of the outstanding balance which was less than or equal to $50 million and LIBOR plus 2 1/2% (7 15/16% at January 31, 1996) on the remaining outstanding balance. In addition, the GECC Credit Agreement required the Company to maintain certain financial ratios and other restrictive covenants, including restrictions that preclude the payment of cash dividends on shares of Common Stock. The Company has terminated the GECC Credit Agreement effective March 19, 1996 and entered into a credit agreement during March 1996 with certain banks signatory thereto; The Chase Manhattan Bank, N.A., Bank of Montreal, Morgan Guaranty Trust Company of New York and The Sakura Bank, Limited, as Co-Agents; and The Chase Manhattan Bank, N.A. as Administrative Agent (the "New Credit Agreement").

The New Credit Agreement provides for a $500 million revolving credit facility with a variety of different types of loans available thereunder. Interest is payable, depending on the type of loan utilized by the Company, at a variety of rates based on the federal funds rate, LIBOR, the prime rate or rates quoted by participating banks based on an auction process provided for in the New Credit Agreement. In addition, the New Credit Agreement requires the Company to maintain certain financial ratios and contains other restrictive covenants including, without limitation, financial covenants and restrictions on certain corporate transactions, and also contains various events of default provisions including, without limitation, defaults arising from certain changes in control of the Company.

The zero coupon convertible notes issued in connection with the Company's fiscal 1990 recapitalization were recorded at their fair value on the date of issuance and were issued in $100 principal amounts and multiples thereof. Each $100 principal amount is convertible into 15.1875 shares of Common Stock. These zero coupon convertible notes are redeemable at any time at the option of the Company, in whole or in part, at 90.6% of principal amount, increasing ratably to 100% on June 6, 1996.

No cash payments for interest were made under the Company's credit agreements with GECC for the years ended January 31, 1996 and 1995. Cash payments for interest thereunder amounted to $.3 million for the year ended January 31, 1994.

NOTE E--SHAREHOLDERS' EQUITY

During fiscal 1990, the Company made an administrative change to its incentive stock option plans which had the effect of converting all options granted under such plans to nonqualified options. Under these plans, options to purchase up to 11,029,922 shares of Common Stock may be granted at not less than the fair market value on the date of grant. Options granted under these plans are generally exercisable at 20% to 25% per year commencing one year from the date of grant.

NOTE E--SHAREHOLDERS' EQUITY (CONTINUED)

The Company also has nonqualified option plans for certain employees. Under these plans, including options to purchase 8,250,000 shares of Common Stock added to these plans during fiscal 1996, nonqualified options to purchase up to 29,495,177 shares of Common Stock may be granted at not less than the fair market value on the date of grant. Options granted under these plans are generally exercisable at 20% to 25% per year commencing one year from the date of grant.

During October 1987, the Board of Directors adopted a plan ("1987 Plan") which, as amended by a vote of the shareholders at the Company's fiscal 1992 annual meeting, authorized the issuance of options for up to 17,718,750 shares of Common Stock. The 1987 Plan grants the Board of Directors the discretion to designate these options as incentive stock options or nonqualified stock options. Options granted under the 1987 Plan are generally exercisable at 20% to 25% per year commencing one year from the date of grant. During fiscal 1996, the Company's shareholders approved an amendment of the 1987 Plan to increase the number of shares of Common Stock authorized for issuance under the 1987 Plan to 23,718,750 shares of Common Stock.

During June 1991, the Company's shareholders approved a plan authorizing the issuance of options to the Company's non-employee directors to purchase up to 759,375 shares of Common Stock at not less than the fair market value on the date of grant. In addition, during June 1993, the Company's shareholders approved the 1992 Directors Stock Option Plan ("the 1992 Directors Plan"). The 1992 Directors Plan provides that options to acquire an aggregate of up to 450,000 shares of Common Stock may be granted to non-employee Directors. As of January 31, 1996, nonqualified options to purchase 669,375 shares of Common Stock have been granted under these two plans. Options granted under these plans are generally exercisable at 20% to 25% per year commencing one year from the date of grant.

In addition, during fiscal 1996, the Company's shareholders approved the 1994 Directors Stock Option Plan ("the 1994 Directors Plan"). The 1994 Directors Plan provides that options to acquire an aggregate of up to 225,000 shares of Common Stock may be granted to non-employee directors of the Company in office on each of November 23, 1994, 1995, 1996 and 1997. Options granted under the 1994 Directors Plan are generally exercisable in full on the date of grant. As of January 31, 1996, options to purchase 97,500 shares of Common Stock have been granted under the plan.

As of January 31, 1996 and 1995, options to purchase 6,375,244 and 6,078,894 shares of Common Stock, respectively, were exercisable.

Changes in outstanding options were as follows:

| | |
|---|---|
| Outstanding January 31, 1994 | 22,066,036 |
| Options granted | 7,379,794 |
| Options exercised | (2,063,033) |
| Options cancelled | (332,220) |
| Outstanding January 31, 1995 | 27,050,577 |
| Options granted | 3,043,935 |
| Options exercised | (5,977,847) |
| Options cancelled | (624,987) |
| Outstanding January 31, 1996 | 23,491,678 |

NOTE E--SHAREHOLDERS' EQUITY (CONTINUED)

Outstanding options at January 31, 1996 have exercise prices ranging from $.36 to $35.75.

The Company has an employee stock purchase plan for which 750,000 shares of Common Stock were authorized. This plan enables employees to purchase the Company's Common Stock at 90% of the fair market value on the fifteenth day following the last day of each calendar quarter. The remaining 10% is charged to compensation expense. Employees may not purchase in excess of 25% of their year-to-date earnings.

The following summarizes shares of Common Stock reserved for issuance as of January 31, 1996:

| | |
|---|---|
| Zero coupon convertible notes | 2,278,088 |
| Restricted stock plan | 913,832 |
| Stock options granted | 23,491,678 |
| Options not yet granted | 10,012,706 |
| Stock purchase plan | 647,192 |
| | 37,343,496 |

In July 1989, Getko established an Employee Stock Ownership Plan ("ESOP") for substantially all of its employees by purchasing 40,300 shares of its convertible preferred stock which was financed by a $15 million bank loan guaranteed by Getko. Compensation expense resulting from the ESOP amounted to $1.8 million, $5.4 million and $4.5 million for the years ended January 31, 1996, 1995 and 1994, respectively. During fiscal 1996, the remaining loan amount was repaid with the proceeds from the sale of unallocated ESOP shares and the remaining ESOP shares were distributed to participants.

During fiscal 1991, the Board of Directors authorized the repurchase of up to 10.125 million shares of Common Stock and during fiscal 1995 the Board of Directors reauthorized such repurchase. As of January 31, 1996, 2,475,552 shares of Common Stock had been repurchased at an aggregate cost of $8.7 million, of which $8.6 million relates to fiscal 1991 repurchases.

The Company has also authorized one million shares of voting preferred stock, $.01 par value. No shares of preferred stock have been issued.

NOTE F--INCOME TAXES

The components of income before income taxes for the years ended January 31 are as follows (in thousands):

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Domestic | $245,711 | $184,984 | $142,860 |
| Foreign | 20,632 | 16,801 | 10,398 |
| | $266,343 | $201,785 | $153,258 |

NOTE F--INCOME TAXES (CONTINUED)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of January 31 are as follows (in thousands):

| | 1996 | 1995 |
|---|---|---|
| Deferred tax assets: | | |
| Deferred membership income and acquisition costs, net | $26,208 | $30,685 |
| Other accrued liabilities | 4,660 | 4,626 |
| Recapitalization expenses | 1,181 | 862 |
| Compensatory stock options | 2,481 | 2,456 |
| All other | 4,888 | 4,776 |
| Total deferred tax assets | 39,418 | 43,405 |
| Deferred tax liabilities: | | |
| Insurance retention refund | 19,546 | 13,229 |
| Depreciation | 5,775 | 1,273 |
| All other | 6,668 | 5,198 |
| Total deferred tax liabilities | 31,989 | 19,700 |
| Net deferred tax assets | $ 7,429 | $23,705 |

The provision (benefit) for income taxes consists of the following for the years ended January 31 (in thousands):

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 73,703 | $ 57,774 | $ 52,143 |
| State | 6,591 | 7,856 | 6,150 |
| Foreign | 6,399 | 5,233 | 2,548 |
| | 86,693 | 70,863 | 60,841 |
| Deferred: | | | |
| Federal | 15,152 | 4,746 | (1,456) |
| State | 924 | 637 | (262) |
| Foreign | 200 | 973 | (16) |
| | 16,276 | 6,356 | (1,734) |
| Total provision | $ 102,969 | $ 77,219 | $ 59,107 |

NOTE F--INCOME TAXES (CONTINUED)

A reconciliation of the provision for income taxes at the Federal statutory rate to the Company's consolidated tax provision follows for the years ended January 31 (in thousands):

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Income tax at statutory rate (35%) | $ 93,220 | $70,625 | $53,640 |
| State income taxes, net of Federal benefit | 4,885 | 4,910 | 4,117 |
| Foreign taxes differential | 825 | 1,352 | (363) |
| Amortization of excess costs | 2,952 | 2,120 | 1,999 |
| Other, net | 1,087 | (1,788) | (286) |
| | $ 102,969 | $77,219 | $59,107 |

Income tax payments amounted to $38.5 million, $43.1 million and $27.7 million for the years ended January 31, 1996, 1995 and 1994, respectively.

NOTE G--COMMITMENTS AND CONTINGENCIES

Rental expense under operating leases amounted to $27.7 million, $24.2 million and $21.7 million for the years ended January 31, 1996, 1995 and 1994, respectively. These leases provide for normal escalation charges in addition to the base rental. At January 31, 1996, the minimum rental commitments under non-cancellable operating leases with initial or remaining terms of more than one year aggregated $118.8 million ($24.8 million for 1997, $21.2 million for 1998, $18 million for 1999, $14.6 million for 2000, $12.2 million for 2001 and $28 million thereafter).

The Company has a Savings Incentive Plan ("Savings Plan") for all eligible employees which qualifies as a 401(k) plan. Effective July 1, 1994, Entertainment's Employee Stock Ownership Plan was merged into the Savings Plan. The Savings Plan provides that a participant may contribute up to 15% of his or her annual salary, subject to limitations, while the Company will contribute up to $61 per pay period for the first $92 contributed by a participant. The Company's contributions to the Savings Plan for fiscal 1996, 1995 and 1994 were $3.7 million, $2.9 million and $2 million, respectively.

NOTE H--QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

(Dollar amounts in thousands, except per common share amounts)

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| Fiscal 1996 | | | | |
| Total revenues | $325,114 | $347,759 | $364,143 | $377,948 |
| Income before income taxes | 59,047 | 67,029 | 71,821 | 68,446 |
| Net income | 36,046 | 41,692 | 43,021 | 42,615 |
| Net income per common share | .19 | .21 | .22 | .22 |
| Fiscal 1995 | | | | |
| Total revenues | $270,303 | $288,143 | $304,249 | $320,201 |
| Income before income taxes | 45,876 | 48,922 | 53,342 | 53,645 |
| Net income | 27,969 | 29,948 | 33,211 | 33,438 |
| Net income per common share | .15 | .16 | .17 | .18 |

NOTE H--QUARTERLY RESULTS OF OPERATIONS (UNAUDITED) (CONTINUED)

The quarterly results of operations have been restated to reflect the poolings-of-interests with Getko, NAOG and Advance Ross (see Note B). The fourth quarter of fiscal 1996 includes $5.2 million ($4.2 million or $.02 per common share after-tax effect) of merger costs incurred in connection with the acquisition of Advance Ross.

NOTE I--SUBSEQUENT EVENTS

During February 1996, the Company entered into two separate Agreements and Plans of Merger to acquire Davidson & Associates, Inc. ("Davidson") and Sierra On-Line, Inc. ("Sierra") (collectively, the "Proposed Mergers"). Under the terms of the respective agreements, the Company plans to issue .85 of one share of its Common Stock for each share of Davidson common stock issued and outstanding and 1.225 shares of its Common Stock for each share of Sierra common stock issued and outstanding, immediately prior to the respective effective dates of the Proposed Mergers. The consummations of the Proposed Mergers are subject to certain customary closing conditions, including the approval of the holders of Davidson and Sierra common stock, respectively. Additionally, the Boards of Directors of Davidson and Sierra have the right (but are not required) to terminate the respective merger agreements if the average price per share of the Company's Common Stock in specified periods prior to their respective stockholders' meetings is below $29. Neither transaction is contingent upon the consummation of the other transaction. The transactions will be accounted for under the pooling-of-interests method of accounting and are expected to be completed during the second quarter of fiscal 1997.

NOTE J--EVENT (UNAUDITED) SUBSEQUENT TO DATE OF INDEPENDENT AUDITORS' REPORT

During April 1996, the Company entered into an Agreement and Plan of Merger to acquire Ideon Group, Inc. (the "Ideon Merger"). In the Ideon Merger, each share of Ideon Group, Inc. ("Ideon") common stock outstanding on the effective date of the Ideon Merger will be converted into Common Stock with a value of $13.50 per share, subject to certain adjustments if the average stock price of a share of Common Stock falls outside of a specified range. The consummation of the Ideon Merger is subject to certain customary closing conditions, including the approval of the holders of Ideon common stock. The Company expects upon closing of the Ideon Merger to reserve for costs to be incurred related to the Ideon Merger, which will include integration and transaction costs as well as costs relating to certain outstanding litigation matters previously discussed in Ideon's public filings. This transaction will be accounted for under the pooling-of-interests method of accounting and is expected to be completed during the second or third quarter of fiscal 1997.

ITEM 9.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10.

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained in the Company's Proxy Statement under the sections titled "Proposal 1: Election of Directors" and "Directors and Executive Officers" is incorporated herein by reference in response to this item.

ITEM 11.

EXECUTIVE COMPENSATION

The information contained in the Company's Proxy Statement under the section titled "Executive Compensation and Other Information" is incorporated herein by reference in response to this item, except that the information contained in the Proxy Statement under the sub-headings "Compensation Committee Report on Executive Compensation and "Performance Graph" is not incorporated herein by reference and is not to be deemed "filed" as part of this filing.

ITEM 12.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information contained in the Company's Proxy Statement under the section titled "Security Ownership of Management and Certain Beneficial Owners" is incorporated herein by reference in response to this item.

ITEM 13.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) The following consolidated financial statements of CUC International Inc. are filed under "Item 8. Financial Statements and Supplementary Data":

Consolidated balance sheets--January 31, 1996 and 1995

Consolidated statements of income--Years ended January 31, 1996, 1995 and 1994

Consolidated statements of shareholders' equity--Years ended January 31, 1996, 1995 and 1994

Consolidated statements of cash flows--Years ended January 31, 1996, 1995 and 1994

Notes to consolidated financial statements

(a) (2) and (d) The following consolidated financial statement schedule of CUC International Inc. is included in Item 14(d):

Schedule II--Valuation and qualifying accounts--Years ended January 31, 1996, 1995 and 1994

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions, or are inapplicable, and therefore have been omitted.

(b) Reports on Form 8-K

None.

(a) (3) and (c) Exhibits:

| Exhibit No. | Description |
|---|---|
| 3.1 | Restated Certificate of Incorporation of the Company, as filed November 21, 1991, as amended June 25, 1992, and as amended June 7, 1995 (filed as Exhibit 3.1 to Company's Form 10-Q for the period ended April 30, 1995).* |
| 3.2 | By-Laws of the Company (filed as Exhibit 3.2 to the Company's Registration Statement, No. 33-44453, on Form S-4 dated December 19, 1991).* |
| 4.1 | Form of Stock Certificate (filed as Exhibit 4.1 to the Company's Registration Statement, No. 33-44453, on Form S-4 dated December 19, 1991).* |
| 4.2 | Form of Zero Coupon Convertible Subordinated Debentures and Trust Indenture between the Company and Morgan Guaranty Trust Company of New York, as Trustee (filed as Exhibit 4(a) to the Company's Current Report on Form 8-K, dated June 3, 1989).* |

| Exhibit No. | Description |
|---|---|
| 10.1-10.16 | Management Contracts, Compensatory Plans and Arrangements |
| 10.1 | Form of Employment Contract with E. Kirk Shelton and Christopher K. McLeod, dated February 1, 1987, as amended November 1, 1991 (filed as Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended January 31, 1994).* |
| 10.2 | Amendment to Employment Contract with E. Kirk Shelton, dated February 1, 1996. |
| 10.3 | Amendment to Employment Contract with Christopher K. McLeod, dated February 1, 1996. |
| 10.4 | Employment Contract with Walter A. Forbes, dated January 1, 1987, as amended January 1, 1991, January 1, 1993 and October 1, 1993 (filed as Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended January 31, 1994) (the "Forbes Employment Agreement").* |
| 10.5 | Fourth Amendment to Forbes Employment Agreement, dated as of June 1, 1994 (filed as Exhibit 10.3 to the Company's Form 10-Q for the period ended July 31, 1994).* |
| 10.6 | Agreement with Cosmo Corigliano, dated February 1, 1994 (filed as Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1995).* |
| 10.7 | Amendment to Agreement with Cosmo Corigliano, dated February 21, 1996. |
| 10.8 | Agreement with Amy N. Lipton, dated February 1, 1996. |
| 10.9 | Form of Employee Stock Option under the 1987 Stock Option Plan (filed as Exhibit 10.6 to the Company's Form 10-Q for the period ended April 30, 1995).* |
| 10.10 | Form of Director Stock Option for 1990 and 1992 Directors Stock Option Plans (filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1991, as amended December 12, 1991 and December 19, 1991).* |
| 10.11 | Form of Director Stock Option for 1994 Directors Stock Option Plan (filed as Exhibit 10.10 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1995).* |
| 10.12 | 1987 Stock Option Plan, as amended (filed as Exhibit 10.9 to the Company's Form 10-Q for the period ended April 30, 1995).* |
| 10.13 | 1990 Directors Stock Option Plan, as amended (filed as Exhibit 10.10 to the Company's Form 10-Q for the period ended April 30, 1995).* |
| 10.14 | 1992 Directors Stock Option Plan, as amended (filed as Exhibit 10.11 to the Company's Form 10-Q for the period ended April 30, 1995).* |
| 10.15 | 1994 Directors Stock Option Plan (filed as Exhibit 10.14 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1995).* |

| Exhibit No. | Description |
| --- | --- |
| 10.16 | Restricted Stock Plan and Form of Restricted Stock Plan Agreement (filed as Exhibit 10.24 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1991, as amended December 12, 1991 and December 19, 1991).* |
| 10.17 | Credit Agreement, dated as of March 26, 1996, among: CUC International Inc.; the Banks signatory thereto; The Chase Manhattan Bank, N.A., Bank of Montreal, Morgan Guaranty Trust Company of New York, and The Sakura Bank, Limited as Co-Agents; and The Chase Manhattan Bank, N.A. as Administrative Agent. |
| 10.18 | Agreement and Plan of Merger, dated October 17, 1995, among CUC International Inc., Retreat Acquisition Corporation and Advance Ross Corporation (filed as Exhibit 2 to the Company's Registration Statement on Form S-4, Registration No. 33-64801, filed on December 7, 1995).* |
| 10.19 | Agreement and Plan of Merger, dated as of February 19, 1996, by and among Davidson & Associates, Inc., CUC International Inc. and Stealth Acquisition I Corp. (filed as Exhibit 2(a) to the Company's Report on Form 8-K filed March 12, 1996).* |
| 10.20 | Agreement and Plan of Merger, dated as of February 19, 1996, by and among Sierra On-Line, Inc., CUC International Inc. and Larry Acquisition Corp. (filed as Exhibit 2(b) to the Company's Report on Form 8-K filed March 12, 1996).* |
| 10.21 | Agreement and Plan of Merger, dated as of April 19, 1996, by and among Ideon Group, Inc., CUC International Inc. and IG Acquisition Corp. |
| 11 | Statement Re: Computation of Per Share Earnings. |
| 21 | Subsidiaries of the Company. |
| 23.1 | Consent of Ernst & Young LLP. |
| 23.2 | Consent of Deloitte & Touche LLP. |
| 27 | Financial Data Schedule. |

- ---

* Incorporated by reference

SIGNATURES

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

CUC International Inc.
(Registrant)

By /s/ Walter A. Forbes

Walter A. Forbes
Chief Executive Officer and
Chairman of the Board of Directors

Date: April 10, 1996

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

| | Signature | Title | Date |
|---|---|---|---|
| by | /s/ Walter A. Forbes<br>(Walter A. Forbes) | Chief Executive Officer and Chairman of the Board<br>(Principal Executive Officer) | April 10, 1996 |
| by | /s/ Cosmo Corigliano<br>(Cosmo Corigliano) | Senior Vice President and Chief Financial Officer<br>(Principal Financial and Accounting Officer) | April 10, 1996 |
| by | /s/ Bartlett Burnap<br>(Bartlett Burnap) | Director | April 10, 1996 |
| by | /s/ T. Barnes Donnelley<br>(T. Barnes Donnelley) | Director | April 10, 1996 |
| by | /s/ Stephen A. Greyser<br>(Stephen A. Greyser) | Director | April 10, 1996 |
| by | /s/ Christopher K. McLeod<br>(Christopher K. McLeod) | Director | April 10, 1996 |
| by | /s/ Burton C. Perfit<br>(Burton C. Perfit) | Director | April 10, 1996 |
| by | /s/ Robert P. Rittereiser<br>(Robert P. Rittereiser) | Director | April 10, 1996 |
| by | /s/ Stanley M. Rumbough, Jr.<br>(Stanley M. Rumbough, Jr.) | Director | April 10, 1996 |
| by | /s/ E. Kirk Shelton<br>(E. Kirk Shelton) | Director | April 10, 1996 |

CUC International Inc. and Subsidiaries

Schedule II--Valuation and Qualifying Accounts

| Column A | Column B | Column C | | Column D | Column E |
|---|---|---|---|---|---|
| | | Additions | | | |
| Description | Balance at Beginning of Period | Charged to Costs and Expenses | Charged to Other Accounts --Describe | Deductions --Describe | Balance at End of Period |
| YEAR ENDED JANUARY 31, 1996: | | | | | |
| Allowance for doubtful accounts | $10,548,000 | $22,980,000 | $ 105,000 (A) | $22,928,000 (B) | $10,705,000 (E) |
| Allowance for membership cancellations | 27,412,000 | | 335,359,000 (C) | 335,336,000 (D) | 27,435,000 (F) |
| YEAR ENDED JANUARY 31, 1995: | | | | | |
| Allowance for doubtful accounts | 5,117,000 | 21,250,000 | 122,000 (A) | 15,941,000 (B) | 10,548,000 (E) |
| Allowance for membership cancellations | 24,353,000 | | 317,686,000 (C) | 314,627,000 (D) | 27,412,000 (F) |
| YEAR ENDED JANUARY 31, 1994: | | | | | |
| Allowance for doubtful accounts | 5,370,000 | 11,615,000 | | 11,868,000 (B) | 5,117,000 (E) |
| Allowance for membership cancellations | 21,330,000 | | 288,289,000 (C) | 285,266,000 (D) | 24,353,000 (F) |

(A) Pre-acquisition balance of subsidiary purchased during fiscal year
(B) Uncollectible accounts written off
(C) Charged to balance sheet account "Deferred Membership Income"
(D) Charges for refunds upon membership cancellations
(E) Deducted from balance sheet account "Receivables"
(F) Included in accrued expenses

INDEX TO EXHIBITS

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| 11 | Statement Re: Computation of Per Share Earnings. | |
| 21 | Subsidiaries of the Company. | |
| 23.1 | Consent of Ernst & Young LLP. | |
| 23.2 | Consent of Deloitte & Touche LLP. | |
| 27 | Financial Data Schedule. | |

# AGREEMENT

This Agreement made effective as of February 1, 1996 by and between CUC INTERNATIONAL INC. (the "Company"), a Delaware corporation, and E. Kirk Shelton (the "Executive").

WHEREAS the Executive and the Company are parties to a certain Agreement dated February 1, 1987 as amended on November 1, 1991 (the "Agreement"); and

WHEREAS the Executive and the Company wish to make certain further amendments to the Agreement.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is hereby agreed as follows:

1. Section IX of the Agreement is hereby amended to read as follows:

## SECTION IX
## OTHER DUTIES OF THE EXECUTIVE DURING AND AFTER THE PERIOD OF EMPLOYMENT

A. The Executive will with reasonable notice during or after the Period of Employment furnish information as may be in his



possession and fully cooperate with the Company and its affiliates as may be requested in connection with any claims or legal action in which the Company or any of its affiliates is or may become a party.

B. The Executive recognizes and acknowledges that all information pertaining to this Agreement or to the affairs; business; results of operations; accounting methods, practices and procedures; members; acquisition candidates; financial condition; clients; customers or other relationships of the Company or any of its affiliates ("Information") is confidential and is a unique and valuable asset of the Company or any of its affiliates. Access to and knowledge of certain of the Information is essential to the performance of the Executive's duties under this Agreement. The Executive will not during the Period of Employment or thereafter, except to the extent reasonably necessary in performance of his duties under this Agreement, give to any person, firm, association, corporation, or governmental agency any Information, except as may be required by law. The Executive will not make use of the Information for his own purposes or for the benefit of any person or organization other than the Company or any of its affiliates. The Executive will also use his best efforts to prevent the disclosure of this Information by others. All records, memoranda, etc. relating to the business of the Company or its affiliates whether made by the Executive or otherwise coming into his

possession are confidential and will remain the property of the Company or its affiliates.

C. During the Period of Employment and for a twelve (12) month period thereafter, irrespective of the cause, manner or time of any termination, the Executive will not use his status with the Company or any of its affiliates to obtain loans, goods or services from another organization on terms that would not be available to him in the absence of his relationship to the Company or any of its affiliates. For such period, the Executive will not make any statements or perform any acts intended to or which may have the effect of advancing the interest of any existing or prospective competitors of the Company or any of its affiliates or in any way injuring the interests of the Company or any of its affiliates. For such period, the Executive, without prior express written approval by the Board of Directors of the Company, will not directly or indirectly own or hold proprietary interest in or be employed by or receive compensation from any party which competes in any way or manner with the business of the Company or any of its affiliates, as such business or businesses may be conducted from time to time. The Executive acknowledges that the Company's and its affiliates' businesses are conducted nationally and internationally and agrees that the provisions in the foregoing sentence shall operate throughout the United States and the World. For such period, the Executive, without express prior written approval from the Board of Directors, will not solicit any members of the then current clients

of the Company or any of its affiliates for any existing business of the Company or any of its affiliates or discuss with any employee of the Company or any of its affiliates information or operation of any business intended to compete with the Company or any of its affiliates. For such period, the Executive will not meddle with the Employee's or affairs of the Company or any of its affiliates or solicit or induce any person who is an employee of the Company or any of its affiliates to terminate any relationship such person may have with the Company or any of its affiliates, nor shall the Executive during such period directly or indirectly engage, employ or compensate, or cause or permit any person with which the Executive may be affiliated, to engage, employ or compensate, any employee of the Company or any of its affiliates. For the purposes of this Agreement, proprietary interest means legal or equitable ownership, whether through stock holding or otherwise, of an equity interest in a business, firm or entity or ownership of more that 5% of any class of equity interest in a publicly-held company and the term "affiliate" shall include without limitation all subsidiaries and licensees of the Company. The Executive hereby represents and warrants that the Executive has not entered into any agreement, understanding or arrangement with any employee of the Company or any of its affiliates pertaining to any business in which the Executive has participated or plans to participate, or to the employment, engagement or compensation of any such employee. The Company's obligation to make any payments

under the terms of this Agreement will cease upon any violation of the preceding paragraphs.

D. The Executive hereby acknowledges that damages at law may be an insufficient remedy to the Company if the Executive violates the terms of this Agreement and that the Company shall be entitled to preliminary and/or permanent injunctive relief in any court of competent jurisdiction to restrain the breach of or otherwise to specifically enforce any of the covenants contained in this Agreement without the necessity of showing any actual damage or that monetary damages would not provide an adequate remedy. Such right to an injunction shall be in addition to, and not in limitation of, any other rights or remedies the Company may have. Without limiting the generality of the foregoing, neither party shall oppose any motion the other party may make for any expedited discovery or hearing in connection with any alleged breach of this Section IX.

E. The period of time during which the provisions of this Section IX shall be in effect shall be extended by the length of time during which the Executive is in breach of the terms hereof as determined by any court of competent jurisdiction on the Company's application for injunctive relief.

F. The Executive agrees that the restrictions contained in this Section IX are an essential element of the compensation the Executive is granted hereunder and the Executive's right to retain certain stock options granted prior to the date of this Agreement and but for the Executive's agreement to comply with such restrictions, the Company would not have entered into this Agreement or allowed the Executive to retain those stock options.

2. A new Section XVI is hereby added to read as follows:

## SECTION XVI
## LIFE INSURANCE POLICIES

A. The Executive owns insurance policies nos. 3022608, 2909164 and 2993536 with Guardian Life Insurance Company of America ("Guardian"), policies nos. 1046440 and 1074718 with Security Mutual Life Insurance Company of New York ("Security"), and policy no. 2636034 with Canada Life ("Canada"), (the Guardian, Security and Canada policies are referred to as the "Policies"). The Policies provide a death benefit equal to the cash surrender value of the Policies. The Executive has the right to name a beneficiary for all of the death benefits, subject to the rights of the Company under the Prior Life Insurance Agreements described below in Subparagraph F. As part of the compensation paid by the Company to the Executive, the Company has advanced premium payments on the Policies through the date hereof.

B. In consideration of the services performed by the Executive, the Company agrees to advance annual premium payments for the Policies, in the aggregate, in the amount of approximately $285,000 or such other amount as agreed to in writing between the Company and the Executive per year (the "Required Premiums") through the calendar year in which the Executive attains age sixty (60) regardless of whether the Executive is employed by the Company at the time the premiums are paid; provided, however, that the Required Premiums made by the Company shall cease in the event the Executive breaches any of the Covenants contained in Section IX of the Agreement (the "Covenants").

C. In consideration of the Required Premiums to be advanced annually by the Company whether or not the Executive is employed by the Company pursuant to this Agreement, the Executive agrees not to breach the Covenants.

D. In further consideration of the premiums to be advanced annually by the Company, the Executive further agrees that between the date hereof and until the date the Executive attains age sixty (60), the Executive may not withdraw any amount (either as a Policy loan or a withdrawal of cash surrender value) from the Policies.

E. Within fifteen (15) days of the date hereof the Policies shall be transferred by the Executive to the Escrow Agent to be

agreed to by the Executive and the Company (the "Escrow Agent") pursuant to an escrow agreement between the Company, the Executive and the Escrow Agent (the "Escrow Agreement"). The Escrow Agreement shall be substantially in the form annexed hereto as Exhibit A. In the event the Executive violates the Covenants prior to the Executive attaining age sixty (60), the Executive shall forfeit any interest in the Policies, and the Escrow Agent shall transfer the Policies to the Company, subject to the provisions of the Escrow Agreement. The Executive shall execute an assignment agreement ("Assignment Agreement") annexed hereto as Exhibit B to reflect the obligation of the Executive to transfer the Policies to the Company in such event, and the Assignment Agreement shall be held in escrow by the Escrow Agent. Upon the Executive having attained age sixty (60) without having violated any of the Covenants, the Escrow Agent shall return the Policies to the Executive, and the Executive shall hold all right, title and interest in and to the Policies, without regard to the terms of Section IX, but subject to the New Collateral Assignments described in Subparagraph F below.

F. Pursuant to collateral assignment agreements dated December 13, 1988, and August 13, 1991, the Executive has assigned to the Company an interest in the Policies issued by Security equal to the premiums advanced by the Company. Pursuant to collateral assignment agreements dated June 2, 1988, the Executive has

assigned to the Company an interest in the Policies issued by Guardian equal to the premiums advanced by the Company. These agreements are referred to herein collectively as the "Prior Life Insurance Agreements". Effective as of the date hereof, new collateral assignments have been entered into between Guardian and Security (respectively), the Company and the Executive and collateral assignments have been entered into between Canada, the Company and the Executive in the form annexed hereto as Exhibit C, for the six individual Policies ("New Collateral Assignments"). Each provides that the Company shall have an interest in such Policies equal to the premiums advanced by the Company.

G. During the term of this Agreement and further provided that the Executive does not breach the terms of the Covenants before his attainment of age sixty (60), in the event that the Company fails to make Required Premium payments for the Policies for any calendar year by December 31st of such year (the "Default Date"), the Company's right under any or all of the New Collateral Assignments to be repaid from the cash surrender value of the Policies the premiums advanced by the Company to the Executive shall be reduced by the shortfall (unless otherwise subsequently advanced by the Company) with interest at the rate of seven percent (7%) per annum (without regard to which Policy there is a failure to pay). Such interest shall be calculated from the Default Date to the earlier of the (a) date the Company advances Required

Premiums with respect which there is a shortfall and certifies to the Executive that such payment is being made to make up for the shortfall or (b) date of withdrawal of premiums advanced by the Company pursuant to the New Collateral Assignment. For purposes of the preceding sentence, the Executive may request a reduction from any Policy of the premiums to be repaid to the Company pursuant to the New Collateral Assignments.

H. In the event the Executive breaches any of the Covenants after attaining age sixty (60), the Company may seek an injunction in a court of competent jurisdiction barring the Executive from breaching such Covenants.

IN WITNESS WHEREOF the undersigned have caused this Agreement to be executed as of the date first above written.

CUC INTERNATIONAL INC.

by: /s/ Christopher K. McLeod
---
Executive Vice President

/s/ E. Kirk Shelton
---
E. Kirk Shelton

Exhibit 10.3

# AGREEMENT

This Agreement made effective as of February 1, 1996 by and between CUC INTERNATIONAL INC. (the "Company"), a Delaware corporation, and Christopher McLeod (the "Executive").

WHEREAS the Executive and the Company are parties to a certain Agreement dated February 1, 1987 as amended on November 1, 1991 (the "Agreement"); and

WHEREAS the Executive and the Company wish to make certain further amendments to the Agreement.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is hereby agreed as follows: 1. Section IX of the Agreement is hereby amended to read as follows:

## SECTION IX
## OTHER DUTIES OF THE EXECUTIVE DURING AND AFTER THE PERIOD OF EMPLOYMENT

A. The Executive will with reasonable notice during or after the Period of Employment furnish information as may be in his



possession and fully cooperate with the Company and its affiliates as may be requested in connection with any claims or legal action in which the Company or any of its affiliates is or may become a party.

B. The Executive recognizes and acknowledges that all information pertaining to this Agreement or to the affairs; business; results of operations; accounting methods, practices and procedures; members; acquisition candidates; financial condition; clients; customers or other relationships of the Company or any of its affiliates ("Information") is confidential and is a unique and valuable asset of the Company or any of its affiliates. Access to and knowledge of certain of the Information is essential to the performance of the Executive's duties under this Agreement. The Executive will not during the Period of Employment or thereafter, except to the extent reasonably necessary in performance of his duties under this Agreement, give to any person, firm, association, corporation, or governmental agency any Information, except as may be required by law. The Executive will not make use of the Information for his own purposes or for the benefit of any person or organization other than the Company or any of its affiliates. The Executive will also use his best efforts to prevent the disclosure of this Information by others. All records, memoranda, etc. relating to the business of the Company or its affiliates whether made by the Executive or otherwise coming into his

possession are confidential and will remain the property of the Company or its affiliates.

C. During the Period of Employment and for a twelve (12) month period thereafter, irrespective of the cause, manner or time of any termination, the Executive will not use his status with the Company or any of its affiliates to obtain loans, goods or services from another organization on terms that would not be available to him in the absence of his relationship to the Company or any of its affiliates. For such period, the Executive will not make any statements or perform any acts intended to or which may have the effect of advancing the interest of any existing or prospective competitors of the Company or any of its affiliates or in any way injuring the interests of the Company or any of its affiliates. For such period, the Executive, without prior express written approval by the Board of Directors of the Company, will not directly or indirectly own or hold proprietary interest in or be employed by or receive compensation from any party which competes in any way or manner with the business of the Company or any of its affiliates, as such business or businesses may be conducted from time to time. The Executive acknowledges that the Company's and its affiliates' businesses are conducted nationally and internationally and agrees that the provisions in the foregoing sentence shall operate throughout the United States and the World. For such period, the Executive, without express prior written approval from the Board of Directors, will not solicit any members of the then current clients

of the Company or any of its affiliates for any existing business of the Company or any of its affiliates or discuss with any employee of the Company or any of its affiliates information or operation of any business intended to compete with the Company or any of its affiliates. For such period, the Executive will not meddle with the Employee's or affairs of the Company or any of its affiliates or solicit or induce any person who is an employee of the Company or any of its affiliates to terminate any relationship such person may have with the Company or any of its affiliates, nor shall the Executive during such period directly or indirectly engage, employ or compensate, or cause or permit any person with which the Executive may be affiliated, to engage, employ or compensate, any employee of the Company or any of its affiliates. For the purposes of this Agreement, proprietary interest means legal or equitable ownership, whether through stock holding or otherwise, of an equity interest in a business, firm or entity or ownership of more that 5% of any class of equity interest in a publicly-held company and the term "affiliate" shall include without limitation all subsidiaries and licensees of the Company. The Executive hereby represents and warrants that the Executive has not entered into any agreement, understanding or arrangement with any employee of the Company or any of its affiliates pertaining to any business in which the Executive has participated or plans to participate, or to the employment, engagement or compensation of any such employee. The Company's obligation to make any payments

under the terms of this Agreement will cease upon any violation of the preceding paragraphs.

D. The Executive hereby acknowledges that damages at law may be an insufficient remedy to the Company if the Executive violates the terms of this Agreement and that the Company shall be entitled to preliminary and/or permanent injunctive relief in any court of competent jurisdiction to restrain the breach of or otherwise to specifically enforce any of the covenants contained in this Agreement without the necessity of showing any actual damage or that monetary damages would not provide an adequate remedy. Such right to an injunction shall be in addition to, and not in limitation of, any other rights or remedies the Company may have. Without limiting the generality of the foregoing, neither party shall oppose any motion the other party may make for any expedited discovery or hearing in connection with any alleged breach of this Section IX.

E. The period of time during which the provisions of this Section IX shall be in effect shall be extended by the length of time during which the Executive is in breach of the terms hereof as determined by any court of competent jurisdiction on the Company's application for injunctive relief.

F. The Executive agrees that the restrictions contained in this Section IX are an essential element of the compensation the Executive is granted hereunder and the Executive's right to retain certain stock options granted prior to the date of this Agreement and but for the Executive's agreement to comply with such restrictions, the Company would not have entered into this Agreement or allowed the Executive to retain those stock options.

2. A new Section XVI is hereby added to read as follows:

## SECTION XVI
## LIFE INSURANCE POLICIES

A. The Executive owns insurance policies nos. 3023130, 2995020 and 2960304 with Guardian Life Insurance Company of America ("Guardian"), policies nos. 1046439, 1208351 and 1074717 with Security Mutual Life Insurance Company of New York ("Security"), and policy no. 2636033 with Canada Life ("Canada"), (the Guardian, Security and Canada policies are referred to as the "Policies"). The Policies provide a death benefit equal to the cash surrender value of the Policies. The Executive has the right to name a beneficiary for all of the death benefits, subject to the rights of the Company under the Prior Life Insurance Agreements described below in Subparagraph F. As part of the compensation paid by the Company to the Executive, the Company has advanced premium payments on the Policies through the date hereof.

B. In consideration of the services performed by the Executive, the Company agrees to advance annual premium payments for the Policies, in the aggregate, in the amount ofapproximately $ 265,000 or such other amount as agreed to in writing between the Company and the Executive per year (the "Required Premiums") through the calendar year in which the Executive attains age sixty (60) regardless of whether the Executive is employed by the Company at the time the premiums are paid; provided, however, that the Required Premiums made by the Company shall cease in the event the Executive breaches any of the Covenants contained in Section IX of the Agreement (the "Covenants").

C. In consideration of the Required Premiums to be advanced annually by the Company whether or not the Executive is employed by the Company pursuant to this Agreement, the Executive agrees not to breach the Covenants.

D. In further consideration of the premiums to be advanced annually by the Company, the Executive further agrees that between the date hereof and until the date the Executive attains age sixty (60), the Executive may not withdraw any amount (either as a Policy loan or a withdrawal of cash surrender value) from the Policies.

E. Within fifteen (15) days of the date hereof the Policies shall be transferred by the Executive to the Escrow Agent to be

agreed to by the Executive and the Company (the "Escrow Agent")pursuant to an escrow agreement between the Company, the Executive and the Escrow Agent (the "Escrow Agreement"). The Escrow Agreement shall be substantially in the form annexed hereto as Exhibit A. In the event the Executive violates the Covenants prior to the Executive attaining age sixty (60), the Executive shall forfeit any interest in the Policies, and the Escrow Agent shall transfer the Policies to the Company, subject to the provisions of the Escrow Agreement. The Executive shall execute an assignment agreement ("Assignment Agreement") annexed hereto as Exhibit B to reflect the obligation of the Executive to transfer the Policies to the Company in such event, and the Assignment Agreement shall be held in escrow by the Escrow Agent. Upon the Executive having attained age sixty (60) without having violated any of the Covenants, the Escrow Agent shall return the Policies to the Executive, and the Executive shall hold all right, title and interest in and to the Policies, without regard to the terms of Section IX, but subject to the New Collateral Assignments described in Subparagraph F below.

F. Pursuant to collateral assignment agreements dated December 13, 1988, and August 13, 1991, the Executive has assigned to the Company an interest in the Policies issued by Security(other than policy No. 1208351) equal to the premiums advanced by the Company. Pursuant to collateral assignment agreements dated

June 2, 1988, the Executive has assigned to the Company an interest in the Policies issued by Guardian equal to the premiums advanced by the Company. These agreements are referred to herein collectively as the "Prior Life Insurance Agreements". Effective as of the date hereof, new collateral assignments have been entered into between Guardian and Security (respectively), the Company and the Executive and collateral assignments have been entered into between Securities and Canada respectively, the Company and the Executive in the form annexed hereto as Exhibit C, for the seven individual Policies ("New Collateral Assignments"). Each provides that the Company shall have an interest in such Policies equal to the premiums advanced by the Company.

G. During the term of this Agreement and further provided that the Executive does not breach the terms of the Covenants before his attainment of age sixty (60), in the event that the Company fails to make Required Premium payments for the Policies for any calendar year by December 31st of such year (the "Default Date"), the Company's right under any or all of the New Collateral Assignments to be repaid from the cash surrender value of the Policies the premiums advanced by the Company to the Executive shall be reduced by the shortfall (unless otherwise subsequently advanced by the Company) with interest at the rate of seven percent (7%) per annum (without regard to which Policy there is a failure to pay). Such interest shall be calculated from the Default Date

to the earlier of the (a) date the Company advances Required Premiums with respect which there is a shortfall and certifies to the Executive that such payment is being made to make up for the shortfall or (b) date of withdrawal of premiums advanced by the Company pursuant to the New Collateral Assignment. For purposes of the preceding sentence, the Executive may request a reduction from any Policy of the premiums to be repaid to the Company pursuant to the New Collateral Assignments.

H. In the event the Executive breaches any of the Covenants after attaining age sixty (60), the Company may seek an injunction in a court of competent jurisdiction barring the Executive from breaching such Covenants.

IN WITNESS WHEREOF the undersigned have caused this Agreement to be executed as of the date first above written.

CUC INTERNATIONAL INC.

by: /s/ E. Kirk Shelton
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/s/ Christopher K. McLeod
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Christopher McLeod

Exhibit 10.7

# Agreement

This Agreement made effective as of February 21, 1996 by and between CUC International Inc. (the "Company"), a Delaware corporation; and Cosmo Corigliano (the "Executive").

WHEREAS, the Executive and the Company are parties to a certain Agreement dated February 1, 1994 (the "Agreement");

WHEREAS, the Company and the Executive wish to make certain amendments to the Agreement.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is hereby agreed as follows:

1. The third sentence of Section XI is hereby amended to read as follows: "Any stock options granted to the Executive subject to vesting restrictions will be fully vested upon a Change in Control."

Except as expressly amended hereby, the Agreement remains in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, the undersigned have caused the foregoing agreement to be executed as of the date first above-written.

/s/ Cosmo Corigliano
_____
Cosmo Corigliano

CUC International Inc.

By: /s/ E. Kirk Shelton
_____
E. Kirk Shelton

Exhibit 10.8

# AGREEMENT

This Agreement made effective as of February 1, 1996 by and between CUC International Inc. (the "Company"), a Delaware corporation, and Amy N. Lipton ("Executive").

The Executive is willing to serve in the employ of the Company on a full-time basis upon such other terms and conditions as provided in this Agreement.

In consideration of the mutual covenants contained in this Agreement, the parties hereby agree as follows:

## SECTION I
## EMPLOYMENT

The Company agrees to employ the Executive and the Executive agrees to be employed by the Company for the Period of Employment as provided in Section III.A below and upon the terms and conditions provided in the Agreement.

## SECTION II
## POSITION AND RESPONSIBILITIES

During the Period of Employment, the Executive agrees to serve as a Senior Vice President and the General Counsel of the Company and to be responsible for the typical management responsibilities expected of an officer holding such position.

## SECTION III
## TERMS AND DUTIES

### A. Period of Employment

The period of the Executive's employment under this Agreement (the "Period of Employment") will commence as of February 1, 1996 and shall continue for a period of sixty (60) full calendar months subject to termination as provided in this Agreement. On February 1, 2001, and on each February 1 thereafter, the Period of Employment will be automatically extended by twelve additional calendar months unless prior to February 1, 2001 or any subsequent February 1 the Company shall deliver to the Executive or the Executive shall deliver to the Company, written notice that the Period of Employment will end at the expiration of the then existing Period of Employment, including any previous extensions, and will not be further extended except by agreement of the Company and the Executive. The Period of Employment



shall continue until the expiration of all automatic extensions unless it is terminated as provided in this Agreement.

### B. Duties

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During the Period of Employment and except for illness, incapacity or any reasonable vacation periods in any calendar year, the Executive shall devote all of her business time, attention and skill exclusively to the business and affairs of the Company and its subsidiaries. The Executive will not engage in any other business activity and will perform faithfully the duties which may be assigned to her from time to time by the Company consistent with Section II of this Agreement. Nothing in this Agreement shall preclude the Executive from devoting time during reasonable periods required for:

i. Serving, with the prior approval of the President or Chief Executive Officer of the Company, as a director or member of a committee or organization involving no actual or potential conflict of interest with the Company;

ii. Delivering lectures and fulfilling speaking engagements;

iii. Engaging in charitable and community activities; and

iv. Investing her personal assets in such form or manner that will not violate this Agreement or require services on the part of the Executive in the operation or affairs of the companies in which those investments are made.

The activities described in clauses i, ii and iii, above will be allowed as long as they do not materially affect or interfere with the performance of the Executive's duties and obligations to the Company.

## SECTION IV

### A. Compensation

For all services rendered by the Executive pursuant to this Agreement during the Period of Employment, including services as an executive, officer, director or committee member of the Company or any subsidiary of the Company, the Executive shall be compensated as follows:

#### i. Base Salary

The Company shall pay the Executive a fixed base salary ("Base Salary"), subject to annual increases as the Company deems appropriate, in accordance with the Company's customary procedures regarding the salaries of senior

officers. Base Salary shall be payable according to the customary payroll practices of the Company but in no event less frequently than once each month.

ii. Annual Incentive Awards

The Executive will be eligible for discretionary annual incentive compensation awards.

B. Additional Benefits

i. In addition, the Executive will be entitled to participate in all compensation or employee benefit plans or programs and receive all benefits and perquisites for which salaried employees of the Company generally are eligible under any plan or program now or established later by the Company on the same basis as similarly situated senior executives of the Company. The Executive will participate to the extent permissible under the terms and provisions of such plans or programs, in accordance with program provisions. These include any group hospitalization, health, dental care, life or other insurance, savings, thrift and profit sharing plans, termination pay programs, sick leave plans, travel or accident insurance, disability insurance, and contingent compensation plans, including capital accumulation programs and stock option plans, which the Company may establish. Nothing in this Agreement will preclude the Company from amending or terminating any of the plans or programs applicable to salaried employees or senior executives as long as such amendment or termination is applicable to all salaried employees or senior executives, as the case may be.

ii. The Executive will be entitled to a minimum of four (4) weeks of paid vacation annually.

## SECTION V
## BUSINESS EXPENSES

The Company will reimburse the Executive for all reasonable travel and other expenses incurred by the Executive in connection with the performance of her duties and obligations under this Agreement. The Executive shall comply with such limitations and reporting requirements with respect to expenses as may be established from time to time.

## SECTION VI
## DISABILITY

A. i. If the Executive becomes Disabled during the Period of Employment, the Period of Employment may be terminated at the option of the

Executive upon notice of resignation to the Company or at the option of the Company upon notice of termination to the Executive. "Disabled" means a determination by independent competent medical authority that the Executive is unable to perform her duties under this Agreement and in all reasonable medical likelihood such inability will continue for a period in excess of one hundred and eighty (180) days. Unless otherwise agreed by the Executive and the Company, the independent medical authority shall be selected by theExecutive and the Company each selecting a board-certified licensed physician and the two physicians selected designating an independent medical authority, whose determination that the Executive is Disabled shall be binding upon the Company and the Executive. In such event, until the Executive reaches the age of sixty-five (65) (or such earlier date on which she is no longer Disabled), the Company shall continue to pay the Executive sixty percent(60%) of her Base Salary as in effect at the time of the termination minus the amount of any disability payments the Executive may receive under any long-term disability insurance maintained by the Company. Such amount shall be payable as provided in Section IV.A hereof. Earned but unpaid Base Salary and earned but unpaid incentive compensation awards will be paid in a lump sum at the time of such termination. No incentive compensation shall be deemed earned within the meaning of this Agreement until the Executive is informed in writing as to the amount of such incentive compensation the Executive is to be awarded as to a particular period.

ii. The Company will also continue the benefits and perquisites described in this Agreement for a period of thirty six (36) months subsequent to any such termination.

iii. In the event of any such termination, all unvested stock options held by the Executive shall be deemed fully vested on the date of such termination and shall remain fully exercisable until the applicable expiration dates contained in the applicable stock option agreements pursuant to which such stock options were granted.

B. During the period the Executive is receiving payments of either regular compensation or disability insurance described in this Agreement and as long as she is physically and mentally able to do so without undue burden, the Executive will furnish information and assistance to the Company as reasonably requested and from time to time will make herself reasonably available to the Company to undertake assignments consistent with her prior position with the Company and her physical and mental health. If the Company fails to make a payment or provide a benefit required as part of the Agreement, the Executive's obligation to furnish information and assistance will end.

## SECTION VII
## DEATH

In the event of the death of the Executive during the Period of Employment, the Period of Employment shall end and the Company's obligation to make payments under this Agreement shall cease as of the date of death, except for earned but unpaid Base Salary and any earned but unpaid incentive compensation awards, which will be paid to the Executive's surviving spouse, estate or personal representative, as applicable, in a lump sum within sixty (60) days after the date of the Executive's death. The Executive's designated beneficiary will be entitled to receive the proceeds of any life or other insurance or other death benefit programs provided in this Agreement. The Company will also continue the benefits and perquisites described in this Agreement for a period of thirty-six (36) months commencing on the Executive's death. Any stock options held by the Executive shall be deemed fully vested on the date of the Executive's death and shall remain fully exercisable until the applicable expiration dates contained in the applicable stock option agreements pursuant to which such stock options were granted.

## SECTION VIII
## EFFECT OF TERMINATION OF EMPLOYMENT

A. If the Executive's employment terminates due to either a Without Cause Termination or a Constructive Discharge (other than as contemplated by Section XI), as defined in this Section below, the Company shall pay the Executive (or her surviving spouse, estate or personal representative, as applicable) her Base Salary as in effect at the time of the termination for a period of twelve (12) months following such termination. Such amount shall be payable as provided in Section IV.A hereof. Earned but unpaid Base Salary and earned but unpaid incentive compensation awards will be paid in a lump sum at the time of such termination. The benefits and perquisites described in this Agreement will be continued for twenty-four (24) months. In the event of any such Without Cause Termination or Constructive Discharge, any unvested stock options held by the Executive which would have vested during the eighteen (18) months following such termination, shall continue to vest in accordance with the respective terms of the applicable stock option agreements pursuant to which such options were granted, notwithstanding anything to the contrary in any such stock option agreements.

B. If the Executive resigns or the Executive's employment terminates due to a Termination for Cause, as defined in this Section below, earned but unpaid Base Salary and any earned but unpaid incentive compensation will be paid to the Executive in a lump sum within sixty (60) days of such termination. No other payments will be made or benefits or perquisites provided by the Company.

C. Upon termination of the Executive's employment other than for reasons due to death, disability, or pursuant to Paragraph A of this Section or Section XI, the Period of Employment and the Company's obligation to make payments under this Agreement will cease as of the date of the termination, except as expressly provided in this Agreement.

D. For this Agreement, the following terms have the following meanings:

i. "Termination for Cause" means termination of the Executive's employment by the Company upon a good faith determination by the Board of Directors, by written notice to the Executive specifying the event relied upon for such termination, due to the Executive's material breach of any of her duties or covenants under this Agreement or her serious, willful misconduct with respect to the Company or any of its affiliates (including but not limited to conviction for a felony or perpetration of a common law fraud) which, in any such case, is not cured (if such breach is capable of being cured) within thirty (30) days after written notice thereof to the Executive.

ii. "Constructive Discharge" means termination of the Executive's employment by the Executive due to a failure of the Company to fulfill any of its material obligations under this Agreement in any material respect (including without limitation any reduction of the Executive's Base Salary as the same may be increased during the Period of Employment (other than reductions applicable to all senior executives of the Company) or other material change by the Company in the functions, duties or responsibilities of the Executive's position which would reduce the level, importance or scope of such position; or any relocation of the Executive outside of the Stamford, Connecticut area). The Executive will provide the Company a written notice which describes the circumstances being relied on for the termination with respect to this Agreement within ninety (90) days after the event giving rise to the notice. The Company will have thirty (30) days after receipt of such notice to remedy the situation prior to the termination for Constructive Discharge.

iii. "Without Cause Termination" or "terminated Without Cause" means termination of the Executive's employment by the Company other than due to death, disability, or Termination for Cause. Without limiting the generality of the foregoing, the Executive shall be deemed to have been terminated Without Cause if the Company provides notice to the Executive pursuant to Section III A of this Agreement that the Period of Employment will end at the expiration of the then existing Period of Employment.

## SECTION IX
## OTHER DUTIES OF THE EXECUTIVE
## DURING AND AFTER THE PERIOD OF EMPLOYMENT

A. The Executive will with reasonable notice during or after the Period of Employment furnish information as may be in her possession and fully cooperate with the Company and its affiliates as may be requested in connection with any claims or legal action in which the Company or any of its affiliates is or may become a party.

B. The Executive recognizes and acknowledges that all information pertaining to this Agreement or to the affairs; business; results of operations; accounting methods, practices and procedures; members; acquisition candidates; financial condition; clients; customers or other relationships of the Company or any of its affiliates ("Information") is confidential and is a unique and valuable asset of the Company or any of its affiliates. Access to and knowledge of certain of the Information is essential to the performance of the Executive's duties under this Agreement. The Executive will not during the Period of Employment or thereafter, except to the extent reasonably necessary in performance of her duties under this Agreement, give to any person, firm, association, corporation, or governmental agency any Information, except as may be required by law. The Executive will not make use of the Information for her own purposes or for the benefit of any person or organization other than the Company or any of its affiliates. The Executive will also use her best efforts to prevent the disclosure of this Information by others. All records, memoranda, etc. relating to the business of the Company or its affiliates whether made by the Executive or otherwise coming into her possession are confidential and will remain the property of the Company or its affiliates.

C. i. During the Period of Employment and for two (2) years thereafter (the "Restricted Period"), irrespective of the cause, manner or time of any termination, the Executive will not use her status with the Company or any of its affiliates to obtain loans, goods or services from another organization on terms that would not be available to her in the absence of her relationship to the Company or any of its affiliates.

ii. During the Restricted Period, the Executive will not make any statements or perform any acts intended to or which may have the effect of advancing the interest of any existing or prospective competitors of the Company or any of its affiliates or in any way injuring the interests of the Company or any of its affiliates. During the Restricted Period, the Executive, without prior express written approval by the Board of Directors of the Company, will not engage in, or directly or indirectly (whether for compensation or otherwise) own or hold proprietary interest in, manage, operate, or control, or join or participate in the ownership, management, operation or control of, or furnish any capital to or be connected in any manner with, any party which competes in any way or manner with the business of the Company or any of its affiliates, as such business or businesses may be conducted from time to

time, either as a general or limited partner, proprietor, common or preferred shareholder, officer, director, agent, employee, consultant, trustee, affiliate, or otherwise. The Executive acknowledges that the Company's and its affiliates' businesses are conducted nationally and internationally and agrees that the provisions in the foregoing sentence shall operate throughout the United States and the World.

iii. During the Restricted Period, the Executive, without express prior written approval from the Board of Directors, will not solicit any members or the then current clients of the Company or any of its affiliates for any existing business of the Company or any of its affiliates or discuss with any employee of the Company or any of its affiliates information or operation of any business intended to compete with the Company or any of its affiliates.

iv. During the Restricted Period, the Executive will not meddle with the employees or affairs of the Company or any of its affiliates or solicit or induce any person who is an employee of the Company or any of its affiliates to terminate any relationship such person may have with the Company or any of its affiliates, nor shall the Executive during such period directly or indirectly engage, employ or compensate, or cause or permit any person with which the Executive may be affiliated, to engage, employ or compensate, any employee of the Company or any of its affiliates. The Executive hereby represents and warrants that the Executive has not entered into any agreement, understanding or arrangement with any employee of the Company or any of its affiliates pertaining to any business in which the Executive has participated or plans to participate, or to the employment, engagement or compensation of any such employee.

v. For the purposes of this Agreement, proprietary interest means legal or equitable ownership, whether through stock holding or otherwise, of an equity interest in a business, firm or entity or ownership of more than 5% of any class of equity interest in a publicly-held company and the term "affiliate" shall include without limitation all subsidiaries and licensees of the Company.

vi. The Company's obligation to make any payments under the terms of this Agreement will cease upon any violation of the preceding paragraphs.

D. The Executive hereby acknowledges that damages at law may be an insufficient remedy to the Company if the Executive violates the terms of this Agreement and that the Company shall be entitled, upon making the requisite showing, to preliminary and/or permanent injunctive relief in any court of competent jurisdiction to restrain the breach of or otherwise to specifically enforce any of the covenants contained in this Agreement without the necessity of showing any actual damage or that monetary damages would not provide an adequate remedy. Such right to an injunction shall be in addition to, and not in limitation of, any other rights or remedies the Company may have. Without limiting the generality of the foregoing,

neither party shall oppose any motion the other party may make for any expedited discovery or hearing in connection with any alleged breach of this Section IX.

E. The period of time during which the provisions of this Section IX shall be in effect shall be extended by the length of time during which the Executive is in breach of the terms hereof as determined by any court of competent jurisdiction on the Company's application for injunctive relief.

F. The Executive agrees that the restrictions contained in this Section IX are an essential element of the compensation the Executive is granted hereunder and but for the Executive's agreement to comply with such restrictions, the Company would not have entered into this Agreement.

## SECTION X
## INDEMNIFICATION; LITIGATION

A. The Company will indemnify the Executive to the fullest extent permitted by the laws of the state of the Company's incorporation in effect at that time, or certificate of incorporation and by-laws of the Company, whichever affords the greater protection to the Executive. The Executive will be entitled to any insurance policies the Company may elect to maintain generally for the benefit of its officers and directors against all costs, charges and expenses incurred in connection with any action, suit or proceeding to which she may be made a party by reason of being a director or officer of the Company.

B. In the event of any litigation or other proceeding between the Company and the Executive with respect to the subject matter of this Agreement, the Company shall reimburse the Executive for all costs and expenses related to the litigation or proceeding including attorney's fees and expenses, providing that the litigation or proceeding results in either settlement requiring the Company to make a payment to the Executive or judgment in favor of the Executive.

## SECTION XI
## CHANGE IN CONTROL

A. In the event there is a Change in Control, as defined below, and the Executive's employment is terminated Without Cause or the Executive's employment terminates due to a Constructive Discharge, in either case within two (2) years after such Change of Control, the Company shall pay to the Executive (or her surviving spouse, estate or personal representative, as applicable) her Base Salary as in effect at the time of such termination of employment for a period of two (2) years following such termination. In addition, in such event earned but unpaid Base Salary and any earned but unpaid incentive compensation awards will be paid to the Executive (or her surviving spouse, estate or personal representative, as applicable) in a lump sum at the time of such termination. The benefits and perquisites described in this Agreement will also be continued for two (2) years from the effective date of termination of employment or Constructive Discharge, as the case may be, pursuant to a Change of Control as aforesaid. In the event there is a Change in Control, all unvested stock options held by the Executive shall immediately upon such Change in Control be deemed fully vested and shall remain exercisable until the applicable expiration dates contained in the applicable stock option agreements pursuant to which such stock options were granted, whether or not the Executive's employment is terminated. The Executive shall not be entitled to receive any duplicative payments as a result of the implementation of the provisions of this Section XI.

B. The Executive shall not be required to mitigate the amount of any payment provided for after a Change in Control by seeking other employment or otherwise, nor shall the amount of any such payment be reduced by any compensation earned by the Executive as the result of employment by another employer after the date the Executive's employment hereunder terminates.

C. A "Change in Control" shall be deemed to have occurred if (i) a tender offer shall be made and consummated for the ownership of 51% or more of the outstanding voting securities of the Company, (ii) the Company or any subsidiary thereof shall be merged with or into or consolidated with another corporation and as a result of such merger or consolidation less than 75% of the outstanding voting securities of the surviving or resulting corporation shall be owned in the aggregate by the former shareholders of the Company, (iii) the Company shall sell substantially all of its assets to another corporation which is not a wholly-owned subsidiary, (iv) a person, within the meaning of Section 3(a)(9) or of Section 13(d)(3) (as in effect on the date hereof) of the Securities Exchange Act of 1934, as amended, shall acquire 51% or more of the outstanding voting securities of the Company (whether directly, indirectly, beneficially or of record) or (v) any other event shall take place that a majority of the Board of Directors of the Company, in its sole discretion, shall determine constitutes a "Change in Control" for the purposes hereof. For purposes hereof, ownership of voting securities shall take into account and shall include

ownership as determined by applying the provisions of Rule 13d-3(d)(1)(i) (as in effect on the date hereof) pursuant to the Securities Exchange Act of 1934, as amended.

## SECTION XII
## WITHHOLDING TAXES

The Company may directly or indirectly withhold from any payments under this Agreement all federal, state, city or other taxes that shall be required pursuant to any law or governmental regulation.

## SECTION XIII
## EFFECT OF PRIOR AGREEMENTS

This Agreement contains the entire understanding between the Company and the Executive with respect to the subject matter hereof and supersedes any prior employment agreement between the Company and the Executive, except that this Agreement shall not affect or operate to reduce any benefit or compensation inuring to the Executive of a kind elsewhere provided and not expressly provided in this Agreement.

## SECTION XIV
## CONSOLIDATION, MERGER OR SALE OF ASSETS

Nothing in this Agreement shall preclude the Company from consolidating or merging into or with, or transferring all or substantially all of its assets to, another corporation which assumes this Agreement and all obligations and undertakings of the Company hereunder. Upon such a consolidation, merger or sale of assets the term "the Company" will mean the other corporation and this Agreement shall continue in full force and effect.

## SECTION XV
## MODIFICATION

This Agreement may not be modified or amended except in writing signed by the parties. No term or condition of this Agreement will be deemed to have been waived except in writing by the party charged with waiver. A waiver shall operate only as to the specific term or condition waived and will not constitute a waiver for the future or act on anything other than that which is specifically waived.

## SECTION XVI
## GOVERNING LAW; CONSTRUCTION

This Agreement has been executed and delivered in the State of Connecticut and its validity, interpretation, performance and enforcement shall be governed by the internal laws of that state. The construction and interpretation of this Agreement shall not be strictly construed against the drafter.

## SECTION XVII
## ARBITRATION

A. Any controversy, dispute or claim arising out of or relating to this Agreement or the breach hereof which cannot be settled by mutual agreement (other than with respect to the matters covered by Section IX for which the Company may, but shall not be required to, seek injunctive relief) shall be finally settled by binding arbitration in accordance with the Federal Arbitration Act (or if not applicable, the applicable state arbitration law) as follows: Any party who is aggrieved shall deliver a notice to the other party setting forth the specific points in dispute. Any points remaining in dispute twenty (20) days after the giving of such notice may be submitted to arbitration in New York, New York, to Jams/Endispute, before a single arbitrator appointed in accordance with the arbitration rules of Jams/Endispute, modified only as herein expressly provided. After the aforesaid twenty (20) days, either party, upon ten (10) days notice to the other, may so submit the points in dispute to arbitration. The arbitrator may enter a default decision against any party who fails to participate in the arbitration proceedings.

B. The decision of the arbitrator on the points in dispute will be final, unappealable and binding, and judgment on the award may be entered in any court having jurisdiction thereof.

C. Except as otherwise provided in this Agreement, the arbitrator will be authorized to apportion its fees and expenses and the reasonable attorneys' fees and expenses of any such party as the arbitrator deems appropriate. In the absence of any such apportionment, the fees and expenses of the arbitrator will be borne equally by each party, and each party will bear the fees and expenses of its own attorney.

D. The parties agree that this Section has been included to rapidly and inexpensively resolve any disputes between them with respect to this Agreement, and that this Section shall be grounds for dismissal of any court action commenced by either party with respect to this Agreement, other than postarbitration actions seeking to enforce an arbitration award. In the event that any court determines that this arbitration procedure is not binding, or otherwise allows any litigation regarding a dispute, claim, or controversy covered by this Agreement to proceed, the parties

hereto hereby waive any and all right to a trial by jury in or with respect to such litigation.

E. The parties shall keep confidential, and shall not disclose to any person, except as may be required by law, the existence of any controversy hereunder, the referral of any such controversy to arbitration or the status or resolution thereof.

## SECTION XVIII
## SURVIVAL

Sections VI, VII, VIII, IX, X, XI, XVI, XVII and XIX shall continue in full force in accordance with their respective terms notwithstanding any termination of the Period of Employment.

## SECTION XIX
## SEPARABILITY

All provisions of this Agreement are intended to be severable. In the event any provision or restriction contained herein is held to be invalid or unenforceable in any respect, in whole or in part, such finding shall in no way affect the validity or enforceability of any other provision of this Agreement. The parties hereto further agree that any such invalid or unenforceable provision shall be deemed modified so that it shall be enforced to the greatest extent permissible under law, and to the extent that any court of competent jurisdiction determines any restriction herein to be unreasonable in any respect, such court may limit this Agreement to render it reasonable in the light of the circumstances in which it was entered into and specifically enforce this Agreement as limited.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

CUC INTERNATIONAL INC.

By: /s/ E. Kirk Shelton
---
E. Kirk Shelton

Exhibit 10.17

CREDIT AGREEMENT
dated as of March 26, 1996
among
CUC INTERNATIONAL INC.
the Banks signatory
hereto

THE CHASE MANHATTAN BANK, N.A.,
BANK OF MONTREAL,
MORGAN GUARANTY TRUST COMPANY OF NEW YORK,

and

THE SAKURA BANK, LIMITED

as Co-Agents

and
THE CHASE MANHATTAN BANK,N.A.
as Administrative Agent

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CREDIT AGREEMENT dated as of March 26, 1996 among CUC INTERNATIONAL INC., a corporation organized under the laws of the State of Delaware (the "Borrower"), each of the banks which is a signatory hereto (individually a "Bank" and collectively the "Banks"), THE CHASE MANHATTAN BANK, N.A., BANK OF MONTREAL, MORGAN GUARANTY TRUST COMPANY OF NEW YORK and THE SAKURA BANK, LIMITED, as agents for the Banks (collectively, in such capacity, the "Co-Agents") and THE CHASE MANHATTAN BANK, N.A., as administrative agent for the Banks (in such capacity, together with its successors in such capacity, the "Administrative Agent").

The Borrower desires that the Banks extend credit as provided herein and the Banks are prepared to extend such credit. Accordingly, the Borrower, the Banks, the CoAgents and the Administrative Agent agree as follows:

ARTICLE 1. DEFINITIONS; ACCOUNTING TERMS.

Section 1.1 Definitions. As used in this Agreement the following terms have the following meanings (terms defined in the singular to have a correlative meaning when used in the plural and vice versa):

"Acceptable Acquisition" means any Acquisition satisfying all of the following conditions:

(a) no Default or Event of Default exists or is continuing and no Default or Event of Default would result from such Acquisition;

(b) the business or Person acquired directly or indirectly is involved in the provision of consumer goods or services, which shall include the primary types of businesses conducted by the Borrower and its Subsidiaries as of the date hereof;

(c) on a consolidated basis with the acquired business or Person, the ratio of (a) Debt of the Borrower together with the Debt of such acquired business or Person outstanding on the date of such Acquisition to (b) EBITDA of the Borrower and such acquired business or Person, such EBITDA measured: (i) on a trailing four quarters basis as of the end of the immediately preceding fiscal quarter and (ii) as if such acquired business or Person was owned by the Borrower or any Subsidiary during such four quarter period, shall not exceed 3.0 to 1.0;

(d) the Borrower, on a consolidated basis with the acquired business or Person , would have been in compliance with the financial covenants contained in Article 8 on a trailing four quarters basis as of the end of the immediately preceding fiscal quarter and as if such acquired business or Person was owned by the Borrower or any Subsidiary during such four quarter period; and

(e) the Borrower has provided computations showing compliance with subsections (c) and (d) above to the Administrative Agent upon its request. The Administrative Agent shall provide copies of such computations to the Banks following its receipt thereof.

Notwithstanding the foregoing, an Acquisition for less than $15,000,000 in Total Consideration which does not satisfy subsection (b) above shall be deemed an Acceptable Acquisition if it satisfies the remaining subsections above.

"Acquisition" means any transaction or series of related transactions pursuant to which the Borrower or any of its Subsidiaries (a) acquires 50% or more of the equity securities (or warrants, options or other rights to acquire such securities) of any Person other than the Borrower or any Person which is not then a Subsidiary of the Borrower, pursuant to a solicitation of tenders therefor, or in one or more negotiated block, market or other transactions not involving a tender offer, or a combination of any of the foregoing, or (b) makes any Person a Subsidiary of the Borrower, or causes any such Person to be merged into the Borrower or any of its Subsidiaries, in any case pursuant to a merger, purchase of assets or any reorganization providing for the delivery or issuance to the holders of such Person's then outstanding securities, in exchange for such securities, of cash or securities of the Borrower or any of its Subsidiaries, or a combination thereof, or (c) purchases all or substantially all of the business or assets of any Person, or (d) otherwise acquires or establishes Control over a Person.

"Affiliate" means any Person: (a) which directly or indirectly Controls, or is Controlled by, or is under common Control with, the Borrower or any of its Subsidiaries; (b) which directly or indirectly beneficially owns or holds 10% or more of any class of voting stock of the Borrower or any such Subsidiary; (c) 10% or more of the voting stock of which is directly or indirectly beneficially owned or held by the Borrower or such Subsidiary; or (d) which is a partnership in which the Borrower or any of its Subsidiaries is a general partner.

"Agreement" means this Credit Agreement, as amended or supplemented from time to time. References to Articles, Sections, Exhibits, Schedules and the like refer to the Arti cles, Sections, Exhibits, Schedules and the like of this Agreement unless otherwise indicated.

"Authorization Letter" means the letter agreement executed by the Borrower in the form of Exhibit F.

"Banking Day" means any day on which commercial banks are not authorized or required to close in New York City and whenever such day relates to a LIBO Rate Loan or notice with respect to any LIBO Rate Loan, a day on which dealings in Dollar deposits are also carried out in the London interbank market.

"Capital Lease" means any lease which has been or should be capitalized on the books of the lessee in accordance with GAAP.

"Cash Equivalent Investments" means any of the following, to the extent acquired for investment and not with a view to achieving trading profits: (a) obligations fully backed by the full faith and credit of the United States of America maturing not in excess of twelve months from the date of acquisition, (b) commercial paper maturing not in excess of twelve months from the date of acquisition and rated "P-1" by Moody's or "A-1" by S&P on the date of such acquisition, (c) the following obligations of any Bank or any domestic commercial bank having capital and surplus in excess of $500,000,000, which has, or the holding company of which has, a commercial paper rating meeting the requirements specified in clause (b) above: (i) time deposits, certificates of deposit and acceptances maturing not in excess of twelve months from the date of acquisition, or (ii) repurchase obligations with a term of not more than thirty (30) days for underlying securities of the type referred to in clause (a) above, (d) money market funds that invest exclusively in interest bearing, shortterm money market instruments: (i) having an average remaining maturity of not more than twelve months and (ii) (A) rated at least "P1" by Moody's or "A-1" by S&P or (B) which are issued or directly and fully guaranteed or insured by the United States government or any agency or instrumentality thereof, and (f) municipal securities: (i) for which the pricing period in effect is not more than twelve months long and (ii) rated at least "P-1" by Moody's or "A-1" by S&P.

"Closing Date" means the date this Agreement has been executed by the Borrower, the Banks, the CoAgents and the Administrative Agent.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Commitment" means, with respect to each Bank, the obligation of such Bank to make its Loans under this Agreement in the aggregate principal amount following, as such amount may be reduced or otherwise modified from time to time:

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|---|---|
| The Chase Manhattan Bank, N.A.: | $60,000,000; |
| Bank of Montreal: | $50,000,000; |
| Morgan Guaranty Trust Company of New York: | $50,000,000; |
| The Sakura Bank, Limited: | $50,000,000; |
| ABN AMRO Bank N.V. New York Branch: | $25,000,000; |
| The Bank of New York: | $25,000,000; |
| First American National Bank: | $25,000,000; |
| First Union National Bank: | $25,000,000; |
| Fleet National Bank of Connecticut: | $25,000,000; |
| The Industrial Bank of Japan Trust Company: | $25,000,000; |
| Mellon Bank, N.A.: | $25,000,000; |
| The Mitsubishi Bank, Limited: | $25,000,000; |

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|---|---|
| Royal Bank of Canada: | $25,000,000; |
| The Sanwa Bank, Ltd.: | $25,000,000; |
| The Sumitomo Bank, Limited, New York Branch: | $25,000,000; |
| The Fuji Bank, Limited New York Branch: | $15,000,000; |
| Total: | $500,000,000. |

"Consolidated Subsidiary" means any Subsidiary of a Person whose accounts are or are required to be consolidated with the accounts of such Person in accordance with GAAP.

"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise.

"Debt" means, with respect to any Person at any date (without duplication): (a) indebtedness created, issued, incurred or assumed by such Person for borrowed money or evidenced by bonds, debentures, notes or similar instruments; (b) all obligations of such Person to pay the deferred purchase price of property or services six (6) months or more from the date of the occurrence or as evidenced by a note or similar written instrument, excluding, however, trade accounts payable (other than for borrowed money) arising in, and accrued expenses incurred in, the ordinary course of business of such Person; (c) all Debt of others secured by a Lien on any asset of such Person, whether or not such Debt is assumed by such Person; (d) all Debt of others Guaranteed by such Person; (e) all obligations of such Person as lessee under Capital Leases; (f) reimbursement obligations of such Person (whether contingent or otherwise) in respect of bankers acceptances, surety or other bonds and similar instruments (other than commercial, standby or performance letters of credit); (g) contingent obligations under swaps, derivatives, currency exchanges and similar transactions; and (h) unpaid reimbursement obligations of such Person (other than contingent obligations) in respect of commercial, standby or performance letters of credit. For the purposes of calculating Debt only for compliance with the financial covenants set forth in Article VIII and the definitions of "Acceptable Acquisition" and "Leverage Ratio", Debt shall not include contingent obligations under surety or other bonds.

"Debt Rating" shall have the meaning given such term in Section 2.13.

"Default" means any event which with the giving of notice or lapse of time, or both, would become an Event of Default.

"Default Rate" means, (i) with respect to the principal of any Loan, a rate per annum equal to 2% above the interest rate for such Loan as provided in Section 2.10, and (ii) with respect to any other amount payable by the Borrower under this Agreement or any Note, to the extent permitted by law, a rate per annum equal to 2% above the Variable Rate as in effect from time to time; provided, that clause (ii) shall not be interpreted to

provide for an increase in the facility fee rate to 2% above the Variable Rate as in effect from time to time.

"Dollars" and the sign "$" mean lawful money of the United States of America.

"EBIT" means, for any Person, for any period, earn ings before Interest Expense, taxes, extraordinary items and transaction costs and other non-recurring costs directly related to Acceptable Acquisitions for such Person determined on a consolidated basis in accordance with GAAP.

"EBITDA" means, for any Person, for any period, earnings before Interest Expense, taxes, depreciation, amortization, extraordinary items and transaction and other non-recurring costs directly related to Acceptable Acquisitions for such Person determined on a consolidated basis in accordance with GAAP.

"Environmental Affiliate" means, as to any Person, any other Person whose liability (contingent or otherwise) for any Environmental Claim such Person may have retained, assumed or otherwise become liable (contingently or otherwise), whether by contract, operation of law or otherwise; provided that each Subsidiary of such Person, and each former Subsidiary or division of such Person transferred to another Person, shall in any event be an "Environmental Affiliate" of such Person.

"Environmental Claim" means, with respect to any Person, any notice, claim, demand or other communication (whether written or oral) by any other Person alleging or asserting liability of such Person for investigatory costs, cleanup costs, governmental response costs, damages to natural resources or other Property, personal injuries, fines or penalties arising out of, based on or resulting from (a) the presence, or release into the environment, of any hazardous material at any location, whether or not owned by such Person, or (b) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law.

"Environmental Laws" means any and all federal, state, local and foreign statutes, laws, regulations, ordi nances, rules, judgments, orders, decrees, permits, conces sions, grants, franchises, licenses, agreements or other gov ernmental restrictions relating to the environment or to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes.

"ERISA" means the Employee Retirement Income Secu rity Act of 1974, as amended from time to time, including any applicable rules and regulations promulgated thereunder.

"ERISA Affiliate" means any corporation or trade or business which is a member of any group of organizations (i) described in Section 414(b) or (c) of the Code of which the Borrower is a member, or (ii) solely for purposes of potential liability under Section 302(c)(11) of ERISA and Section 412(c)(11) of the Code and the lien created under Section 302(f) of ERISA and Section 412(n) of the Code, described in Section 414(m) or (o) of the Code of which the Borrower is a member.

"Eurodollar Loan" means any Syndicated Loan when and to the extent the interest rate therefor is determined on the basis of the LIBO Base Rate.

"Event of Default" has the meaning given such term in Section 9.1.

"Facility Documents" means this Agreement, the Notes, the Money Market Quote Requests, the Money Market Confirmations, the Authorization Letter and each of the documents, certificates or other instruments referred to in Article 4 hereof as well as any other documents, instrument or certificate to be delivered by the Borrower in connection with this Agreement or in connection with the documents, certificates or instruments referred to in Article 4, including documents delivered in connection with any borrowing.

"Federal Funds Rate" means, for any day, the rate per annum (expressed on a 365/366 day basis of calculation) equal to the weighted average of the rates on overnight federal funds transactions as published by the Federal Reserve Bank of New York for the immediately preceding Banking Day.

"Forfeiture Proceeding" means any action, proceeding or investigation affecting the Borrower or any of its Subsidiaries before any Governmental Authority, or the receipt of notice by any such party that any of them is a suspect in or a target of any governmental inquiry or investigation, which may result in an indictment of any of them or the seizure or forfeiture of any of their property.

"GAAP" means generally accepted accounting princi ples in the United States of America as in effect from time to time, applied on a basis consistent with those used in the preparation of the financial statements referred to in Section 5.5 (except for changes concurred in by the Borrower's independent public accountants).

"Governmental Authority" shall mean any government or political subdivision or an agency, authority, bureau, central bank, commission, department or instrumentality of either, or any court, tribunal, grand jury or arbitrator, in each case whether foreign or domestic.

"Guarantee" means, for any Person, (i) any guarantee, endorsement, contingent agreement to purchase or to furnish funds for the payment or maintenance of, or any other contingent liability on or with respect to, the Debt, other obligations, net worth, working capital or earnings of any other Person (including, without limitation, the liability of such Person in respect of the Debt of any partnership of which such person is a general partner), or (ii) the guarantee by such Person of the payment of dividends or other distributions upon the stock of any other Person, or the agreement by such Person to purchase, sell or lease (as lessee or lessor) property, products, materials, supplies or services primarily for the purpose of enabling any other Person to make payment of its obligations or to assure a creditor against loss, provided, however, that the term "Guarantee" shall not include a guarantee of
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performance by the Borrower or any of its Subsidiaries in the ordinary course of its business or the guarantee of payment of Debt of the Borrower or any Subsidiary to the Borrower or another Subsidiary . The verb "Guarantee" shall have a correlative meaning, provided that the term "Guarantee" shall not include endorsements for collection or deposits in the ordinary course of business.

"Interest Coverage Ratio" means, for any Person, as at any date, the ratio of (a) EBIT of such Person for the immediately preceding four full fiscal quarters of such Per son (including the fiscal quarter ending on such date if such date is the last day of a fiscal quarter) to (b) Interest Expense of such Person for such period.

"Interest Expense" shall mean, with respect to any Person, for any period, the sum, for such Person in accordance with GAAP, of (a) all interest on Debt that is accrued as an expense during such period (including, without limita tion, imputed interest on Capital Leases), plus (b) all amounts paid, accrued or
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amortized as an expense during such period in respect of interest rate protection agreements, minus (c) all amounts received or accrued as income
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during such period in respect of interest rate protection agreements. "Interest Period" means:

(a) With respect to any Eurodollar Loan, the period commencing on the date such Eurodollar Loan is made, converted from another type of Loan or renewed, as the case may be, and ending on the numerically corresponding day in the first, second, third or sixth calendar month thereafter, as the Borrower may select pursuant to Section 2.6, provided that each such Interest Period which commences on the last Banking Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last Banking Day of the appropriate subsequent calendar month.

(b) With respect to any Set Rate Loan, the period commencing on the date such Set Rate Loan is made and ending on any Banking Day up to 180 days thereafter, as the Borrower may select pursuant to Section 2.4.

(c) With respect to any LIBOR Market Loan, the period commencing on the date such LIBOR Market Loan is made and ending on the numerically corresponding day in the first, second, third or sixth calendar month thereafter, as mutually agreed by the Borrower and a Bank pursuant to Section 2.4, provided that each such Interest Period which commences on the last Banking Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last Banking Day of the appropriate subsequent calendar month.

Notwithstanding the foregoing: (i) if any Interest Period would otherwise commence before and end after the Termination Date, such Interest Period shall end on the Termination Date; (ii) each Interest Period which would otherwise end on a day which is not a Banking Day shall end on the next succeeding Banking Day (or, in the case of an Interest Period for any LIBO Rate Loans, if such next succeeding Banking Day falls in the next succeeding calendar month, on the next preceding Banking Day); and (iii) notwithstanding clause (i) above, no Interest Period shall have a duration of less than one month (in the case of a LIBO Rate Loan) or 7 days (in the case of a Set Rate Loan), and, if the Interest Period for any such Loans would otherwise be for a shorter period, such Loans shall not be available hereunder.

"LIBO Base Rate" means, with respect to any Interest Period for a LIBO Rate Loan, the arithmetic mean, as calculated by the Administrative Agent, of the respective rates per annum (rounded upwards, if necessary, to the nearest 1/16 of 1%) quoted at approximately 11:00 a.m. London time by the principal London branch of each of the Reference Banks two Banking Days prior to the first day of such Interest Period for the offering to leading banks in the London interbank market of Dollar deposits in immediately available funds, for a period, and in an amount, comparable to the Interest Period and principal amount of the LIBO Rate Loan which shall be made by such Reference Bank and outstanding during such Interest Period; provided, that, in determining the LIBO Base Rate with respect to any LIBOR Market Loan, each Reference Bank shall be deemed to have made a LIBOR Market Loan in an amount equal to $1,000,000.

"LIBO Margin" shall have the meaning given such term in Section 2.4(b).

"LIBO Rate" means, for any LIBO Rate Loan for any Interest Period therefor, a rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) determined by the Administrative Agent to be equal to the quotient of (i) the LIBO Base Rate for such Loan for such Interest Period, divided by (ii) one minus the Reserve Requirement for such Loan for such Interest Period.

"LIBO Rate Loans" shall mean Eurodollar Loans and LIBOR Market Loans.

"LIBOR Auction" means a solicitation of Money Market Quotes setting forth LIBO Margins based on the LIBO Rate pursuant to Section 2.4.

"LIBOR Market Loans" means Money Market Loans the interest rates on which are determined on the basis of LIBO Rates pursuant to a LIBOR Auction.

"Lending Office" means, for each Bank and for each type of Loan, the lending office of such Bank (or of an affil iate of such Bank) designated as such for such type of Loan on its signature page hereof or such other office of such Bank (or of an affiliate of such Bank) as such Bank may from time to time specify to the Administrative Agent and the Borrower as the office by which its Loans of such type are to be made and maintained.

"Leverage Ratio" means, for any Person, as at any date, the ratio of (a) Debt of such Person as at the end of such Person's most recently completed full fiscal quarter to (b) EBITDA of such Person for the immediately preceding four full fiscal quarters of such Person on a consolidated basis (including the fiscal quarter ending on such date if such date is the last day of a fiscal quarter).

"Lien" means any lien (statutory or otherwise), security interest, mortgage, deed of trust, priority, pledge, negative pledge, charge, conditional sale, title retention agreement, financing lease or other encumbrance or similar right of others, or any agreement to give or refrain from giving any of the foregoing.

"Loan" means any Syndicated Loan or Money Market Loan.

"Margin" means, for a Eurodollar Loan, the margin for such type of Loan that would apply under Section 2.13.

"Material Adverse Effect" means (a) a material adverse effect on the business, operations, management, property or financial condition of the Borrower and its Subsidiaries, taken as a whole, (b) a material adverse effect on the ability of the Borrower or any of its Subsidiaries to perform or comply with any of the terms and conditions of this Agreement, any Note or any other Facility Document, or (c) a material adverse effect on the legality, validity, binding effect, enforceability or admissibility into evidence of this Agreement, any Note or any other Facility Document, or the ability of the Administrative Agent or any Bank to enforce any rights or remedies under or in connection with this Agreement, any Note or any other Facility Document.

"Material Subsidiary" means, at any time, any Subsidiary of the Borrower that satisfies at least one of the following conditions:

(a) the portion of the aggregate total fixed and current assets of the Borrower and its Subsidiaries, determined on a consolidated basis in accordance with GAAP, attributable to such Subsidiary pursuant to GAAP is 10% or more;

(b) the portion of operating income of the Borrower and its Subsidiaries, determined on a consolidated basis in accordance with GAAP, attributable to such Subsidiary pursuant to GAAP is 10% or more; or

(c) the performance of the Subsidiary could, for any other reason, be considered material to the interests of the Borrower.

"Money Market Borrowing" shall have the meaning given such term in Section 2.4(b).

"Money Market Confirmation" means each confirmation by the Borrower of its acceptance of Money Market Quotes, which Money Market Confirmation shall be substantially in the form of Exhibit C and shall be delivered to the Administrative Agent in writing or by facsimile transmission.

"Money Market Loan Limit" shall have the meaning given such term in Section 2.4(b)(iii)(C).

"Money Market Loans" shall have the meaning given such term in Section 2.1(b).

"Money Market Note" shall have the meaning given such term in Section 2.2(b).

"Money Market Quote" means each offer by a Bank to make Money Market Loans pursuant to a Money Market Quote Request, which Money Market Quote shall contain the information specified in, as appropriate, Exhibit D-1 or Exhibit D-2 and shall be delivered to the Administrative Agent by telephone, immediately confirmed by facsimile transmission.

"Money Market Quote Request" means each request by the Borrower for Banks to submit bids to make Money Market Loans, which shall contain the information in respect of such requested Money Market Loans specified in, as appropriate, Exhibit E-1 or Exhibit E-2 and shall be delivered to the Administrative Agent in writing or by facsimile transmission, or by telephone, immediately confirmed by facsimile transmission.

"Money Market Rate" shall have the meaning given such term in Section 2.4.

"Moody's" means Moody's Investors Service, Inc. and any successor thereto that is a nationally recognized rating agency.

"Multiemployer Plan" means a Plan defined as such in Section 3(37) of ERISA to which contributions have been made by the Borrower or any ERISA Affiliate and which is covered by Title IV of ERISA.

"Net Income" for any period means the net income (loss) of Borrower and its Subsidiaries for such period determined on a consolidated basis in accordance with GAAP.

"Net Worth" means, with respect to any Person, at any time, the stockholders' equity of such Person and its Consolidated Subsidiaries determined on a consolidated basis in accordance with GAAP.

"Note" means each Syndicated Note and each Money Market Note.

"Notice of Borrowing" shall mean the notice of each borrowing required by Section 4.2.

"PBGC" means the Pension Benefit Guaranty Corpora tion and any entity succeeding to any or all of its functions under ERISA.

"Person" means an individual, partnership, corpora tion, business trust, joint stock company, trust, unincorporated association, joint venture, limited liability company, Governmental Authority or other entity of whatever nature. "Plan" means any employee benefit or other plan established or maintained, or to which contributions have been made, by the Borrower or any ERISA Affiliate and which is covered by Title IV of ERISA, other than a Multiemployer Plan.

"Prime Rate" means that rate of interest from time to time announced by the Principal Reference Bank at its principal office as its prime commercial lending rate.

"Principal Office" means the principal office of the Administrative Agent, presently located at One Chase Manhattan Plaza, New York, New York 10082. "Principal Reference Bank" means The Chase Manhattan Bank, N.A.

"Property" means any right or interest in or to property of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible (including, without limitation, shares of capital stock).

"Quotation Date" shall have the meaning given such term in Section 2.4(b).

"Reference Banks" means The Chase Manhattan Bank, N.A. and Morgan Guaranty Trust Company of New York.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System as the same may be amended or supplemented from time to time.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System as the same may be amended or supplemented from time to time.

"Regulatory Change" means, with respect to any Bank, any change after the date of this Agreement in United States federal, state, municipal or foreign laws or regulations (including without limitation Regulation D) or the adoption or making after such date of any interpretations, directives or requests applying to a class of banks including such Bank of or under any United States, federal, state, municipal or foreign laws or regulations (whether or not having the force of law) by any Governmental Authority or monetary authority charged with the interpretation or administration thereof.

"Required Banks" means Banks having at least 51% of the aggregate amount of the Commitments and, at any time after the Commitments shall have terminated, Banks holding at least 51% of the aggregate principal amount of the Loans.

"Reserve Requirement" means, for any Interest Period for any LIBO Rate Loan, the average maximum rate at which reserves (including any marginal, supplemental or emergency reserves) are required to be maintained during such Interest Period under Regulation D by member banks of the Federal Reserve System in New York City with deposits exceeding $1,000,000,000 against "Eurocurrency liabilities" (as such term is used in Regulation D). Without limiting the effect of the foregoing, the Reserve Requirement shall reflect any other reserves required to be maintained by such member banks by reason of any Regulatory Change against (i) any category of liabilities which includes deposits by reference to which the LIBO Base Rate for LIBO Rate Loans is to be determined as provided in the definition of "LIBO Base Rate" in this Section 1.1 or (ii) any category of extensions of credit or other assets which include LIBO Rate Loans.

"S&P" means Standard & Poor's Ratings Group, a division of McGraw-Hill, Inc. and any successor thereto which is a nationally recognized rating agency.

"Set Rate Auction" means a solicitation of Money Market Quotes setting forth Money Market Rates pursuant to Section 2.4.

"Set Rate Loans" means Money Market Loans the interest rates on which are determined on the basis of Money Market Rates pursuant to a Set Rate Auction.

"Subsidiary" means, with respect to any Person, any corporation or other entity (a) of which at least a majority of the securities or other ownership interests having ordinary voting power (absolutely or contingently) for the election of directors or other persons performing similar functions are at the time owned directly or indirectly by such Person or (b) with respect to which such Person otherwise possesses Control.

"Syndicated Loan" shall have the meaning given such term in Section 2.1(a).

"Syndicated Note" shall have the meaning given such term in Section 2.2.

"Termination Date" means March 26, 2001; provided that if such date is not a Banking Day, the Termination Date shall be the next succeeding Banking Day (or, if such next succeeding Banking Day falls in the next calendar month, the next preceding Banking Day).

"Total Consideration" means:

(a) with respect to the Acquisition of any assets, the purchase price of such assets; and

(b) with respect to the Acquisition of equity securities of any Person, the sum of (i) the purchase price of such equity securities plus (ii) Debt assumed, accounts payable and accrued expenses reflected on the balance sheet of such acquired Person minus (iii) cash, Cash Equivalent Investments and accounts receivable reflected on the balance sheet of such acquired Person.

"Unfunded Benefit Liabilities" means, with respect to any Plan, the amount (if any) by which the present value of all benefit liabilities (within the meaning of Section 4001(a)(16) of ERISA) under the Plan exceeds the fair market value of all Plan assets allocable to such benefit liabili ties, as determined on the most recent valuation date of the Plan and in accordance with the provisions of ERISA for calcu lating the potential liability of the Borrower or any ERISA Affiliate under Title IV of ERISA.

"Variable Rate" means, for any day, the higher of (a) the Federal Funds Rate for such day plus 1/2 of 1% and (b) the Prime Rate for such day.

"Variable Rate Loan" means any Syndicated Loan when and to the extent the interest rate for such Syndicated Loan is determined in relation to the Variable Rate.

Section 1.2. Accounting Terms. All accounting terms not specifically
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defined herein shall be construed in accordance with GAAP, and all financial data required to be delivered hereunder shall be prepared in accordance with GAAP.

Section 1.3. Rules of Interpretation.

(a) A reference to any document or agreement shall include such document or agreement as amended, modified or supplemented from time to time in accordance with its terms and the terms of this Agreement.

(b) The singular includes the plural and the plural includes the singular.

(c) A reference to any law includes any amendment or modification to such law.

(d) A reference to any Person includes its permitted successors and permitted assigns.

(e) The words "include", "includes" and "including" are not limiting.

(f) The words "herein", "hereof", "hereunder" and words of like import shall refer to this Agreement as a whole and not to any particular section or subdivision of this Agreement.

## ARTICLE 2. THE CREDIT.

### Section 2.1. The Loans.

(a) Subject to the terms and conditions of this Agreement, each of the Banks severally agrees to make loans (the "Syndicated Loans") to the Borrower from time to time from and including the date hereof to and including the Banking Day immediately prior to the Termination Date, up to but not exceeding in the aggregate principal amount at any one time outstanding, the amount of its Commitment; provided, that the aggregate outstanding principal amount of Loans shall at no time exceed the aggregate amount of the Commitments. The Syndicated Loans may be outstanding as Variable Rate Loans or Eurodollar Loans (each a "type" of Syndicated Loans). Each type of Syndicated Loans of each Bank shall be made and maintained at such Bank's Lending Office for such type of Syndicated Loans. The Syndicated Loans shall be due and payable on the Termination Date.

(b) The Borrower may request uncommitted competitive auction facility advances (the "Money Market Loans") from time to time on any Banking Day during the period from the date hereof to the date occurring 14 days prior to the Termination Date in the manner set forth in Section 2.4(b) and in amounts such that the aggregate amount

of Loans outstanding at any time shall not exceed the aggregate amount of the Commitments at such time. Each Money Market Loan shall be due and payable on the last day of the Interest Period therefor.

Section 2.2. The Notes.

(a) The Syndicated Loans of each Bank shall be evidenced by a single promissory note in favor of each such Bank in the form of Exhibit A, dated the date of this Agreement, duly completed and executed by the Borrower (a "Syndicated Note"). Each Bank is hereby authorized to record the date, amount and type of each Syndicated Loan made by such Bank to the Borrower and the date and amount of each payment of principal thereof on the schedule annexed to and constituting part of its Syndicated Note from the Borrower, or to otherwise record in its internal records, and any such recordation shall constitute prima facie evidence of the accuracy of the information so recorded; provided, however, that the failure to make any such recordation (or any error therein) shall not affect the obligations of the Borrower hereunder or under its Syndicated Note. Each Syndicated Loan evidenced by each Syndicated Note shall bear interest for the period from and including the date of the Syndicated Loan thereof on the unpaid principal amount thereof from time to time outstanding at the applicable rate per annum determined as provided in, and such interest shall be payable as specified in, Section 2.10.

(b) The Money Market Loans made by each Bank to the Borrower shall be evidenced initially by a single promissory note of the Borrower in favor of each such Bank in the form of Exhibit B, dated the date of this Agreement, duly completed and executed by the Borrower (a "Money Market Note"). Each Bank is hereby authorized to record the date, amount, type and maturity date of each Money Market Loan made by such Bank to the Borrower, the date and amount of each payment of principal thereof and the interest rate with respect thereto on the schedule annexed to and constituting part of its Money Market Note from the Borrower, or to otherwise record in its internal records, and any such recordation shall constitute prima facie evidence of the accuracy of the information so recorded; provided, however, that the failure to make any such recordation (or any error therein) shall not affect the obligations of the Borrower hereunder or under its Money Market Note. Each Money Market Loan evidenced by each Money Market Note shall bear interest for the period from and including the date of the Money Market Loan thereof on the unpaid principal amount thereof from time to time outstanding at the applicable rate per annum determined as provided in, and such interest shall be payable as specified in, Section 2.10(d).

Section 2.3. Purpose. The Borrower shall use the proceeds of the Loans for general corporate purposes, which may include Acceptable Acquisitions, Cash Equivalent Investments, the repurchase of the Borrower's outstanding common stock and other investments permitted under Section 7.3. Such proceeds shall not be used for the purpose, whether immediate, incidental or ultimate, of buying or carrying "margin stock" within the meaning of Regulation U, other than in compliance with Regulation U.

Section 2.4. Borrowing Procedures.

(a) The Borrower shall give the Administrative Agent notice of each Syndicated Loan to be made hereunder as provided in Section 2.8. Not later than 1:00 p.m. New York City time on the date of such Syndicated Loan, each Bank shall, through its Lending Office and subject to the conditions of this Agreement, make the amount of the Syndicated Loan to be made by it on such day available to the Administrative Agent at the Principal Office and in immediately available funds for the account of the Borrower. The amount so received by the Administrative Agent shall, as soon as practicable on such date, subject to the conditions of this Agreement, be made available to the Borrower, in immediately available funds, by the Administrative Agent crediting an account of the Borrower designated by the Borrower and maintained with the Administrative Agent at the Principal Office.

(b) (i) In addition to borrowings of Syndicated Loans, at any time at least 14 days prior to the Termination Date the Borrower may, as set forth herein, request the Banks to make offers to make Money Market Loans to the Borrower in Dollars. The Banks may, but shall not have the obligation to, make any such offers and the Borrower may, but shall have no obligation to, accept any such offers in the manner set forth herein. Money Market Loans may be LIBOR Market Loans or Set Rate Loans, provided that the aggregate unpaid principal amount of all Money Market Loans, together with the aggregate unpaid principal amount of all Syndicated Loans, at any one time outstanding shall not exceed the aggregate amount of the Commitments at such time.

(ii) The Borrower shall request Money Market Loans by delivering a Money Market Quote Request to the Administrative Agent, not later than 10:00 a.m. New York City time (x) four (4) Banking Days prior to the date of the proposed Money Market Loan in the case of a LIBOR Auction or (y) one (1) Banking Day prior to the date of the proposed Money Market Loan in the case of a proposed Set Rate Auction (or, in any such case, such other time and date as the Borrower and the Administrative Agent, with the consent of the Required Banks, may agree). The Borrower may request offers to make both LIBOR Market Loans and Set Rate Loans and an aggregate of up to four different Interest Periods in a single notice (for which purpose Interest Periods in different lettered clauses of the definition of the term "Interest Period" shall be deemed to be different Interest Periods even if they are coterminous); provided that the request for each separate Interest Period shall be deemed a separate Money Market Quote Request for a separate borrowing (a "Money Market Borrowing"). Each such notice shall be substantially in the form of Exhibit E-1 or E-2 hereto and shall specify as to each Money Market Borrowing:

(A) the proposed date of such borrowing, which shall be a Banking Day;

(B) the aggregate amount of such Money Market Borrowing, which shall be at least $5,000,000 (or a higher integral multiple of $1,000,000) but which shall not cause the limits in clause (b)(i) above to be violated;

(C) the Interest Period applicable thereto;

(D) whether the Money Market Quote Requests requested for a particular Interest Period are seeking quotes for LIBOR Market Loans or Set Rate Loans; and

(E) if the Money Market Quote Requests are seeking quotes for Set Rate Loans, the date on which the Money Market Quotes are to be submitted if it is before the proposed date of borrowing (the date on which such Money Market Quotes are to be submitted is called the "Quotation Date").

Except as otherwise provided in this clause (b)(ii), no Money Market Quote Request shall be given within five (5) Banking Days (or such other number of days as the Borrower and the Administrative Agent, with the consent of the Required Banks, may agree) of any other Money Market Quote Request.

(iii) (A) Any Bank that elects, in its sole discretion, to do so, shall irrevocably offer to make one or more Money Market Loans in response to any Money Market Quote Request; provided that, if the Borrower's request under clause (b)(ii) above specified more than one Interest Period, such Bank may make a single submission containing one or more Money Market Quotes for each such Interest Period. Each such Money Market Quote must be submitted to the Administrative Agent, before (x) 2:00 p.m. New York City time on the fourth Banking Day prior to the proposed date of borrowing, in the case of a LIBOR Auction or (y) 10:00 a.m. New York City time on the Quotation Date, in the case of a Set Rate Auction (or, in any such case, such other time and date as the Borrower and the Administrative Agent, with the consent of the Required Banks, may agree); provided that any Money Market Quote may be submitted by the Administrative Agent in its role as a Bank (or its applicable Lending Office) only if the Administrative Agent (or such applicable Lending Office) notifies the Borrower of the terms of the offer contained therein not later than (x) 1:45 p.m. New York City time on the fourth Banking Day prior to the proposed date of the borrowing, in the case of a LIBOR Market Loan or (y) 9:45 a.m. New York City time on the Quotation Date, in the case of a Set Rate Loan. Subject to Sections 3.2(b), 3.3, 4.2 and 9.2 hereof, any Money Market Quote so made shall be irrevocable except with the consent of the Administrative Agent given on the instructions of the Borrower.

(B) Each Money Market Quote shall be substantially in the form of Exhibit D-1 or D-2 hereto and shall specify:

(1) the proposed date of the borrowing and the Interest Period therefor;

(2) the principal amount of the Money Market Loan for which such offer is being made, which principal amount shall be at least $5,000,000 (or a higher integral multiple of $1,000,000); provided, that the aggregate principal amount of all Money Market Loans for which a Bank submits Money Market Quotes (x) may be greater or less than the Commitment of such Bank but (y) may not exceed the principal amount of the Money Market Borrowing for a particular Interest Period for which offers were requested;

(3) in the case of a LIBOR Auction, the margin above or below the applicable LIBO Rate (the "LIBO Margin") offered for each such Money Market Loan, expressed as a percentage (quoted to the nearest 1/10,000th of 1%) to be added to or subtracted from the applicable LIBO Rate;

(4) in the case of a Set Rate Loan, the rate of interest per annum (quoted to the nearest 1/10,000th of 1%) offered for each such Money Market Loan (the "Money Market Rate"); and

(5) the identity of the quoting Bank.

(C) Unless otherwise agreed by the Administrative Agent and the Borrower, no Money Market Quote shall contain qualifying, conditional or similar language or propose terms other than or in addition to those set forth in the applicable Money Market Quote Request and, in particular, no Money Market Quote may be conditioned upon acceptance by the Borrower of all (or some specified minimum) of the principal amount of the Money Market Loan for which such Money Market Quote is being made, provided that the submission by any Bank containing more than one Money Market Quote may be conditioned on the Borrower not accepting offers contained in such submission that would result in such Bank making Money Market Loans pursuant thereto in excess of a specified aggregate amount (the "Money Market Loan Limit").

(iv) The Administrative Agent shall (x) in the case of a Set Rate Auction, as promptly as practicable after a Money Market Quote is submitted (but in any event not later than 10:15 a.m. New York City time on the Quotation Date) or (y) in the case of a LIBOR Auction, by 4:00 p.m. New York City time on the day a Money Market Quote is submitted, notify the Borrower of the terms (A) of any Money Market Quote that is in accordance with clause (iii) above and (B) of any Money Market Quote that amends, modifies or is otherwise inconsistent with a previous Money Market Quote submitted by the same Bank with respect to the same Money Market Quote Request. Any such subsequent Money Market Quote shall be disregarded unless such subsequent Money Market Quote is submitted solely to correct a manifest error in such former Money Market Quote. The Administrative Agent's notice to the Borrower shall specify (A) the aggregate

principal amount of the Money Market Borrowing for which offers have been received, (B) the respective principal amounts and LIBO Margins or Money Market Rates, as the case may be, so offered by each Bank (identifying the Bank that made each Money Market Quote) and (C) such other terms as are required by clause (iii) (C) above.

(v) Not later than 11:00 a.m. New York City time on (x) the third Banking Day prior to the proposed date of borrowing, in the case of a LIBOR Auction or (y) the Quotation Date, in the case of a Set Rate Auction (or, in any such case, such other time and date as the Borrower and the Administrative Agent, with the consent of the Required Banks, may agree), the Borrower shall notify the Administrative Agent of its acceptance or nonacceptance of the offers so notified to it pursuant to clause (iv) above pursuant to a Money Market Confirmation (which shall be substantially in the form of Exhibit C and specify the aggregate principal amount of offers from each Bank for each Interest Period that are accepted, it being understood that the failure of the Borrower to give such notice by such time shall constitute nonacceptance) and the Administrative Agent shall promptly notify each affected Bank. The notice from the Administrative Agent shall also specify the aggregate principal amount of offers for each Interest Period that were accepted and the lowest and highest LIBO Margins and Money Market Rates that were accepted for each Interest Period. The Borrower may accept any Money Market Quote in whole or in part (provided that any Money Market Quote accepted in part from any Bank shall be in an integral multiple of $1,000,000, subject to the provisions of clause (vi) below); provided that:

(A) the aggregate principal amount of each Money Market Loan may not exceed the applicable amount set forth in the related Money Market Quote Request;

(B) the aggregate principal amount of each Money Market Loan shall be at least $5,000,000 (or a higher integral multiple of $1,000,000) but shall not cause the limits specified in clause (i) above to be violated;

(C) acceptance of offers may, subject to clause (E) below, be made only in ascending order of LIBO Margins or Money Market Rates, as the case may be, in each case beginning with the lowest rate so offered;

(D) the Borrower may not accept any offer where the Administrative Agent has advised the Borrower that the offer fails to comply with clause (iii)(B) above or otherwise fails to comply with the terms of this Agreement (including, without limitation, clause (i) above); and

(E) the aggregate principal amount of each Money Market Borrowing from any Bank may not exceed any applicable Money Market Loan Limit of such Bank.

(vi) If offers are made by two or more Banks with the same LIBO Margins or Money Market Rates, as the case may be, for a greater aggregate principal amount than the amount in respect of which offers are accepted for the related Interest Period, the principal amount of Money Market Loans in respect of which such offers are accepted shall be allocated by the Borrower among such Banks as nearly evenly as possible (in integral multiples of $1,000,000) in proportion to the aggregate principal amount of such offers; provided that, if such calculation would otherwise result in allocations to any such Banks that would not be integral multiples of $1,000,000 and such allocations are equidistant from the nearest integral multiple of $1,000,000, the Borrower shall have the discretion to arbitrarily round up to the nearest $1,000,000 for certain Bank(s) and round down to the nearest $1,000,000 for certain other Bank(s). Determinations by the Borrower as to the amounts of Money Market Loans shall be conclusive absent manifest error.

(vii) Each Bank which is to make a Money Market Loan shall, before 1:00 p.m. (New York City time) on the date of the proposed Money Market Loan specified in the Money Market Quote Request applicable thereto, make available to the Administrative Agent at its Principal Office the amount of Money Market Loans to be made by such Bank, in immediately available funds. The Administrative Agent will make such funds available to the Borrower as soon as practicable on such date at the Principal Office.

(viii) The amount of any Money Market Loan made by any Bank shall not constitute a utilization of such Bank's Commitment.

Section 2.5. Prepayments and Conversions.
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(a) The Borrower shall have the right to make prepayments of principal, or to convert one type of Syndicated Loans into another type of Syndicated Loans, at any time or from time to time; provided that: (i) the Borrower shall give the Administrative Agent notice of each such prepayment or conversion as provided in Section 2.8; (ii) Eurodollar Loans may be prepaid or converted only on the last day of an Interest Period for such Loans, unless the Borrower compensates the Banks pursuant to Section 3.5; and (iii) conversions from any type of Syndicated Loans into Eurodollar Loans may not be made at any time that a Default or Event of Default exists.

(b) Notwithstanding any other provision of this Agreement to the contrary, the Borrower shall not have the right to prepay the principal amount of any Money Market Loan unless the Borrower compensates the Bank making such Money Market Loan pursuant to Section 3.5.

Section 2.6. Interest Periods; Renewals.

(a) In the case of each Eurodollar Loan and each Money Market Loan, the Borrower shall select an Interest Period of any duration in accordance with the definition of Interest Period in Section 1.1, subject to the limitation that there may be no more than six (6) different Interest Periods for both Syndicated Loans and Money Market Loans outstanding at the same time (for which purpose Interest Periods described in different lettered clauses of the definition of "Interest Period" shall be deemed to be different Interest Periods even if they are coterminous).

(b) Upon notice to the Administrative Agent as provided in Section 2.8, the Borrower may renew any Eurodollar Loan on the last day of the Interest Period therefor as the same type of Loan with an Interest Period of the same or different duration in accordance with the limitations provided above; provided that Eurodollar Loans may not be renewed at any time that a Default or Event of Default exists. If the Borrower shall fail to give notice to the Administrative Agent of such a renewal, such Eurodollar Loan shall automatically become a Variable Rate Loan on the last day of the current Interest Period.

Section 2.7. Changes of Commitments. The Borrowershall have the right to reduce or terminate the amount of unused Commitments at any time or from time to time, provided that: (a) the Borrower shall give notice of each such reduc tion or termination to the Administrative Agent as provided in Section 2.8; and (b) each partial reduction shall be in an aggregate amount at least equal to $5,000,000 and shall be an integral multiple of $1,000,000. The Commitments once reduced or terminated may not be reinstated.

Section 2.8. Certain Notices. Notices by the Borrower to the Administrative Agent of each borrowing pursuant to Section 2.4(a), each prepayment or conversion pursuant to Section 2.5, each renewal pursuant to Section 2.6(b) and each reduction or termination of the Commitments pursuant to Section 2.7 shall be irrevocable and shall be effective only if received by the Administrative Agent not later than 11:00 a.m. New York City time, and (a) in the case of borrowings and prepayments of, conversions into and (in the case of Eurodollar Loans) renewals of (i) Variable Rate Loans, given not later than the Banking Day therefor and (ii) Eurodollar Loans, given not later than three Banking Days prior thereto; and (b) in the case of reductions or termination of the Commitments, given not later than three Banking Days prior thereto. Each such notice shall specify the Loans to be borrowed, prepaid, converted or renewed and the amount (subject to Section 2.9) and type of the Loans to be borrowed, or converted, or prepaid or renewed (and, in the case of a conversion, the type of Loans to result from such conversion and, in the case of a Eurodollar Loan, the Interest Period therefor) and the date of the borrowing or prepayment, or conversion or renewal (which shall be a Banking Day). Each such notice of reduction or termination shall specify the amount of the Commitments to be

reduced or terminated. The Administrative Agent shall promptly notify the Banks of the contents of each such notice.

Section 2.9. Minimum Amounts. Except for borrowings which exhaust the full remaining amount of the Commitments, prepayments or conversions which result in the prepayment or conversion of all Syndicated Loans of a particular type or conversions made pursuant to Section 3.4, each borrowing, pre payment, conversion and renewal of principal of (i) Variable Rate Loans shall be in an amount at least equal to $5,000,000 in the aggregate for all Banks and (ii) Eurodollar Loans shall be in an amount at least equal to $10,000,000 in the aggregate for all Banks (borrowings, prepayments, conversions or renewals of or into Loans of different types or, in the case of Eurodollar Loans, having different Interest Periods at the same time hereunder to be deemed separate borrowings, prepayments, conversions and renewals for the purposes of the foregoing, one for each type of Interest Period) and, in the case of Eurodollar Loans, in integral multiples of $1,000,000.

Section 2.10. Interest.

(a) Interest shall accrue on the outstanding and unpaid principal amount of each Syndicated Loan for the period from and including the date of such Syndicated Loan to but excluding the date such Loan is due at the following rates per annum: (i) for a Variable Rate Loan, at a variable rate per annum equal to the Variable Rate and (ii) for a Eurodollar Loan, at a fixed rate equal to the LIBO Rate plus the Margin. If the principal amount of any Syndicated Loan and any other amount payable by the Borrower hereunder or under any Note shall not be paid when due (at stated maturity, by acceleration or otherwise), interest shall accrue on such amount to the fullest extent permitted by law from and including such due date to but excluding the date such amount is paid in full at the Default Rate. After the occurrence of an Event of Default other than payment defaults described in the preceding sentence, then the Administrative Agent may, and if directed by the Required Banks the Administrative Agent shall, by written notice to the Borrower, increase the interest rate hereunder during the continuance of such Event of Default to the Default Rate, effective on the date of such notice.

(b) The interest rate on each Variable Rate Loan shall change when the Variable Rate changes and interest on each such Loan shall be calculated on the basis of a year of 365 (or, in the case of a leap year, 366) days for the actual number of days elapsed. Interest on each Eurodollar Loan shall be calculated on the basis of a year of 360 days for the actual number of days elapsed. Promptly after the determination of any interest rate provided for herein or any change therein, the Administrative Agent shall notify the Borrower and the Banks.

(c) Accrued interest shall be due and payable in arrears upon any payment of principal or conversion and (i) for each Variable Rate Loan, on the last day of each January, April, July and October, commencing the first such date after such Loan; (ii)

for each Eurodollar Loan, on the last day of the Interest Period with respect thereto and, in the case of an Interest Period greater than three months, at three month intervals after the first day of such Interest Period; provided that interest accruing at the Default Rate shall be due and payable from time to time on demand of the Administrative Agent.

(d) The Borrower shall pay interest on the unpaid principal amount of each Money Market Loan made to the Borrower from the date of such Money Market Loan to the stated maturity date thereof, at the rate of interest determined pursuant to Section 2.4(b) above (calculated on the basis of a 360 day year for actual days elapsed), payable on the last day of the Interest Period with respect thereto and, in the case of an Interest Period greater than three months, at three month intervals after the first day of such Interest Period; provided that interest accruing at the Default Rate shall be due and payable from time to time on demand of the Administrative Agent. If all or a portion of the principal amount of any Money Market Loan shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue principal amount shall, without limiting any rights of any Bank under this Agreement, bear interest from the date on which such payment was due until paid in full at the Default Rate.

Section 2.11. Fees.
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(a) The Borrower shall pay to the Administrative Agent for the account of each Bank a facility fee on the daily average Commitment (used and unused) of such Bank for the period from and including the date hereof to the earlier of the date the Commitments are terminated in full or the Termination Date at a rate per annum equal to the rate determined in accordance with Section 2.14, calculated on the basis of a year of 365 (or, in a leap year, 366) days for the actual number of days elapsed. The accrued facility fee shall be due and payable in arrears upon any termination of the Commitments, including, without limitation, the Termination Date, and on the last day of each January, April, July and October, commencing on the first such date after the Closing Date.

(b) The Borrower shall pay to the Administrative Agent as compensation for its services hereunder an agency fee in the amount heretofore mutually agreed. The agency fee shall be due and payable on the Closing Date and on each anniversary thereof until all the Commitments shall have terminated and the Loans and other obligations of the Borrower to the Administrative Agent and the Banks pursuant to this Agreement and the other Facility Documents shall have been paid in full.

(c) The Borrower shall pay to the Administrative Agent a fee of $750 each time the Borrower delivers a Money Market Quote Request to the Administrative Agent.

Section 2.12. Payments Generally. All payments under this Agreement or the
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Notes shall be made in Dollars in immediately available funds not later than 1:00 p.m. New York City time on the relevant dates specified above (each such payment made after

such time on such due date to be deemed to have been made on the next succeeding Banking Day) to the Administrative Agent's account number 900 9000002 maintained at the Principal Office for the account of the applicable Lending Office of each Bank. The Administrative Agent, or any Bank for whose account any such payment is to be made, may (but shall not be obligated to) debit the amount of any such payment which is not made by such time to any ordinary deposit account of the Borrower with the Administrative Agent or such Bank, as the case may be, and any Bank so doing shall promptly notify the Administrative Agent and the Borrower. The Borrower shall, at the time of making each payment under this Agreement or the Notes, specify to the Administrative Agent the principal or other amount payable by the Borrower under this Agreement or the Notes to which such payment is to be applied (and in the event that it fails to so specify, or if a Default or Event of Default has occurred and is continuing, the Administrative Agent may apply such payment as it may elect in its sole discretion (subject to Section 10.16)). If the due date of any payment under this Agreement or the Notes would otherwise fall on a day which is not a Banking Day, such date shall be extended to the next succeeding Banking Day and interest shall be payable for any principal so extended for the period of such extension. Each payment received by the Administrative Agent hereunder or under any Note for the account of a Bank shall be paid promptly to such Bank, in immediately available funds, for the account of such Bank's Lending Office.

Section 2.13. Margin for Eurodollar Loans.

(a) Until such time as: (i) the Borrower shall have received a rating of "A2" or higher by S&P or "P2" or higher by Moody's with respect to the Borrower's senior, unsecured, non-credit enhanced short term indebtedness for borrowed money (a "Debt Rating") and (ii) the Borrower has not received a Debt Rating lower than "A2" or "P2" from S&P or Moody's, respectively, the Margin that will apply to each Eurodollar Loan is set forth below and is based upon the Borrower's Leverage Ratio as at the end of the Borrower's most recent fiscal quarter:

| Leverage Ratio | Margin Eurodollar Loans (Basis Points) |
|---|---|
| Greater than 2.50 | 35.00 |
| Greater than or equal to 2.01, but not greater than 2.50 | 30.00 |
| Greater than or equal to 1.00, but less than 2.01 | 25.00 |
| Less than 1.00 | 17.00 |

Margin adjustments resulting from such calculations shall become effective five (5) Banking Days after the date such calculations are accepted by the Administrative Agent. Promptly after the determination of any Margin adjustment provided for in this subsection (a), the Administrative Agent shall notify the Borrower and the Banks.

(b) At such time, and from time to time, as: (i) the Borrower shall have received a Debt Rating of "A2" or higher from S&P or "P2" or higher from Moody's and (ii) the Borrower has not received a Debt Rating lower than "A2" or "P2" from S&P or Moody's, respectively, the Margin that will apply to each Eurodollar Loan is set forth below:

| Debt Rating | Margin Eurodollar Loans (Basis Points) |
|---|---|
| "A1" or "P1" | 17.00 |
| "A2" or "P2" | 25.00 |

Margin adjustments resulting from such a rating shall become effective five (5) Banking Days after the date such rating is received by the Administrative Agent. Promptly after any Margin adjustment provided for in this subsection (b), the Administrative Agent shall notify the Banks.

For the purposes of clause (b) of this Section 2.13, if the Borrower's short-term indebtedness is split rated (e.g., it has received a Debt Rating of "A1" from S&P and a Debt Rating of "P2" from Moody's), the lower of the two ratings will apply.

(c) If S&P or Moody's, having given a Debt Rating of "A2" or "P2" or higher, respectively, changes its Debt Rating to lower than "A2" or "P2", respectively, the Margin shall be calculated pursuant to subsection (a) above until such time as an event occurs that would require the Margin to adjust in the manner set forth in subsection (b) above.

Section 2.14. Facility Fee Rate.
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(a) Until such time as: (i) the Borrower shall have received a Debt Rating of "A2" or higher by S&P or "P2" or higher by Moody's and (ii) the Borrower has not received a Debt Rating lower than "A2" or "P2" from S&P or Moody's, respectively, the per annum facility fee rate that the Borrower shall use to calculate the facility fee that is payable pursuant to Section 2.11(a) is set forth below and is based upon the Borrower's Leverage Ratio as at the end of the Borrower's most recent fiscal quarter:

| Leverage Ratio | Facility Fee Rate (Basis Points) |
|---|---|
| Greater than 2.50 | 15.00 |
| Greater than or equal to 2.01, but not greater than 2.50 | 12.50 |
| Greater than or equal to 1.00, but less than 2.01 | 10.00 |
| Less than 1.00 | 8.00 |

Facility fee rate adjustments resulting from such calculations shall become effective five (5) Banking Days after such calculations are accepted by the Administrative Agent. Promptly after the determination of any facility fee rate adjustment provided for in this subsection (a), the Administrative Agent shall notify the Borrower and the Banks.

(b) At such time, and from time to time, as: (i) the Borrower shall have received a Debt Rating of "A2" or higher from S&P or "P2" or higher from Moody's and (ii) the Borrower has not received a Debt Rating lower than "A2" or "P2" from S&P or Moody's, respectively, the facility fee rate that the Borrower shall use to calculate the facility fee that is payable pursuant to Section 2.11(a) is set forth below:

| Debt Rating | Facility Fee Rate (Basis Points) |
|---|---|
| "A1" or "P1" | 8.00 |
| "A2" or "P2" | 10.00 |

Facility fee rate adjustments resulting from such a Debt Rating shall become effective five (5) Banking Days after such rating is received by the Administrative Agent. Promptly after any facility fee rate adjustment provided for in this subsection (b), the Administrative Agent shall notify the Banks.

For the purposes of clause (b) of this Section 2.14, if the Borrower's short-term indebtedness is split rated (e.g., it has received a Debt Rating of "A1" from S&P and a Debt Rating of "P2" from Moody's), the lower of the two ratings will apply.

(c) If S&P or Moody's, having given a Debt Rating of "A2" or "P2" or higher, respectively, changes its Debt Rating to lower than "A2" or "P2", respectively, the facility fee rate adjustment pursuant to subsection (b) shall be ineffective as of such date, and the facility fee rate shall be calculated pursuant to subsection (a) above until such time as an event occurs that would require the facility fee rate to adjust in the manner set forth in subsection (b) above.

(d) The facility fee payable under Section 2.11(a) shall be calculated by applying the average daily facility fee rate to the average daily Commitments.

ARTICLE 3. YIELD PROTECTION; ILLEGALITY; ETC.

Section 3.1. Additional Costs.

(a) The Borrower shall pay directly to each Bank from time to time on demand such amounts as such Bank may determine to be necessary to compensate it for any costs which such Bank determines are attributable to its making or maintaining any Loans under this Agreement or either of its Notes or its obligation to make any Loans hereunder, or any reduction in any amount receivable by such Bank hereunder in respect of any such Loans or such obligation (such increases in costs and reductions in amounts receivable being herein called "Additional Costs"), resulting from any Regulatory Change which: (i) changes the basis of taxation of any amounts payable to such Bank under this Agreement or either of its Notes in respect of any of such Loans (other than taxes imposed on the overall net income of such Bank or of its Lending Office for any of such Loans by the jurisdiction in which such Bank has its principal office or such Lending Office); or (ii) imposes or modifies any reserve, special deposit, deposit insurance or assessment, minimum capital, capital ratio or similar requirements relating to any extensions of credit or other assets of, or any deposits with or other liabilities of, such Bank (including, without limitation, any of such Loans or any deposits referred to in the definition of "LIBO Base Rate" in Section 1.1); or (iii) imposes any other condition affecting this Agreement or either of its Notes (or any of such extensions of credit or liabilities) or its Commitment. Each Bank will notify the Borrower of any event occurring after the date of this Agreement which will entitle such Bank to compensation pursu ant to this Section 3.1(a) as promptly as practicable after it obtains knowledge thereof and determines to request such compensation. If any Bank requests compensation from the Bor rower under this Section 3.1(a), the Borrower may, by notice to such Bank (with a copy to the Administrative Agent), suspend the obligation of such Bank thereafter to make Loans until the Regulatory Change giving rise to such request ceases to be in effect (in which case the provisions of Section 3.4 hereof shall be applicable), provided, that such suspension shall not affect the right of such Bank to receive the compensation so requested (or any facility fees).

(b) Without limiting the effect of the forego ing provisions of this Section 3.1, in the event that, by reason of any Regulatory Change, any Bank either (i) incurs Additional Costs based on or measured by the excess above a specified level of the amount of a category of deposits or other liabilities of such Bank which includes deposits by ref erence to which the interest rate on LIBO Rate Loans is determined as provided in this Agreement or a category of extensions of credit or other assets of such Bank which includes LIBO Rate Loans or (ii) becomes subject to restrictions on the amount of such a category of liabilities or assets which it may hold, then, if such Bank so elects by notice to the Borrower (with a copy to the Administrative Agent), the obligation of such Bank to make or renew, and to convert Syndicated Loans of any other type into, LIBO Rate Loans hereunder shall be suspended until the date such Regulatory Change ceases to be in effect (in which case the provisions of Section 3.4 hereof shall be applicable).

(c) Without limiting the effect of the forego ing provisions of this Section 3.1 (but without duplication), the Borrower shall pay directly to each Bank from time to time on request such amounts as such Bank may determine to be necessary to compensate such Bank for any costs which it determines are attributable to the maintenance by it or any of its affiliates pursuant to any law or regulation of any jurisdiction or any interpretation, directive or request (whether or not having the force of law and whether in effect on the date of this Agreement or thereafter) of any Governmental Authority or monetary authority of capital in respect of its Loans hereunder or its obligation to make Loans hereunder (such compensation to include, without limitation, an amount equal to any reduction in return on assets or equity of such Bank to a level below that which it could have achieved but for such law, regulation, interpretation, directive or request). Each Bank will notify the Borrower if it is entitled to compensation pursuant to this Section 3.1(c) as promptly as practicable after it determines to request such compensation.

(d) Determinations and allocations by a Bank for purposes of this Section 3.1 of the effect of any Regula tory Change pursuant to subsections (a) or (b), or of the effect of capital maintained pursuant to subsection (c), on its costs of making or maintaining Loans or its obligation to make Loans, or on amounts receivable by, or the rate of return to, it in respect of Loans or such obligation, and of the additional amounts required to compensate such Bank under this Section 3.1, shall be conclusive, provided that such determinations and allocations are made on a reasonable basis.

Section 3.2. Limitation on Types of Loans. Anything herein to the contrary notwithstanding, if:

(a) the Administrative Agent determines in its good faith judgment after due diligence (which determination shall be conclusive) that quotations of interest rates for the relevant deposits referred to in the definition of "LIBO Base Rate" in Section 1.1 are not being provided in the relevant amounts or for the relevant maturities for purposes of determining the rate of interest for any type of LIBO Rate Loans as provided in this Agreement; or

(b) the Required Banks determine in their good faith judgment after due diligence (or any Bank that has outstanding a Money Market Quote with respect to a LIBOR Market Loan determines), which determination shall be conclusive, and notify (or notifies, as the case may be) the Administrative Agent that the relevant rates of interest referred to in the definition of "LIBO Base Rate" in Section 1.1 do not adequately cover the cost to the Banks (or such offering Bank) of making or maintaining its LIBO Rate Loans;

then the Administrative Agent shall give the Borrower and each Bank prompt notice thereof, and so long as such condition remains in effect, the Banks (or such offering Bank) shall be

under no obligation to make or renew LIBO Rate Loans or to convert Syndicated Loans of any other type into Syndicated Loans of such type.

Section 3.3. Illegality. Notwithstanding any other provision in this Agreement, in the event that it becomes unlawful for any Bank or its Lending Office to (a) honor its obligation to make or renew LIBO Rate Loans hereunder or convert Syndicated Loans of any type into Syndicated Loans of such type, or (b) maintain LIBO Rate Loans hereunder, then such Bank shall promptly notify the Borrower thereof (with a copy to the Administrative Agent) and such Bank's obligation to make or renew Eurodollar Loans and to convert other types of Syndicated Loans into Syndicated Loans of such type hereunder shall be suspended until such time as such Bank may again make, renew, or convert and maintain such Eurodollar Loans (in which case the provisions of Section 3.4 hereof shall be applicable) and such Bank shall no longer be obligated to make any LIBOR Market Loan that it has offered to make.

Section 3.4. Certain Conversions pursuant to Sections 3.1 and 3.3. If the obligation of any Bank to make or renew or convert into LIBO Rate Loans shall be suspended pursuant to Section 3.1 or 3.3 (Loans of such type being herein called "Affected Loans" and such type being herein called the "Affected Type"), all Loans (other than Money Market Loans) which would otherwise be made or renewed by such Bank as Loans of the Affected Type shall be made instead as Variable Rate Loans and all Loans of such Bank which would otherwise be converted into Loans of the Affected Type shall be converted instead into (or shall remain as) Variable Rate Loans (and, if an event referred to in Section 3.1(b) or 3.3 hereof has occurred and such Bank so requests by notice to the Borrower with a copy to the Administrative Agent, such Bank's Affected Loans then outstanding shall be automatically converted into Variable Rate Loans on the last day(s) of the then current Interest Period(s) for the Affected Loans or on such earlier date as such Bank may specify to the Borrower with a copy to the Administrative Agent) and, to the extent that such Bank's Affected Loans have been made as (or converted into) Variable Rate Loans, all payments and prepayments of principal which would otherwise be applied to such Bank's Affected Loans shall be applied instead to its Variable Rate Loans.

Section 3.5 Certain Compensation. The Borrower shall pay to the Administrative Agent for the account of each Bank, upon the request of such Bank through the Administrative Agent, such amount or amounts as shall be sufficient (in the reasonable opinion of such Bank) to compensate it for any loss, cost or expense which such Bank reasonably determines is attributable to:

(a) any payment, prepayment, conversion or renewal of a LIBO Rate Loan or a Set Rate Loan made by such Bank on a date other than the last day of an Interest Period for such Loan (whether by reason of acceleration or otherwise); or

(b) any failure by the Borrower to borrow, convert into or renew a LIBO Rate Loan or a Set Rate Loan to be made, converted into or renewed by such Bank

on the date specified therefor in the relevant notice under Section 2.4, 2.5 or 2.6, as the case may be.

Without limiting the foregoing, such compensation shall include an amount equal to the excess, if any, of: (i) the amount of interest which otherwise would have accrued on the principal amount so paid, prepaid, converted or renewed or not borrowed, converted or renewed for the period from and including the date of such payment, prepayment or conversion or failure to borrow, convert or renew to but excluding the last day of the then current Interest Period for such Loan (or, in the case of a failure to borrow, convert or renew, to but excluding the last day of the Interest Period for such Loan which would have commenced on the date specified therefor in the relevant notice) at the applicable rate of interest for such Loan provided for herein; over (ii) with respect to a LIBO Rate Loan, the amount of interest (as reasonably determined by such Bank) such Bank would have bid in the London interbank market for Dollar deposits for amounts comparable to such principal amount and maturities comparable to such period, and with respect to a Set Rate Loan, the rate determined by such Bank to be its marginal cost of funds for commonly available liabilities issued by it on the date of such Loan for a term comparable to such Interest Period. A determination of any Bank as to the amounts payable pursuant to this Section 3.5 shall be conclusive absent manifest error.

## ARTICLE 4. CONDITIONS PRECEDENT.

Section 4.1. Initial Conditions Precedent. The obligations of the Banks to make the Loans constituting the initial borrowing are subject to the condition precedent that the Administrative Agent shall have received on or before the date of such Loans each of the following items, in form and substance reasonably satisfactory to the Administrative Agent and its counsel, or, with respect to non-documentary conditions precedent, that the Administrative Agent shall have reasonably determined that such conditions shall have been satisfied on or before the date of such Loans:

(a) the Notes duly executed by the Borrower;

(b) the Authorization Letter duly executed by the Borrower;

(c) a favorable opinion of Robert T. Tucker, Esq., counsel for the Borrower, dated the date of such initial borrowing, in substantially the form of Exhibit H and as to such other matters as the Administrative Agent or any Bank may reasonably request;

(d) a favorable opinion of Cummings & Lockwood, counsel for the Administrative Agent, dated the date of such initial borrowing;

(e) a certificate of the Secretary or Assistant Secretary of the Borrower, dated the date of such initial borrowing, attesting to all corporate action taken by the Borrower, including resolutions of its Board of Directors authorizing the execution, delivery and performance of the Facility Documents to which it is a party and each other document to be delivered pursuant to this Agreement and certifying true copies of the articles of incorporation, bylaws and other organizational documents of the Borrower;

(f) a certificate of the Secretary or Assistant Secretary of the Borrower, dated the date of such initial borrowing, certifying the names and true signatures of the officers of the Borrower authorized to sign the Facility Documents to which it is a party and the other documents to be delivered by the Borrower under this Agreement;

(g) a certificate of good standing for the Borrower from the Secretary of State of the Borrower's incorporation and each jurisdiction in which the Borrower is qualified to do business;

(h) a certificate of a duly authorized officer of the Borrower, dated the date of such initial borrowing, stating that the representations and warranties in the Facility Documents to which it is a party are true and correct on such date as though made on and as of such date and that no event has occurred and is continuing which constitutes a Default or Event of Default;

(i) the Borrower's Form 10-K for January 31, 1995, and each of the Borrower's Forms 10-K and 10-Q filed since said date;

(j) contemporaneous searches of Uniform Commercial Code, real estate, tax, patent and trademark and other appropriate registers, dockets, offices and records, which shall have revealed no filings or recordings evidencing or relating to any Liens with respect to any property of the Borrower (other than Liens permitted by Section 7.3);

(k) a payoff letter and releases from General Electric Capital Corporation in form and substance reasonably satisfactory to the Administrative Agent;

(l) payment by the Borrower to the Administrative Agent of all fees owing to the Administrative Agent and all other expenses and fees incurred by the Administrative Agent (including, without limitation, the reasonable fees, charges and disbursements of counsel to the Administrative Agent due and owing through the date of the initial borrowing); and

(m) such other documents as the Administrative Agent, any Bank or any of their respective counsel may reasonably request.

Section 4.2. Additional Conditions Precedent. The obligations of the Banks to make any Loans pursuant to a borrowing which increases the amount outstanding hereunder (including the initial borrowing) and to make borrowings to repay Money Market Loans shall be subject to the further conditions precedent that on the date of such Loans:

(a) the following statements shall be true in all material respects:

(i) the representations and warranties contained in Article 5 herein and in each other Facility Document are true and correct on and as of the date of such Loan as though made on and as of such date; and

(ii) no Default or Event of Default has occurred and is continuing, or would result from such Loan; and

(iii) there has been no change in the business, management, operations, properties or financial condition of the Borrower or any of its Subsidiaries since the Closing Date which has had, or could reasonably be expected to have, a Material Adverse Effect; and

(b) either

(i) the Borrower shall have delivered to the Administrative Agent a Notice of Borrowing in substantially the form of Exhibit I; or

(ii) the Borrower shall have delivered to the Administrative Agent a Money Market Quote Request substantially in the form of Exhibit E-1 or Exhibit E-2.

Section 4.3. Deemed Representations. Each Notice of Borrowing hereunder and acceptance by the Borrower of the proceeds of such borrowing shall constitute a representation and warranty that the statements contained in Section 4.2(a) are true and correct in all material respects both on the date of such notice and, unless the Borrower otherwise notifies the Administrative Agent prior to such borrowing, as of the date of such borrowing.

## ARTICLE 5. REPRESENTATIONS AND WARRANTIES.

The Borrower hereby represents and warrants that:

Section 5.1. Incorporation, Good Standing and Due Qualification. Each of the Borrower and its Material Subsidiaries is duly incorporated, validly existing and in good standing under the laws of the jurisdiction of its incorporation, has the corporate

power and authority to own its assets and to transact the business in which it is now engaged or proposed to be engaged, and is duly qualified as a foreign corporation and in good standing under the laws of each other jurisdiction in which such qualification is required.

Section 5.2. Corporate Power and Authority; No Conflicts. The execution, delivery and performance by the Borrower of the Facility Documents to which it is a party have been duly authorized by all necessary corporate action and do not and will not: (a) require any consent or approval of its stockholders; (b) contravene its charter or by-laws; (c) violate any provision of, or require any filing, registration, consent or approval under, any law, rule, regulation (including, without limitation, Regulation U), order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to the Borrower or any of its Subsidiaries; (d) result in a breach of or constitute a default or require any consent under any indenture or loan or credit agreement or any other agreement, lease or instrument to which the Borrower is a party or by which it or its properties may be bound or affected; (e) result in, or require, the creation or imposition of any Lien, upon or with respect to any of the properties now owned or hereafter acquired by the Borrower; or (f) cause the Borrower (or any Subsidiary) to be in default under any such law, rule, regulation, order, writ, judgment, injunction, decree, determination or award or any such indenture, agreement, lease or instrument.

Section 5.3. Legally Enforceable Agreements. Each Facility Document to which the Borrower is a party is, or when delivered under this Agreement will be, a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms, except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency and other similar laws affecting creditors' rights generally.

Section 5.4. Litigation. There are no actions, suits or proceedings pending or, to the knowledge of the Borrower, threatened, against or affecting the Borrower or any of its Subsidiaries before any Governmental Authority, which, in any one case or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

Section 5.5 Financial Statements. The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as at January 31, 1995 , and the related consolidated income statement and statements of cash flows and changes in stockholders' equity of the Borrower and its Consolidated Subsidiaries for the fiscal year then ended, and the accompanying footnotes, together with the opinion thereon, of Ernst & Young, LLP, independent certified public accountants, and the interim consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as at October 31, 1995, and the related consolidated income statement and statements of cash flows and changes in stockholders' equity for the nine (9) month period then ended, copies of which have been furnished to the Administrative Agent, are complete and correct and fairly present the financial condition of the Borrower and its Consolidated Subsidiaries as at such dates and the results

of the operations of the Borrower and its Consolidated Subsidiaries for the periods covered by such statements, all in accordance with GAAP consistently applied (subject to recurring year end adjustments in the case of the interim financial statements). Except as disclosed on Schedule 5.5, there are no liabilities of the Borrower or any of its Consolidated Subsidiaries, fixed or contingent, which are material but are not reflected in such financial statements or in the notes thereto, other than liabilities arising in the ordinary course of business since January 31, 1995. No information, exhibit or report furnished by the Borrower to the Administrative Agent in connection with the negotiation of this Agreement contained any material misstatement of fact or omitted to state a material fact or any fact necessary to make the statements contained therein not materially misleading. Since January 31, 1995, there has been no change in the financial condition, business or operations of the Borrower or any of its Subsidiaries which has had, or could reasonably be expected to have, a Material Adverse Effect.

Section 5.6. Ownership and Liens. Except as set forth on Schedule 7.2, each
of the Borrower and its Material Subsidiaries has good, marketable title in fee simple to, or valid leasehold interests in, all of its material properties and assets, real and personal, including the properties and assets, and leasehold interests reflected in the financial statements referred to in Section 5.5 or submitted pursuant to Section 6.8 hereof, as the case may be (other than any properties or assets disposed of in the ordinary course of business), and none of the material properties and assets owned by the Borrower or any of its Subsidiaries and none of its material leasehold interests is subject to any Lien, except as disclosed in such Schedule 7.2, such financial statements or as may be permitted hereunder.

Section 5.7. Taxes. To the best of the Borrower's knowledge, all material
tax and other information returns required to be filed by or on behalf of the Borrower and its Subsidiaries have been properly prepared, executed and filed. All material taxes, assessments, fees and other governmental charges upon the Borrower or any of its Subsidiaries or upon any of their respective properties, incomes, sales or franchises which are due and payable have been paid other than those not yet delinquent and payable without premium or penalty, and except for those being diligently contested in good faith and by appropriate proceedings, and in each case adequate reserves and provisions for taxes on the books of the Borrower and each of its Subsidiaries are adequate for all open years and for its current fiscal period. None of the Borrower or its Subsidiaries knows of any proposed additional assessment or basis for any material assessment for additional taxes (whether or not reserved against). The federal, state and local and foreign income tax liabilities of the Borrower have been finally determined by the Internal Revenue Service and other relevant taxing authorities, or the time for audit has expired, for all fiscal periods ending on or prior to January 31, 1989 and all such liabilities (including all deficiencies assessed following audit) have been satisfied. None of the Borrower, its Subsidiaries or any of their respective consolidated return groups has at any time filed a consolidated tax return with any Person other than the Borrower and its Subsidiaries, except as set forth in Schedule 5.7. Schedule 5.7 describes all tax sharing arrangements or agreements to which

the Borrower or any of its Subsidiaries is bound.

Section 5.8. ERISA.

(a) Schedule 5.8 sets forth a correct and complete list of each Plan or Multiemployer Plan with respect to the employees of the Borrower and its ERISA Affiliates.

(b) Each Plan, and, to the best knowledge of the Borrower, each Multiemployer Plan, is in compliance in all material respects with, and has been administered in all material respects in compliance with, the applicable provisions of ERISA, the Code and any other applicable Federal or state law, and no event or condition is occurring or exists concerning which the Borrower would be under an obligation to furnish a report to the Banks in accordance with Section 6.8(h) hereof. As of the most recent valuation date for each Plan, each Plan was "fully funded", or shall be "fully funded" within twelve (12) months of the later of: (i) the date such Plan became a Plan with respect to the employees of the Borrower and its ERISA Affiliates or (ii) the date such Plan was deemed other than "fully funded". For purposes of this Section 5.8, "fully funded" shall mean that the fair market value of the assets of the Plan is not less than the present value of the accrued benefits of all participants in the Plan, computed on a Plan termination basis. To the best knowledge of the Borrower, no Plan has been other than "fully funded" for greater than the twelve (12) month period prescribed above as of the date these representations are made with respect to any Loan under this Agreement.

Section 5.9. Material Subsidiaries and Ownership of Stock. Schedule 5.9 is a complete and accurate list of the Material Subsidiaries of the Borrower, showing the jurisdiction of incorporation or organization of each such Material Subsidiary and showing the percentage of the Borrower's or any of its Subsidiaries' ownership of the outstanding stock or other interest of each such Material Subsidiary. All of the outstanding capital stock or other interest of each such Material Subsidiary has been validly issued, is fully paid and nonassessable and is owned by the Borrower or such Subsidiary free and clear of all Liens, except as set forth on Schedule 7.2.

Section 5.10. Credit Arrangements. Schedule 5.10 is a complete and correct list of all credit agreements, inden tures, purchase agreements, guaranties, Capital Leases and other investments, agreements and arrangements presently in effect providing for or relating to extensions of Debt equal to or greater than $1,000,000 in respect of which the Borrower or any of its Subsidiaries is in any manner directly or contingently obligated; and the maximum principal or face amounts of the Debt in question, outstanding and which can be outstanding, are correctly stated, and all Liens of any nature given or agreed to be given as security therefor are correctly described or indicated in such Schedule.

Section 5.11. Operation of Business. To the best of the Borrower's knowledge, each of the Borrower and its Subsidiaries possesses all material licenses,

permits, franchises, patents, copyrights, trademarks and trade names, or rights thereto, to conduct its business substantially as now conducted and as presently proposed to be conducted, and neither the Borrower nor any of its Subsidiaries is in violation of any valid rights of others with respect to any of the foregoing, except where such violation is not reasonably expected to have a Material Adverse Effect.

Section 5.12. Hazardous Materials. The Borrower and each of its Subsidiaries have obtained all permits, licenses and other authorizations which are required under all Environmental Laws, except to the extent failure to have any such permit, license or authorization would not have a Mate rial Adverse Effect. The Borrower and each of its Subsid iaries are in compliance with the terms and conditions of all such permits, licenses and authorizations, and are also in compliance with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in any applicable Environmental Law or in any regulation, code, plan, order, decree, judgment, injunction, notice or demand letter issued, entered, promulgated or approved thereunder, except to the extent failure to comply would not have a Material Adverse Effect. To the best of the Borrower's knowledge, except as heretofore disclosed to the Administrative Agent or as set forth on Schedule 5.12, there have been no environmental investigations, studies, audits, tests, reviews or other analyses conducted by or that are in the possession of the Borrower or any of its Subsidiaries with respect to any property or facility now or previously owned or leased by the Borrower or any of its Environmental Affiliates which reveal facts or circumstances that could reasonably be expected to have a Material Adverse Effect.

Section 5.13. No Default on Outstanding Judgments or Orders. Each of the Borrower and its Subsidiaries has sat isfied all judgments and neither the Borrower nor any of its Subsidiaries is in default with respect to any judgment, writ, injunction or decree of any Governmental Authority, except where the failure so to do is not reasonably expected to have a Material Adverse Effect.

Section 5.14. No Defaults on Other Agreements. Neither the Borrower nor any of its Subsidiaries is in default in any respect in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any indenture, loan or credit agreement or any lease or other agreement or instrument with respect to its business to which it is a party which default could reasonably be expected to have a Material Adverse Effect.

Section 5.15. Labor Disputes and Acts of God. Neither the business nor the properties of the Borrower or of any of its Subsidiaries are currently affected by any fire, explosion, accident, strike, lockout or other labor dispute, drought, storm, hail, earthquake, embargo, act of God or of the public enemy or other casualty (whether or not covered by insurance) that could reasonably be expected to have a Material Adverse Effect.

Section 5.16. Governmental Regulation. Neither the Borrower nor any of its Subsidiaries is subject to regulation under the Public Utility Holding Company Act of 1935, the Investment Company Act of 1940, the Interstate Commerce Act, the Federal Power Act or any statute or regulation limiting its ability to incur indebtedness for money borrowed as con templated hereby.

Section 5.17. Insurance. The Borrower maintains through itself or through financially sound and reputable insurers not related to or affiliated with the Borrower insurance with respect to its properties and business and against at least such liabilities, casualties and contingencies and in at least such types and amounts as is customary in the case of corporations engaged in the same or a similar business or having similar properties similarly situated. It is understood that the Borrower shall be self-insured only for noncatastrophic insurance coverage. Schedule 5.17 sets forth a complete and correct list and brief description of all insurance currently maintained by or on respect of the Borrower, setting forth the identity of the insurance carrier, the type of coverage, the amount of coverage and the deductible. There are no claims, actions, suits, proceedings against, arising under or based upon any of such insurance policies except as set forth in Schedule 5.17 which could reasonably be expected to have a Material Adverse Effect. Schedule 5.17 identifies each insurance policy providing for a retrospective premium adjustment or other change in compensation payable to the insurer on the basis of claim or loss experience, and describes any liability the Borrower has in respect of such matters.

Section 5.18. Intellectual Property. To the best of the Borrower's knowledge, the Borrower and each of its Subsidiaries owns, or is licensed or otherwise has the right to use, all the material patents, trademarks, service marks, names (trade, service, fictitious or otherwise), copyrights, technology (including but not limited to computer programs and software), processes, data bases and other rights, free from burdensome restrictions, necessary to own and operate its properties and carry on its business as presently conducted and presently planned to be conducted without conflict with the rights of others.

ARTICLE 6. AFFIRMATIVE COVENANTS.

So long as any of the Notes shall remain unpaid or any Bank shall have any Commitment under this Agreement, the Borrower shall:

Section 6.1. Maintenance of Existence. Preserve and maintain, and cause each of its Subsidiaries to preserve and maintain, its corporate existence and good standing in the jurisdiction of its incorporation, and qualify and remain qualified, and cause each of its Subsidiaries to qualify and remain qualified, as a foreign corporation in each jurisdiction in which such qualification is required, except where the failure to do so could not be reasonably expected to have a Material Adverse Effect.

Section 6.2. Conduct of Business. Continue, and cause each of its Subsidiaries to continue, to engage in, directly or indirectly, the provision of consumer goods or services, except for other businesses that may be operated as a result of an Acceptable Acquisition.

Section 6.3. Maintenance of Properties. Maintain, keep and preserve, and cause each of its Subsidiaries to maintain, keep and preserve, all of its material properties (tangible and intangible), permits and licenses necessary or useful in the proper conduct of its business in good working order and condition, ordinary wear and tear excepted.

Section 6.4. Maintenance of Records. Keep, and cause each of its Subsidiaries to keep, adequate records and books of account, in which complete entries will be made in accordance with GAAP, reflecting all material financial transactions of the Borrower and its Subsidiaries.

Section 6.5 Maintenance of Insurance. Maintain, either through itself or with financially sound and reputable insurers, insurance with respect to its properties and business and against such liabilities, casualties and contingencies and of such types and in such amounts as is customary in the case of corporations engaged in the same or similar businesses or having similar properties similarly situated, which insurance shall in any event not provide for a materially lower level of coverage than the insurance referred to in Section 5.17 in effect on the Closing Date. Further, the Borrower shall furnish to the Administrative Agent from time to time upon request the policies under which such insurance is issued, certificates of insurance and such other information relating to such insurance as the Administrative Agent may reasonably request.

Section 6.6. Compliance with Laws. Comply, and cause each of its Subsidiaries to comply, with all applicable material laws, rules, regulations and orders.

Section 6.7. Right of Inspection. At any reasonable time and from time to time and, so long as no Default or Event of Default shall have occurred or be continuing, upon not less than five (5) Banking Days' prior notice, and subject to the provisions of Section 11.15, permit the Administrative Agent or any Bank or any agent or representative thereof, to examine and make copies and abstracts from the records and books of account of, and visit the properties of, the Borrower and any of its Subsidiaries, and to discuss the affairs, finances and accounts of the Borrower and any such Subsidiary with any of their respective officers and directors and the Borrower's independent accountants, and to conduct an audit of the Borrower; provided, that so long as no Default or Event of Default shall have occurred or be continuing, each Bank may not exercise the benefits conferred upon it under this Section 6.7 more than once during any calendar year.

Section 6.8. Reporting Requirements. Furnish to the Administrative Agent,
who shall provide copies thereof to the Banks:

(a) as soon as available and in any event within 90 days after the end of each fiscal year of the Bor rower, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and a consolidated and consolidating income statement and statements of cash flows and changes in stockholders' equity of the Borrower and its Consolidated Subsidiaries for such fiscal year, all in reasonable detail and stating in comparative form the respective consolidated and consolidating figures for the corresponding date and period in the prior fiscal year and all prepared in accordance with GAAP and as to the consolidated statements accompanied by an unqualified opinion by Ernst & Young, LLP or other independent accountants of national standing selected by the Borrower;

(b) as soon as available and in any event within 45 days after the end of each of the first three quarters of each fiscal year of the Borrower, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such quarter and a consolidated and consolidating income statement and statements of cash flows and changes in stockholders' equity, of the Borrower and its Consolidated Subsidiaries for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, all in reasonable detail and stating in comparative form the respective consolidated and consolidating figures for the corresponding date and period in the previous fiscal year and all prepared in accordance with GAAP and certified by the chief financial officer of the Borrower (subject to normally recurring year-end adjustments);

(c) (i) promptly upon receipt thereof, copies of any reports, inclusive of any management letters, submitted to the Borrower or any of its Subsidiaries by independent certified public accountants in connection with examination of the financial statements of the Borrower or any such Subsidiary made by such accountants and (ii) within five (5) Banking Days of receipt thereof, any Debt Ratings issued by Moody's or S&P;

(d) simultaneously with the delivery of the financial statements referred to above, a certificate substantially in the form of Exhibit J of the chief financial officer of the Borrower (i) certifying that to the best of his knowledge no Default or Event of Default has occurred and is continuing or, if a Default or Event of Default has occurred and is continuing, a statement as to the nature thereof and the action which is proposed to be taken with respect thereto, and (ii) with computations demonstrating compliance with the covenants contained in Article 8;

(e) simultaneously with the delivery of the annual financial statements referred to in Section 6.8(a), a certificate of the independent public accountants who audited such statements to the effect that, in making the examination necessary for

the audit of such statements, they have obtained no knowledge of any condition or event which constitutes a Default or Event of Default, or if such accountants shall have obtained knowledge of any such condition or event, specifying in such certificate each such condition or event of which they have knowledge and the nature and status thereof;

(f) promptly after the commencement thereof, notice of all actions, suits, and proceedings before any Governmental Authority, affecting the Borrower or any of its Subsidiaries which, if determined adversely to the Borrower or such Subsidiary, could reasonably be expected to have a Material Adverse Effect;

(g) as soon as possible, and in any event within 5 Banking Days after the occurrence of each Default or Event of Default, a written notice setting forth the details of such Default or Event of Default and the action which is proposed to be taken by the Borrower with respect thereto;

(h) as soon as possible, and in any event within ten days after the Borrower knows or has reason to know that any of the events or conditions specified below have occurred or exist, a statement signed by a senior financial officer of the Borrower setting forth details respecting such event or condition and the action, if any, which the Borrower or its ERISA Affiliate proposes to take with respect thereto (and a copy of any report or notice required to be filed with or given to PBGC by the Borrower or an ERISA Affiliate with respect to such event or condition):

(i) any reportable event, as defined in Section 4043(b) of ERISA, with respect to a Plan, as to which PBGC has not by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event (provided that a failure to meet the minimum funding standard of Section 412 of the Code or Section 302 of ERISA including, without limitation, the failure to make on or before its due date a required installment under Section 412(m) of the Code or Section 302(e) of ERISA, shall be a reportable event regardless of the issuance of any waivers in accordance with Section 412(d) of the Code) and any request for a waiver under Section 412(d) of the Code for any Plan;

(ii) the distribution under Section 4041 of ERISA of a notice of intent to terminate any Plan which is not "fully funded", as such term is defined in Section 5.8(b), or any action taken by the Borrower or an ERISA Affiliate to terminate any such Plan;

(iii) the institution by PBGC of pro ceedings under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Borrower or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by PBGC with respect to such Multiemployer Plan;

(iv) the complete or partial withdrawal from a Multiemployer Plan by the Borrower or any ERISA Affiliate that results in liability under Section 4201 or 4204 of ERISA (including the obligation to satisfy secondary liability as a result of a purchaser default) or the receipt of the Borrower or any ERISA Affiliate of notice from a Multiemployer Plan that it is in reorganization or insolvency pursuant to Section 4241 or 4245 of ERISA or that it intends to terminate or has terminated under Section 4041A of ERISA;

(v) the institution of a proceeding by a fiduciary or any Multiemployer Plan against the Borrower or any ERISA Affiliate to enforce Section 515 of ERISA, which proceeding is not dismissed within 30 days;

(vi) the adoption of an amendment to any Plan that pursuant to Section 401(a)(29) of the Code or Section 307 of ERISA would result in the loss of tax exempt status of the trust of which such Plan is a part if the Borrower or an ERISA Affiliate fails to timely provide security to the Plan in accordance with the provisions of said Sections;

(vii) any event or circumstance exists which may reasonably be expected to constitute grounds for the Borrower or any ERISA Affiliate to incur liability under Title IV of ERISA or under Sections 412(c)(11) or 412(n) of the Code with respect to any Plan; and

(viii) the Unfunded Benefit Liabilities of one or more Plans equal or exceed $5,000,000 in the aggregate;

(i) promptly after the request of the Administrative Agent, copies of each annual report filed pursuant to Section 104 of ERISA with respect to each Plan (including, to the extent required by Section 104 of ERISA, the related financial and actuarial statements and opinions and other supporting statements, certifications, schedules and information referred to in Section 103) and each annual report filed with respect to each Plan under Section 4065 of ERISA; provided, however, that in the case of a Multiemployer Plan, such annual reports shall be furnished only if they are available to the Borrower or an ERISA Affiliate;

(j) promptly after the furnishing thereof, copies of any statement or report furnished to any other party pursuant to the terms of any indenture, loan or credit or similar agreement and not otherwise required to be fur nished to the Administrative Agent pursuant to any other clause of this Section 6.8;

(k) as soon as available and in any event within three (3) Banking Days after filing the same with the Securities and Exchange Commission, but in no event later than 110 days after the end of each fiscal quarter of the Borrower, a true and complete copy of the Borrower's Form 10Q;

(l) as soon as available and in any event within three (3) Banking Days after filing the same with the Securities and Exchange Commission, but in no event later than 110 days after the end of each fiscal year of the Borrower, a true and complete copy of the Borrower's Form 10K;

(m) promptly after the sending or filing thereof, copies of all proxy statements, financial statements and reports which the Borrower has made generally available to its stockholders, and copies of all regular, periodic and special reports, and all registration statements, which the Borrower files with the Securities and Exchange Commission or any Governmental Authority which may be substituted therefor, or with any national securities exchange; and

(n) such other information respecting the condition or operations, financial or otherwise, of the Bor rower or any of its Subsidiaries as the Administrative Agent, or any Bank through the Administrative Agent, may from time to time reasonably request.

Section 6.9. Payment of Taxes and Other Potential Charges and Priority Claims. Pay or discharge

(a) on or prior to the date on which penalties attach thereto, all taxes, assessments and other governmental charges imposed upon it or any of its properties;

(b) on or prior to the date when due, all lawful claims of materialmen, mechanics, carriers, warehousemen, landlords and other like Persons which, if unpaid, might result in the creation of a Lien upon any such property; and

(c) on or prior to the date when due, all other lawful claims which, if unpaid, might result in the creation of a Lien upon any such property or which, if unpaid, might give rise to a claim entitled to priority over general creditors of the Borrower in a case under Title 11 (Bankruptcy) of the United States Code, as amended;

provided, that unless and until foreclosure, distraint, levy, sale or similar proceedings shall have been commenced, the Borrower need not pay or discharge any such tax, assessment, charge or claim so long as (x) the validity thereof is contested in good faith and by appropriate proceedings diligently conducted, and (y) such reserves or other appropriate provisions as may be required by GAAP shall have been made therefor.

Section 6.10. ERISA Plans. Within twelve (12) months of the later of: (i) the date any Plan or Multiemployer Plan became a Plan or Multiemployer Plan with respect to the employees of the Borrower and its ERISA Affiliates or (ii) the date any such Plan or Multiemployer Plan was deemed other than "fully funded", the Borrower shall

cause such Plan or Multiemployer Plan to be "fully funded". For purposes of this Section 6.10, "fully funded" shall mean that the fair market value of the assets of the Plan is not less than the present value of the accrued benefits of all participants in the Plan, computed on a Plan termination basis.

## ARTICLE 7. NEGATIVE COVENANTS.

So long as any of the Notes shall remain unpaid or any Bank shall have any Commitment under this Agreement, the Borrower shall not:

Section 7.1. Debt. Create, incur, assume or suffer to exist, or permit any of its Subsidiaries to create, incur, assume or suffer to exist any Debt, except:

(a) Debt of the Borrower under this Agreement or the Notes;

(b) Debt described in Schedule 5.10, including renewals, extensions or refinancings thereof, provided that the principal amount thereof does not increase;

(c) Debt of the Borrower subordinated on terms reasonably satisfactory to the Banks to the Borrower's obligations under this Agreement and the Notes;

(d) Debt of the Borrower to any such Subsid iary or of any Subsidiary to the Borrower or another such Subsidiary;

(e) Debt in respect of letters of credit issued for the account of the Borrower or any such Subsidiary in an aggregate face amount outstanding at any time of up to $30,000,000;

(f) Debt incurred in connection with accep tances of the Borrower or any such Subsidiary in an aggregate amount outstanding at any one time of up to $25,000,000;

(g) Debt of any Person which becomes a Subsidiary of the Borrower in connection with any Acceptable Acquisition permitted by Section 7.8 or Debt which is acquired and assumed by the Borrower or any of its Subsidiaries in connection with an Acceptable Acquisition permitted by Section 7.8; provided that such Debt was in existence and outstanding prior to and on the date that such Person became a Subsidiary or such Acceptable Acquisition was consummated, and such Debt was not created in contemplation of such Person becoming a Subsidiary or such Acceptable Acquisition being consummated, and any renewals, extensions or refinancings thereof, provided that the principal amount thereof does not increase; and provided, further, however, that the Debt

permitted by this subsection (g) shall not (i) cause the Borrower to exceed the limitations contained in subsections (e) or (f) of this Section 7.1 or (ii) cause the Borrower to exceed the limitation contained in subsection (h) of this Section 7.1 after recalculating such amounts on a consolidated basis with the acquired Debt and the acquired business or Person;

(h) Debt of the Borrower up to five percent (5%) of its total assets, including Debt permitted by subsection (g) of this Section 7.1, as measured at the end of the immediately preceding fiscal quarter, as calculated on a consolidated basis in accordance with GAAP; and

(i) Debt of the Borrower or any such Subsid iary secured by purchase money Liens permitted by Section 7.2.

Section 7.2. Liens. Create, incur, assume or suffer to exist, or permit any
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of its Subsidiaries to create, incur, assume or suffer to exist, any Lien, upon or with respect to any of its properties, now owned or hereafter acquired, except:

(a) Liens for taxes or assessments or other government charges or levies if not yet due and payable or if due and payable if they are being contested in good faith by appropriate proceedings and for which appropriate reserves are maintained;

(b) Liens imposed by law, such as mechanic's, materialmen's, landlord's, warehousemen's and carrier's Liens, and other similar Liens, securing obligations incurred in the ordinary course of business which are not past due for more than 30 days, or which are being contested in good faith by appropriate proceedings and for which appropriate reserves have been established;

(c) Liens under workmen's compensation, unem ployment insurance, social security or similar legislation (other than ERISA);

(d) Liens, deposits or pledges to secure the performance of bids, tenders, contracts (other than contracts for the payment of money), leases (permitted under the terms of this Agreement), public or statutory obligations, surety, stay, appeal, indemnity, performance or other similar bonds, or other similar obligations arising in the ordinary course of business;

(e) judgment and other similar Liens arising in connection with court proceedings; provided that the exe cution or other enforcement of such Liens is effectively stayed and the claims secured thereby are being actively con tested in good faith and by appropriate proceedings;

(f) easements, rights-of-way, restrictions and other similar encumbrances which, in the aggregate, do not materially interfere with the occupation, use

and enjoyment by the Borrower or any such Subsidiary of the property or assets encumbered thereby in the normal course of its business or materially impair the value of the property sub ject thereto;

(g) Liens securing obligations of: (i) any such Subsidiary to the Borrower or another such Subsidiary or (ii) the Borrower to any such Subsidiary;

(h) Liens securing Debt greater than $500,000 in the aggregate existing on the Closing Date as set forth in Schedule 7.2 and Liens securing Debt equal to or less than $500,000 in the aggregate existing on the Closing Date;

(i) Liens securing Debt permitted under Section 7.1(g), provided that such Liens only affect property acquired in connection with the Acceptable Acquisition pursuant to which such Debt was incurred;

(j) As at any time, Liens securing up to an aggregate of $30,000,000 of Debt permitted under Section 7.1 (including, for purposes of determining such aggregate amount, Debt secured by Liens permitted under other subsections of this Section 7.2); and

(k) purchase money Liens on any property hereafter acquired or the assumption of any Lien on property existing at the time of such acquisition, or a Lien incurred in connection with any conditional sale or other title retention agreement or a Capital Lease; provided that:

(i) any property subject to any of the foregoing is acquired by the Borrower or any such Subsidiary in the ordinary course of its business and the Lien on any such property is created contemporaneously with such acquisition;

(ii) the obligation secured by any Lien so created, assumed or existing shall not exceed 100% of the lesser of cost or fair market value as of the time of acquisition of the property covered thereby to the Borrower or such Subsidiary acquiring the same;

(iii) each such Lien shall attach only to the property so acquired and fixed improvements thereon;

(iv) the Debt secured by all such Liens shall not exceed $30,000,000 in the aggregate; and

(v) the obligations secured by such Lien are permitted by the provisions of Section 7.1.

Section 7.3. Investments. Make, or permit any of its Subsidiaries to make, any loan or advance to any Person or purchase or otherwise acquire, or permit any such Subsidiary to purchase or otherwise acquire, any capital stock, assets, obligations or other securities of, make any capital contribution to, or otherwise invest in, or acquire any interest in, any Person, except: (a) Cash Equivalent Investments ; (b) for stock, obligations or securities received in settlement of debts (created in the ordinary course of business) owing to the Borrower or any such Subsid iary; (c) any Acceptable Acquisition permitted by Section 7.8; (d) investments by the Borrower in one of its Subsidiaries or investments by one or more Subsidiaries of the Borrower in another Subsidiary of the Borrower; (e) for other investments (including minority interests in joint ventures, partnerships and other Persons that are held for investment purposes) not exceeding $50,000,000 in the aggregate for all such investments; or (f) for the repurchase of outstanding equity securities of the Borrower.

Section 7.4. Sale of Assets. Sell, lease, assign, transfer or otherwise dispose of, or permit any of its Subsidiaries to sell, lease, assign, transfer or otherwise dispose of, any of its now owned or hereafter acquired assets (including, without limitation, shares of stock and indebtedness of such Subsidiaries, receivables and leasehold interests); except: (a) for inventory disposed of in the ordinary course of business; (b) the sale or other disposi tion of assets no longer used or useful in the conduct of its business; (c) that any such Subsidiary may sell, lease, assign, or otherwise transfer its assets to the Borrower or any other such Subsidiary; (d) the sale or other disposition of assets by the Borrower to its Subsidiaries with an aggregate value not exceeding twenty percent (20%) of the consolidated revenues of the Borrower and its Subsidiaries for the immediately preceding fiscal year; and (e) the sale or other disposition of assets in any fiscal year to a Person other than the Borrower, its Subsidiaries or any of their respective Affiliates with an aggregate value not exceeding fifteen percent (15%) of the consolidated revenues of the Borrower and its Subsidiaries for the immediately preceding fiscal year.

Section 7.5. Stock of Subsidiaries, Etc. Sell or otherwise dispose of any equity interest of any of its Subsidiaries, except in connection with a transaction permitted under Section 7.4, 7.7 or 7.8 or permit any such Subsidiary to issue any additional equity interest to any Person other than Borrower or another such Subsidiary, except directors' qualifying shares.

Section 7.6. Transactions with Affiliates. Enter into any transaction, including, without limitation, the purchase, sale or exchange of property or the rendering of any service, with any Affiliate (other than a Subsidiary of the Borrower) or permit any of its Subsidiaries to enter into any such transaction, including, without limitation, the purchase, sale or exchange of property or the rendering of any service, with any Affiliate (other than a Subsidiary of the Borrower), except in the ordinary course of and pursuant to the reasonable requirements of the Borrower's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary than would it obtain in a comparable arm's length transaction with a Person not an Affiliate.

Section 7.7. Mergers, Etc. Merge or consolidate with, or sell, assign, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereaf ter acquired) to, any Person, or acquire all or substantially all of the assets or the business of any Person (or enter into any agreement to do any of the foregoing), or permit any of its Subsidiaries to do so, except that: (a) any such Sub sidiary may merge into or transfer assets to the Borrower; (b) any Subsidiary may merge into or consolidate with or transfer assets to any other Subsidiary; (c) the Borrower or any such Subsidiary may effect any Acceptable Acquisition permitted by Section 7.8 and (d) the Borrower or any of its Subsidiaries may make any sale or other disposition of assets permitted by Section 7.4.

Section 7.8. Acquisitions. Make any Acquisition other than an Acceptable Acquisition.

## ARTICLE 8. FINANCIAL COVENANTS.

So long as any of the Notes shall remain unpaid or any Bank shall have any Commitment under this Agreement:

Section 8.1. Minimum Net Worth. The Borrower shall maintain at all times a Net Worth of not less than: (a) $200,000,000, plus (b) the greater of zero (0) or 50% of cumulative Net Income after January 31, 1996, plus (c) at such time as Davidson & Associates, Inc. and Sierra Online, Inc. are acquired by the Borrower, 50% of the Net Worth of such Persons.

Section 8.2. Leverage Ratio. The Borrower shall maintain at all times, as measured at the end of the most recently completed fiscal quarter, a Leverage Ratio of not greater than 3.5 to 1.0.

Section 8.3. Interest Coverage Ratio. The Borrower shall maintain at all times an Interest Coverage Ratio, measured as of the end of the most recently completed fiscal quarter, of not less than 3.5 to 1.0 at any time.

## ARTICLE 9. EVENTS OF DEFAULT.

Section 9.1. Events of Default. Any of the following events shall be an "Event of Default":

(a) the Borrower shall: (i) fail to pay the principal of any Note as and when due and payable; or (ii) fail to pay interest on any Note or any fee or other

amount due hereunder within five (5) Banking Days after such amount shall become due and payable;

(b) any representation or warranty made or deemed made by the Borrower in this Agreement or in any other Facility Document to which it is a party or which is contained in any certificate, document, opinion, financial or other statement furnished at any time under or in connection with any Facility Document shall prove to have been incorrect in any material respect on or as of the date made or deemed made;

(c) the Borrower shall: (i) fail in any material respect to perform or observe any term, covenant or agreement contained in Section 2.3, subsections (e) through (i) and (l) through (n) of Section 6.8 or Articles 7 or 8; or (ii) fail in any material respect to perform or observe any term, covenant or agreement on its part to be performed or observed under subsections (a), (b), (c), (d), (j) or (k) of Section 6.8 and such failure shall continue for 10 consecutive days after notice from the Administrative Agent; or (iii) fail in any material respect to perform or observe any term, covenant or agreement on its part to be performed or observed (other than the obligations specifically referred to in clause (i) or (ii) or elsewhere in this Section 9.1) in any Facility Document and such failure shall continue for 30 consecutive days after notice from the Administrative Agent to the Borrower or from the Borrower to the Administrative Agent;

(d) the Borrower or any of its Subsidiaries shall: (i) fail to pay any Debt in aggregate amount in excess of $5,000,000 (other than the payment obligations described in (a) above), of the Borrower or such Subsidiary, as the case may be, or any interest or premium thereon, when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise); or (ii) fail to perform or observe any term, covenant or condition on its part to be performed or observed under any agreement or instrument relating to any such indebtedness, when required to be performed or observed, if the effect of such failure to perform or observe is to accelerate, or to permit the accel eration of, after the giving of notice or passage of time, or both, the maturity of such Debt; or any such Debt shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof;

(e) the Borrower or any of its Subsidiaries: (i) shall generally not, or be unable to, or shall admit in writing its inability to, pay its debts as such debts become due; or (ii) shall make an assignment for the benefit of creditors, petition or apply to any tribunal for the appointment of a custodian, receiver or trustee for it or a substantial part of its assets; or (iii) shall commence any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, whether now or hereafter in effect; or (iv) shall have had any such petition or application filed or any such proceeding shall have been commenced, against it, in which an adjudication or appointment is made or order for relief is entered, or which petition, application or proceeding remains undismissed for a period of 60 days or more; or (v) by any act or omission shall indicate its consent to, approval of or acquiescence in any such

petition, application or proceeding or order for relief or the appointment of a custodian, receiver or trustee for all or any substantial part of its property; or (vi) shall suffer any such custodianship, receivership or trusteeship to continue undischarged for a period of 60 days or more;

(f) one or more judgments, decrees or orders for the payment of money in excess of $10,000,000 in the aggregate shall be rendered against the Borrower or any of its Subsidiaries and such judgments, decrees or orders shall continue unsatisfied and in effect for a period of 60 consecutive days without being vacated, discharged, satisfied or stayed or bonded pending appeal;

(g) any event or condition shall occur or exist with respect to any Plan or Multiemployer Plan concern ing which the Borrower is under an obligation to furnish a report to the Administrative Agent in accordance with Section 6.8(h) hereof and as a result of such event or condition, together with all other such events or conditions, the Borrower or any ERISA Affiliate has incurred or in the reasonable opinion of the Required Banks is reasonably likely to incur a liability to a Plan, a Multiemployer Plan, the PBGC, or a Section 4042 Trustee (or any combination of the foregoing) which is material in relation to the financial position of the Borrower and its Subsidiaries, on a consolidated basis; provided, however, that any such amount shall not be deemed to be material so long as all such amounts do not exceed $5,000,000 in the aggregate;

(h) (i) any Person or two or more Persons acting in concert shall have acquired beneficial ownership (within the meaning of Rules 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934) of greater than 50% of the outstanding shares of voting stock of the Borrower; or (ii) during any period of 12 con secutive months, commencing before or after the date of this Agreement, individuals who at the beginning of such 12month period were directors of the Borrower, together with any new directors whose election by the board of directors of the Borrower or whose nomination by stockholders of the Borrower was approved by a majority of the directors then still in office and who are either directors at the beginning of such period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Borrower; or

(i) this Agreement or any other Facility Document or term or provision hereof or thereof shall cease to be in full force and effect (except in accordance with the express terms of such document), or the Borrower shall, or purport to, terminate (except in accordance with the terms of such document), repudiate, declare voidable or void or otherwise contest, this Agreement or any Facility Document or any other term hereof or thereof or any obligation or liability of the Borrower hereunder or thereunder.

Section 9.2. Remedies. If any Event of Default shall occur and be
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continuing, the Administrative Agent shall, upon request of the Required Banks, by notice to the Borrower, (a) declare the Commitments to be terminated, whereupon the same shall

forthwith terminate, and/or (b) declare the outstanding principal of the Notes, all interest thereon and all other amounts payable under this Agreement and the Notes to be forthwith due and payable, whereupon the Notes, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower; provided that, in the case of an Event of Default referred to in Section 9.1(e) above, the Commitments shall be immediately terminated, and the Notes, all interest thereon and all other amounts payable under this Agreement shall be immediately due and payable without notice, presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by the Borrower.

## ARTICLE 10. THE ADMINISTRATIVE AGENT; RELATIONS AMONG BANKS AND BORROWER.

### Section 10.1. Appointment, Powers and Immunities of Administrative Agent.

Each Bank hereby irrevocably (but subject to removal by the Required Banks pursuant to Section 10.9) appoints and authorizes the Administrative Agent to act as its agent hereunder and under any other Facility Document with such powers as are specifically delegated to the Administrative Agent by the terms of this Agreement and any other Facility Document, together with such other powers as are reasonably incidental thereto. The Administrative Agent shall have no duties or responsibilities except those expressly set forth in this Agreement and any other Facility Document, and shall not by reason of this Agreement be a trustee for any Bank. The Administrative Agent shall not be responsible to the Banks for any recitals, statements, representations or warranties made by the Borrower or any officer or official of the Borrower or any other Person contained in this Agreement or any other Facility Document, or in any certificate or other document or instrument referred to or provided for in, or received by any of them under, this Agreement or any other Facility Document, or for the value, legality, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Facility Document or any other document or instrument referred to or provided for herein or therein, for the perfection or priority of any collateral security for the Loans or for any failure by the Borrower to perform any of its obligations hereunder or thereunder. The Administrative Agent may employ agents and attorneysinfact and shall not be responsible, except as to money or securities received by it or its authorized agents, for the negligence or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. Neither the Administrative Agent nor any of its directors, officers, employees or agents shall be liable or responsible for any action taken or omitted to be taken by it or them hereunder or under any other Facility Document or in connection herewith or therewith, except for its or their own gross negligence or willful misconduct. The Borrower shall pay any fee agreed to by the Borrower and the Administrative Agent with respect to the Administrative Agent's services hereunder.

Section 10.2. Reliance by Administrative Agent. The Administrative Agent shall be entitled to rely upon any certification, notice or other communication (including any thereof by telephone, telex, telegram or cable) believed by it to be genuine and correct and to have been signed or sent by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants and other experts selected by the Administrative Agent. The Administrative Agent may deem and treat each Bank as the holder of the Loans made by it for all purposes hereof unless and until a notice of the assignment or transfer thereof satisfactory to the Administrative Agent signed by such Bank shall have been furnished to the Administrative Agent but the Administrative Agent shall not be required to deal with any Person who has acquired a participation in any Loan from a Bank. As to any matters not expressly provided for by this Agreement or any other Facility Document, the Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder in accordance with instructions signed by the Required Banks, and such instructions of the Required Banks and any action taken or failure to act pursuant thereto shall be binding on all of the Banks and any other holder of all or any portion of any Loan.

Section 10.3. Defaults. The Administrative Agent shall not be deemed to have knowledge of the occurrence of a Default or Event of Default (other than the non-payment of principal of or interest on the Loans to the extent the same is required to be paid to the Administrative Agent for the account of the Banks) unless the Administrative Agent has received notice from a Bank or the Borrower specifying such Default or Event of Default and stating that such notice is a "Notice of Default." In the event that the Administrative Agent receives such a notice of the occurrence of a Default or Event of Default, the Administrative Agent shall give prompt notice thereof to the Banks (and shall give each Bank prompt notice of each such non-payment). The Administrative Agent shall (subject to Section 10.8) take such action with respect to such Default or Event of Default which is continuing as shall be directed by the Required Banks; provided that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interest of the Banks; and provided further that the Administrative Agent shall not be required to take any such action which it determines to be contrary to law.

Section 10.4. Rights of Administrative Agent as a Bank. With respect to its Commitment and the Loans made by it, the Administrative Agent in its capacity as a Bank hereunder shall have the same rights and powers hereunder as any other Bank and may exercise the same as though it were not acting as the Administrative Agent, and the term "Bank" or "Banks" shall, unless the context otherwise indicates, include the Administrative Agent in its capacity as a Bank. The Administrative Agent and its affiliates may (without having to account therefor to any Bank) accept deposits from, lend money to (on a secured or unsecured basis), and generally engage in any kind of banking, trust or other business with, the Borrower (and any of its affiliates) as if it were not acting as the Administrative Agent, and the Administrative Agent may accept fees and other

consideration from the Borrower for services in connection with this Agreement or otherwise without having to account for the same to the Banks. Although the Administrative Agent and its affiliates may in the course of such relationships and relationships with other Persons acquire information about the Borrower, its Affiliates and such other Persons, the Administrative Agent shall have no duty to disclose such information to the Banks.

Section 10.5. Indemnification of Administrative Agent. The Banks agree to indemnify the Administrative Agent (to the extent not reimbursed under Section 11.3 or 11.8 or under the applicable provisions of any other Facility Document, but without limiting the obligations of the Borrower under Section 11.3 or 11.8 or such provisions), ratably in accordance with the aggregate unpaid principal amount of the Loans made by the Banks (without giving effect to any participations, in all or any portion of such Loans, sold by them to any other Person) (or, if no Loans are at the time outstanding, ratably in accordance with their respective Commitments), for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Administrative Agent in any way relating to or arising out of this Agreement, any other Facility Document or any other documents contemplated by or referred to herein or the transactions contemplated hereby or thereby (including, with out limitation, the costs and expenses which the Borrower is obligated to pay under Section 11.3 or 11.8 or under the applicable provisions of any other Facility Document but excluding, unless a Default or Event of Default has occurred, normal administrative costs and expenses incident to the performance of its agency duties hereunder) or the enforcement of any of the terms hereof or thereof or of any such other documents or instruments; provided that no Bank shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the party to be indemnified.

Section 10.6. Documents. The Administrative Agent will forward to each Bank, promptly after the Administrative Agent's receipt thereof, a copy of each report, notice or other document required by this Agreement or any other Facility Document to be delivered to the Administrative Agent for such Bank.

Section 10.7. Non-Reliance on Administrative Agent and Other Banks. Each Bank agrees that it has, independently and without reliance on the Administrative Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis of the Borrower and its Subsidiaries and decision to enter into this Agreement and that it will, independently and without reliance upon the Administrative Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement or any other Facility Document. The Administrative Agent shall not be required to keep itself informed as to the performance or observance by the Borrower of this Agreement or any other Facility Document or any other document referred to or provided for herein or therein or to inspect the properties or

books of the Borrower or any Subsidiary. Except for notices, reports and other documents and information expressly required to be furnished to the Banks by the Administrative Agent hereunder, the Administrative Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the affairs, financial condition or business of the Borrower or any Subsidiary (or any of their Affiliates) which may come into the possession of the Administrative Agent or any of its affiliates. The Administrative Agent shall not be required to file this Agreement, any other Facility Document or any document or instrument referred to herein or therein, for record or give notice of this Agreement, any other Facility Document or any document or instrument referred to herein or therein, to anyone.

Section 10.8. Failure of Administrative Agent to Act. Except for action
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expressly required of the Administrative Agent hereunder, the Administrative Agent shall in all cases be fully justified in failing or refusing to act hereunder unless it shall have received further assurances of the indemnification obligations of the Banks under Section 10.5 in respect of any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action.

Section 10.9. Resignation or Removal of Administrative Agent. Subject to
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the appointment and acceptance of a successor Administrative Agent as provided below, the Administrative Agent may resign at any time by giving written notice thereof to the Banks and the Borrower, and the Administrative Agent may be removed at any time with or without cause by the Required Banks; provided that the Borrower and the other Banks shall be promptly notified thereof. Upon any such resignation or removal, the Required Banks shall have the right to appoint a successor Administrative Agent reasonably acceptable to the Borrower. If no successor Administrative Agent shall have been so appointed by the Required Banks and shall have accepted such appointment within 30 days after the retiring Administrative Agent's giving of notice of resignation or the Required Banks' removal of the retiring Administrative Agent, then the retiring Administrative Agent may, on behalf of the Banks, appoint a successor Administrative Agent (provided no Default or Event of Default shall have occurred and be continuing, such successor shall be reasonably acceptable to the Borrower), which shall be a bank which has an office in New York, New York with combined capital and surplus of at least $100,000,000. The Required Banks or the retiring Administrative Agent, as the case may be, shall upon the appointment of a successor Administrative Agent promptly so notify the Borrower and the other Banks. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After any retiring Administrative Agent's resignation or removal hereunder as Administrative Agent, the provisions of this Article 10 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Administrative Agent.

Section 10.10. Amendments Concerning Agency Function. The Administrative Agent shall not be bound by any waiver, amendment, supplement or modification of this Agreement or any other Facility Document which affects its duties hereunder or thereunder unless it shall have given its prior consent thereto.

Section 10.11. Liability of Administrative Agent. The Administrative Agent shall not have any liabilities or responsibilities to the Borrower on account of the failure of any Bank to perform its obligations hereunder or to any Bank on account of the failure of the Borrower to perform its obligations hereunder or under any other Facility Document.

Section 10.12. Transfer of Agency Function. Without the consent of the Borrower or any Bank, the Administrative Agent may at any time or from time to time transfer its functions as Administrative Agent hereunder to any of its offices wherever located, provided that the Administrative Agent shall promptly notify the Borrower and the Banks thereof.

Section 10.13. Non-Receipt of Funds by the Administrative Agent. Unless the Administrative Agent shall have been notified by a Bank or the Borrower (either one as appropriate being the "Payor") prior to the date on which such Bank is to make payment hereunder to the Administrative Agent of the proceeds of a Loan or the Borrower is to make payment to the Administrative Agent, as the case may be (either such payment being a "Required Payment"), which notice shall be effective upon receipt, that the Payor does not intend to make the Required Payment to the Administrative Agent, the Administrative Agent may assume that the Required Payment has been made and may, in reliance upon such assumption (but shall not be required to), make the amount thereof available to the intended recipient on such date and, if the Payor has not in fact made the Required Payment to the Administrative Agent, the recipient of such payment (and, if such recipient is the Borrower and the Payor Bank fails to pay the amount thereof to the Administrative Agent forthwith upon demand, the Borrower) shall, on demand, repay to the Administrative Agent the amount made available to it together with interest thereon for the period from the date such amount was so made available by the Administrative Agent until the date the Administrative Agent recovers such amount at a rate per annum equal to the average daily Federal Funds Rate for such period.

Section 10.14. Withholding Taxes. Each Bank represents that, as of the date hereof, it is entitled to receive any payments to be made to it hereunder without the withholding of any tax and will furnish to the Administrative Agent such forms, certifications, statements and other documents as the Administrative Agent may request from time to time to evidence such Bank's exemption from the withholding of any tax imposed by any jurisdiction or to enable the Administrative Agent to comply with any applicable laws or regulations relating thereto. Without limiting the effect of the foregoing, if any Bank is not created or organized under the laws of the United States of America or any state thereof, in the event that the payment of interest by the Borrower is treated for

U.S. income tax purposes as derived in whole or in part from sources from within the U.S., such Bank will furnish to the Administrative Agent Form 4224 or Form 1001 of the Internal Revenue Service, or such other forms, certifications, statements or documents, duly executed and completed by such Bank as evidence of such Bank's exemption from the withholding of U.S. tax with respect thereto, unless it is prevented from doing so by a Regulatory Change . The Administrative Agent shall not be obligated to make any payments hereunder to such Bank in respect of any Loan or such Bank's Commitment if such Bank shall have failed to comply with any requirement applicable to such Bank set forth in the preceding sentence.

Section 10.15. Several Obligations and Rights of Banks. The failure of any
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Bank to make any Loan to be made by it on the date specified therefor shall not relieve any other Bank of its obligation to make its Loan on such date, but no Bank shall be responsible for the failure of any other Bank to make a Loan to be made by such other Bank. The amounts payable at any time hereunder to each Bank shall be a separate and independent debt, and each Bank shall be enti tled to protect and enforce its rights arising out of this Agreement, and it shall not be necessary for any other Bank to be joined as an additional party in any proceeding for such purpose.

Section 10.16. Pro Rata Treatment of Loans, Etc. Except to the extent
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otherwise provided: (a) each borrowing under Section 2.4(a) shall be made from the Banks, each reduction or termination of the amount of the Commitments under Section 2.7 shall be applied to the Commitments of the Banks, and each payment of facility fee accruing under Section 2.11 shall be made for the account of the Banks, pro rata according to the amounts of their respective unused Com mitments; (b) each conversion under Section 2.5 of Loans of a particular type (but not conversions provided for by Section 3.4), shall be made pro rata among the Banks holding Loans of such type according to the respective principal amounts of such Loans by such Banks; (c) each prepayment and payment of principal of or interest on Syndicated Loans of a particular type and a particular Interest Period shall be made to the Administrative Agent for the account of the Banks holding Syndicated Loans of such type and Interest Period pro rata in accordance with the respective unpaid principal amounts of such Syndicated Loans of such Interest Period held by such Banks.

Section 10.17. Sharing of Payments Among Banks. If a Bank shall obtain
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payment of any principal of or interest on any Syndicated Loan made by it through the exercise of any right of setoff, banker's lien, counterclaim, or by any other means, it shall promptly purchase from the other Banks participations in (or, if and to the extent specified by such Bank, direct interests in) the Syndicated Loans made by the other Banks in such amounts, and make such other adjustments from time to time as shall be equitable to the end that all the Banks shall share the benefit of such payment (net of any expenses which may be incurred by such Bank in obtaining or preserving such benefit) pro rata in accordance with the unpaid principal and interest on the Syndicated Loans held by each of them. To such end the Banks shall make appropriate adjustments among themselves (by

the resale of participations sold or otherwise) if such payment is rescinded or must otherwise be restored. The Borrower agrees that any Bank so purchasing a participation (or direct interest) in the Syndicated Loans made by other Banks may exercise all rights of setoff, banker's lien, counterclaim or similar rights with respect to such participation (or direct interest). Nothing contained herein shall require any Bank to exercise any such right or shall affect the right of any Bank to exercise, and retain the benefits of exercising, any such right with respect to any other indebtedness of the Borrower.

## ARTICLE 11 MISCELLANEOUS.

Section 11.1. Amendments and Waivers. Except as otherwise expressly provided in this Agreement, any provision of this Agreement may be amended or modified only by an instrument in writing signed by the Borrower, the Administrative Agent and the Required Banks, or by the Borrower and the Administrative Agent acting with the consent of the Required Banks, and any provision of this Agreement may be waived by the Required Banks or by the Administrative Agent acting with the consent of the Required Banks; provided that no amendment, modification or waiver shall, unless by an instrument signed by all of the Banks or by the Administrative Agent acting with the consent of all of the Banks: (a) increase or extend the term, or extend the time or waive any requirement for the reduction or termination, of the Commitments, (b) extend the date fixed for the payment of principal of or interest on any Loan or any fee payable hereunder, (c) reduce the amount of any payment of principal thereof or the rate at which interest is payable thereon or any fee payable hereunder, (d) alter the terms of Section 10.16, Section 10.17, this Section 11.1 or the first sentence of Section 11.5(a), (e) amend the definition of the term "Required Banks" or (f) waive any of the conditions precedent set forth in Article 4 hereof and provided, further, that any amendment of Article 10 hereof or any amendment which increases the obligations of the Administrative Agent hereunder shall require the consent of the Administrative Agent. No failure on the part of the Administrative Agent or any Bank to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof or preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

Section 11.2. Usury. Anything herein to the contrary notwithstanding, the obligations of the Borrower under this Agreement and the Notes shall be subject to the limitation that payments of interest shall not be required to the extent that receipt thereof would be contrary to provisions of law applicable to a Bank limiting rates of interest which may be charged or collected by such Bank.

Section 11.3. Expenses; Taxes.

(a) The Borrower hereby agrees to pay or cause to be paid and to save the Administrative Agent harmless against liability for the payment of all reasonable

out-of-pocket costs and expenses (including but not limited to reasonable fees and expenses of counsel, auditors, consulting engineers, appraisers, and all other reasonable professional, accounting, evaluation and consulting costs) incurred by the Administrative Agent from time to time arising from or relating to (i) the negotiation, preparation, execution, delivery, administration and performance of this Agreement and the other Facility Documents or (ii) any requested amendments, modifications, supplements, waivers or consents (whether or not ultimately entered into or granted) to this Agreement or any other Facility Document. The Borrower further agrees to pay or cause to be paid to save the Administrative Agent and each Bank harmless against liability for the payment of all reasonable out-ofpocket costs and expenses (including but not limited to reasonable fees and expenses of counsel, auditors, consulting engineers, appraisers, and all other reasonable professional, accounting, evaluation and consulting costs) incurred by the Administrative Agent or any of the Banks from time to time arising from or relating to the enforcement, defense or preservation of rights under this Agreement or any other Facility Document (including, without limitation, to any such costs or expenses arising from or relating to (i) collection or enforcement of an outstanding Loan or any other amount owing hereunder or thereunder by the Administrative Agent or any Bank, and (ii) any litigation, proceeding, dispute, workout, restructuring or rescheduling related in any way to this Agreement or the other Facility Documents).

(b) The Borrower hereby agrees to pay all stamp, document, transfer, recording, filing, registration, search, sales and excise fees and taxes and all similar impositions now or hereafter reasonably determined by the Administrative Agent to be payable in connection with this Agreement or any other Facility Document or any other documents, instruments or transactions pursuant to or in connection therewith or herewith, and Borrower agrees to save the Administrative Agent and each Bank harmless from and against any and all present or future claims, liabilities or losses with respect to or resulting from any omission to pay or delay in paying such fees, taxes or impositions.

Section 11.4. Survival. All representations and warranties of the Borrower
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contained herein or in any other Facility Document or made in connection herewith or therewith shall survive the making of, and shall not be waived by, the execution and delivery of this Agreement and the other Facility Documents, any investigation by or knowledge of the Administrative Agent or any Bank, the making of the Loans or any other event or condition whatsoever. All covenants and agreements of the Borrower contained herein or in any other Facility Document shall continue in full force and effect from and after the date hereof so long as the Borrower may borrow hereunder and until repayment in full of the Loans and all obligations of the Borrower hereunder or any other Facility Document. Without limitation, all obligations of the Borrower hereunder or under any other Facility Document to make payments or indemnify the Administrative Agent or any Bank shall survive the repayment in full of all Loans and all other obligations hereunder or under any other Facility Document, the termination of the Commitments, and all other events and conditions whatsoever. In addition, all obligations of each Bank to make payments to or indemnify the Administrative Agent shall survive the payment in full by the

Borrower of all Loans and other obligations hereunder or under any other Facility Document, the termination of the Commitments, and all other events and conditions whatsoever.

Section 11.5. Assignment; Participations.

(a) This Agreement shall be binding upon, and shall inure to the benefit of, the Borrower, the Administrative Agent, the Banks and their respective successors and assigns, except that the Borrower may not assign or transfer its rights or obligations hereunder without the consent of all of the Banks. Each Bank may assign or sell participations in all or any part of any Loan or Commitment to another bank or other entity, in which event (i) in the case of an assignment, upon notice thereof by the Bank to the Borrower with a copy to the Administrative Agent, the assignee shall have, to the extent of such assignment (unless otherwise provided therein), the same rights, benefits and obligations as it would have if it were a Bank hereunder; and (ii) in the case of a participation, the participant shall have no rights under the Facility Documents and all amounts payable by the Borrower under Article 3 shall be determined as if such Bank had not sold such partic ipation. Any assignment pursuant to this Section 11.5 shall be in an amount not less than $10,000,000, shall leave any assigning Bank that remains a "Bank" hereunder with a Commitment of at least $5,000,000 and, if no Default or Event of Default has occurred and is continuing, shall be subject to the prior consent of the Borrower (which shall not be unreasonably withheld), except that (i) no such minimum amount will be required to be transferred or retained and no such prior consent will be required if such assignment is necessary for regulatory purposes and (ii) no such minimum amount will be required to be transferred and no such prior consent will be required if the transferee is already a "Bank" or an affiliate of a "Bank" hereunder. The agreement executed by any Bank in favor of a participant shall not give the participant the right to require such Bank to take or omit to take any action hereunder except action directly relating to (i) the extension of a payment date (including the Termination Date) with respect to any portion of the principal of or interest on any amount outstanding hereunder allocated to such participant, (ii) the reduction of the principal amount outstanding hereunder or (iii) the reduction of the rate of interest payable on such amount or any amount of fees payable hereunder to a rate or amount, as the case may be, below that which the participant is entitled to receive under its agreement with such Bank. Such Bank may furnish any information concerning the Borrower in the possession of such Bank from time to time to assignees and participants (including prospective assignees and participants); provided that such Bank shall require any such prospective assignee or such participant (prospective or otherwise) to agree in writing to maintain the confidentiality of such information. In connection with any assignment pursuant to this paragraph (a), the assigning Bank shall pay the Administrative Agent an administrative fee for processing such assignment in the amount of $2,500.

(b) In addition to the assignments and participations permitted under paragraph (a) above, any Bank may assign and pledge, without meeting any of the

requirements of paragraph (a) above, all or any portion of its Loans and Note to (i) any affiliate of such Bank or (ii) any Federal Reserve Bank as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any Operating Circular issued by such Federal Reserve Bank. No such assignment shall release the assigning Bank from its obligations hereunder.

Section 11.6. Notices. Unless the party to be notified otherwise notifies the other party in writing as provided in this Section, and except as otherwise provided in this Agreement, notices shall be delivered in person or sent by overnight courier, facsimile, ordinary mail, cable or telex addressed to such party at its "Address for Notices" on the signature page of this Agreement. Notices pertaining to Sections 2.4 and 2.8 may be made by telephone and shall be confirmed in writing via telex or facsimile not later than 5 p.m. on the day such notice is given. Notices shall be effective: (a) on the day on which delivered to such party in person, (b) on the first Banking Day after the day on which sent to such party by overnight courier, (c) if given by mail, 48 hours after deposit in the mails with first-class postage prepaid, addressed as aforesaid, and (d) if given by facsimile, cable or telex, when the facsimile, cable or telex is transmitted to the facsimile, cable or telex number as aforesaid; provided that notices to the Administrative Agent and the Banks shall be effective upon receipt.

Section 11.7. Setoff. The Borrower agrees that, in addition to (and without limitation of) any right of setoff, banker's lien or counterclaim a Bank may otherwise have, upon the occurrence of any Event of Default, each Bank shall be entitled, at its option, to offset balances (general or special, time or demand, provisional or final) held by it for the account of the Borrower at any of such Bank's offices, in Dollars or in any other currency, against any amount payable by the Borrower to such Bank under this Agreement or such Bank's Notes which is not paid when due (regardless of whether such balances are then due to the Borrower), in which case it shall promptly notify the Borrower and the Administrative Agent thereof; provided that such Bank's failure to give such notice shall not affect the validity thereof. Payments by the Borrower hereunder shall be made without setoff or counterclaim.

Section 11.8. Indemnification; Exoneration. In consideration of the execution and delivery of this Agreement by the Administrative Agent and the Banks, the Borrower will defend, indemnify, exonerate and hold harmless each Bank, the Administrative Agent and their affiliates and each of their respective officers, directors, stockholders, affiliates, trustees, employee and agents, and each other Person, if any, controlling such Bank or any of its affiliates (herein collectively called the "Indemnitees") from and against any and all actions, causes of action, suits, losses, liabilities and damages, and expenses in connection therewith, including without limitation reasonable counsel fees and disbursements incurred in the investigation and defense of claims and actions (herein collectively called the "Indemnified Liabilities"), incurred by the Indemnitees or any of them as a result of, or arising out of or relating to the execution, delivery, performance or

enforcement of this Agreement, the Notes, or any other Facility Document, or any instrument or document contemplated hereby or thereby by any of the Indemnitees, or by any act, event or transaction related or attendant thereto or contemplated hereby or thereby, or any action or inaction by any Indemnitee under or in connection therewith, or the falseness of any representation or warranty made by or on behalf of the Borrower, except for any Indemnified Liabilities that are finally judicially determined to have resulted from the any Indemnitee's gross negligence or willful misconduct, and if and to the extent that the foregoing may be unenforceable for any reason, the Borrower hereby agrees to make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities that is permissible under applicable law. The obligations of the Borrower under this Section 11.8 shall be in addition to any liability that the Borrower may otherwise have and shall survive the payment or prepayment in full or transfer of any Note, the termination of the Bank's obligations hereunder and the enforcement of any provision hereof or thereof.

SECTION 11.9. JURISDICTION; IMMUNITIES.

(a) THE BORROWER HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY NEW YORK STATE OR UNITED STATES FEDERAL COURT SITTING IN NEW YORK COUNTY, NEW YORK OVER ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE NOTES, AND THE BORROWER HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE OR FEDERAL COURT. THE BORROWER IRREVOCABLY CONSENTS TO THE SERVICE OF ANY AND ALL PROCESS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES OF SUCH PROCESS TO THE BORROWER AT ITS ADDRESS SPECIFIED IN SECTION 11.6. THE BORROWER AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. THE BORROWER FURTHER WAIVES ANY OBJECTION TO VENUE IN SUCH STATE AND ANY OBJECTION TO AN ACTION OR PROCEEDING IN SUCH STATE ON THE BASIS OF FORUM NON CONVENIENS. THE BORROWER FURTHER AGREES THAT ANY ACTION OR PROCEEDING BROUGHT AGAINST THE ADMINISTRATIVE AGENT SHALL BE BROUGHT ONLY IN NEW YORK STATE OR UNITED STATES FEDERAL COURT SITTING IN NEW YORK COUNTY, NEW YORK. THE BORROWER, THE ADMINISTRATIVE AGENT AND EACH BANK EACH WAIVES ANY RIGHT IT MAY HAVE TO JURY TRIAL.

(b) Nothing in this Section 11.9 shall affect the right of the Administrative Agent or any Bank to serve legal process in any other manner permitted by

law or affect the right of the Administrative Agent or any Bank to bring any action or proceeding against the Borrower or its property in the courts of any other jurisdictions.

(c) To the extent that the Borrower has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether from service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property, the Borrower hereby irrevocably waives such immunity in respect of its obligations under this Agreement and the Notes.

Section 11.10. Table of Contents; Headings. Any table of contents and the headings and captions hereunder are for convenience only and shall not affect the interpretation or construction of this Agreement.

Section 11.11. Severability. The provisions of this Agreement are intended to be severable. If for any reason any provision of this Agreement shall be held invalid or unenforceable in whole or in part in any jurisdiction, such provision shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without in any manner affecting the validity or enforceability thereof in any other jurisdiction or the remaining provisions hereof in any jurisdiction.

Section 11.12. Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any party hereto may execute this Agreement by signing any such counterpart.

Section 11.13. Integration. The Facility Documents set forth the entire agreement among the parties hereto relating to the transactions contemplated thereby and supersede any prior oral or written statements or agreements with respect to such transactions.

SECTION 11.14. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND INTERPRETED AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO THE CONFLICTS OF LAWS PRINCIPLES THEREOF.

Section 11.15. Confidentiality. Each Bank and the Administrative Agent agrees (on behalf of itself and each of its affiliates, directors, officers, employees and representatives) to use its best efforts to keep confidential, in accordance with safe and sound banking practices, any non-public information supplied to it by the Borrower pursuant to this Agreement, provided that nothing herein shall limit the disclosure of any such information (i) to the extent required by statute, rule, regulation or judicial process, (ii) to counsel for any of the Banks or the Administrative Agent, (iii) to bank examiners, auditors or accountants, (iv) in connection with any litigation concerning the Borrower to which any one or more of the Banks is a party or (v) to any assignee or participant (or

prospective assignee or participant) so long as such assignee or participant (or prospective assignee or participant) first executes and delivers to the respective Bank a Confidentiality Agreement in substantially the form of Exhibit G hereto; and provided, further, that in no event shall any Bank or the Administrative Agent be obligated or required to return any materials furnished by the Borrower, unless reasonably requested to do so in writing by the Borrower.

Section 11.16. Treatment of Certain Information. The Borrower (a) acknowledges that services may be offered or provided to it (in connection with this Agreement or other wise) by each Bank or by one or more of their respective sub sidiaries or affiliates and (b) acknowledges that information delivered to each Bank by the Borrower may be provided to each such subsidiary and affiliate.

Section 11.17. Changes in Accounting Principles.

(a) If any changes in accounting principles from those used in the preparation of the financial statements referred to in Section 5.5 are hereafter occasioned by the promulgation of rules, regulations, pronouncements, or opinions of, or required by, the Financial Accounting Standards Review Board of the American Institute of Certified Public Accountants (or successors thereto or agencies with similar functions), or there shall occur any change in the Borrower's or any Subsidiary's fiscal or tax years and, as a result of any such changes, there shall result a change in the method of calculating any of the financial covenants, negative covenants, standards, or other terms or conditions found in this Agreement or any other Facility Document, or

(b) If the Borrower, for reasonable business purposes, shall desire to change such accounting principles or the application thereof (which change shall be consistent with accounting principles then in effect pursuant to rules, regulations, pronouncements, or opinions or the Financial Accounting Standards Review Board of the American Institute of Certified Public Accountants) and such desired change would result in a change in the method of calculating any of the financial covenants, negative covenants or other terms and conditions found in this Agreement or any other Facility Document, then the parties hereto agree to enter into negotiations in order to amend such provisions and the definition of GAAP set forth in Section 1.1 so as to reflect equitably such changes with the desired result that the criteria for evaluating the financial condition and performance of the Borrower and its Subsidiaries shall be the same after such changes as if such changes had not been made.

Section 11.18. Independence of Covenants. All covenants hereunder shall be given independent effect so that if a particular action or condition is not permitted by any of such covenants, the fact that it would be permitted by an exception to, or be otherwise within the limitations of, another covenant shall not avoid the occurrence of a Default or Event of Default if such action is taken or condition exists.

Section 11.19. Time of the Essence. Time and punctuality shall be of the essence with respect to this instrument, but no delay or failure of the Administrative Agent or any Bank to enforce any of the provisions herein contained and no conduct or statement of the Administrative Agent or any Bank shall waive or affect any of the Administrative Agent's or any Bank's rights hereunder.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

CUC INTERNATIONAL INC.

By /s/ E. Kirk Shelton
---
E. Kirk Shelton
President and Chief Operating Officer

Address for Notices:

707 Summer Street Stamford,
Connecticut 06901 Facsimile
No.: (203) 348-4528

CO-AGENTS:
---

THE CHASE MANHATTAN BANK, N.A.

By
---
Susan Timmerman
Vice President

Address for Notices:

999 Broad Street, 2nd Floor
Bridgeport, Connecticut 06604
Facsimile No.: (203) 382-6573

BANK OF MONTREAL

By /s/ Brian L. Banke
   ---
   Name:  Brian L. Banke
   Title: Director

Address for Notices:

430 Park Avenue
New York, New York  10022
Facsimile No.: (212) 605 1454

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK

By
   ---
   Name:
   Title:

Address for Notices:

---

---

---

Facsimile No.:

THE SAKURA BANK, LIMITED

By /s/ Masahiro Nakajo
   ----------
   Name:  Masahiro Nakajo
   Title: Senior Vice President & Manager
Address for Notices:

The Sakura Bank, Limited
277 Park Avenue
New York, New York  10172
Facsimile No.: (212) 888-7651

ADMINISTRATIVE AGENT:
---

THE CHASE MANHATTAN BANK, N.A.

By /s/ Susan Timmerman
   ----------
   Susan Timmerman
   Vice President

Address for Notices:

999 Broad Street, 2nd Floor
Bridgeport, Connecticut  06604
Facsimile No.: (203) 382-6573

BANKS:
------
THE CHASE MANHATTAN BANK, N.A.

By /s/ Susan Timmerman
   ------------------
   Susan Timmerman
   Vice President

Address for Notices:

999 Broad Street, 2nd Floor
Bridgeport, Connecticut  06604
Facsimile No.: (203) 382-6573

BANK OF MONTREAL

By
   ----------------------
   Name:
   Title:

Address for Notices:

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Facsimile No.:
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MORGAN GUARANTY TRUST COMPANY
OF NEW YORK
By /s/ Eugenia Wilds
   ------------------------
   Name:  Eugenia Wilds
   Title: Vice President

Address for Notices:

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Facsimile No.:
                -------------
THE SAKURA BANK, LIMITED
By
   ----------------------
   Name:
   Title:

Address for Notices:

---

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---

Facsimile No.:
               -------------

ABN AMRO BANK N.V.
NEW YORK BRANCH

By /s/ Frances O. Logan
---
Name:Frances O. Logan
Title: Vice President

By /s/ Thomas T. Rogers
---
Name:Thomas T. Rogers
Title: Assistant Vice President

Address for Notices:

500 Park Avenue
New York, New York 10022
Facsimile No.: (212) 446-4203

THE BANK OF NEW YORK

By
---
Name:
Title:

Address for Notices:

---

---

---

Facsimile No.:
---

FIRST AMERICAN NATIONAL BANK

By
   ----------
   Name:
   Title:

Address for Notices:

---

---

---

Facsimile No.:
   ---

FIRST UNION NATIONAL BANK

By /s/ Susan E. Scott
   ----------
   Name:  Susan E. Scott
   Title: Senior Vice President

Address for Notices:

   Att: Mark P. Smith
   First Union National Bank
   550 Broad Street NJ1535
   Newark, NJ 07102
   Facsimile No.: (201) 565-5808

FLEET NATIONAL BANK OF
CONNECTICUT

By /s/ Jane C. Lee
---
Name: Jane C. Lee
Title: Vice President

Address for Notices:

One Landmark Square, 12th Floor
Stamford, CT
06904-1454
Facsimile No.: (203) 358-6111

THE INDUSTRIAL BANK OF JAPAN
TRUST COMPANY

By
---
Name:
Title:

Address for Notices:

---

---

---

Facsimile No.:
---

MELLON BANK, N.A.

By /s/ David N. Smith
---
Name: David N. Smith
Title: Vice President

Address for Notices:

65 East 55th Street, 15th Floor
New York, New York 10022
Facsimile No.: 212-702-5269

THE MITSUBISHI BANK, LIMITED

By /s/ David A. Kelson
---
Name: David A. Kelson
Title: Vice President

By
---
Name:
Title:

Address for Notices:

---

---

---

Facsimile No.:
---

ROYAL BANK OF CANADA

By /s/ Sheryl L. Greenberg
---
Name: Sheryl L. Greenberg
Title: Manager

Address for Notices:

Royal Bank of Canada
Financial Square, 23rd Flr.
New York, N.Y. 10005-3531
Facsimile No.: (212) 428-2372

THE SANWA BANK, LTD.

By
---
Name:
Title:

Address for Notices:

---

---

---

Facsimile No.:
---

THE SUMITOMO BANK, LIMITED,
NEW YORK BRANCH

By /s/ Yoshinori Kawamura
Name: Yoshinori Kawamura
Title: Joint General Manager

Address for Notices:
277 Park Avenue, 6th Floor
New York, NY 10172
Attention: Jeff Toner
Facsimile No.: (212) 224-5188

THE FUJI BANK, LIMITED
NEW YORK BRANCH

By
---
Name:
Title:

Address for Notices:

---

---

---

Facsimile No.:
---

Exhibit 10.21

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AGREEMENT AND PLAN OF MERGER

BY AND AMONG

IDEON GROUP, INC.,

CUC INTERNATIONAL INC.

AND

IG ACQUISITION CORP.

DATED

AS OF

APRIL 19, 1996

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AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER, dated as of April 19, 1996 (this "Agreement"), by and among Ideon Group, Inc., a Delaware corporation (the "Company"), CUC International Inc., a Delaware corporation ("Buyer"), and IG Acquisition Corp., a Delaware corporation and a wholly owned subsidiary of Buyer ("Merger Subsidiary").

WHEREAS, the respective Boards of Directors of Buyer, Merger Subsidiary and the Company have determined that it is fair to, and in the best interests of their respective stockholders to consummate the acquisition of the Company by Buyer upon the terms and subject to the conditions set forth herein; and

WHEREAS, the respective Boards of Directors of the Company, Buyer and Merger Subsidiary have approved and declared advisable this Agreement and the merger of Merger Subsidiary with and into the Company, upon terms and subject to the conditions set forth herein, whereby each issued and outstanding share of common stock, par value $.01 per share, of the Company (the "Shares"), not owned directly or indirectly by Buyer or Merger Subsidiary, will be converted into the number of shares of common stock, par value $.01 per share of Buyer ("Buyer Common Stock"), determined pursuant to Section 1.2(a) hereof; and

WHEREAS, it is intended that the Merger (as defined herein) shall be recorded for accounting purposes as a pooling-of-interests; and

WHEREAS, for federal income tax purposes, it is intended that the Merger shall qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code");

WHEREAS, the Company has delivered to Buyer a letter (the "Company Affiliate Letter") identifying all persons (each, a "Company Affiliate") who are at the date hereof, "affiliates" of the Company for purposes of Rule 145 under the Securities Act of 1933, as amended (the "Securities Act"), and each Company Affiliate has delivered to Buyer a letter substantially in the form attached hereto as Exhibit 1 (each, an "Affiliate Letter") relating to (i) the transfer prior to the Effective Time (as

defined in Section 1.1(b)), of the Shares beneficially owned by such Company Affiliate on the date hereof, and (ii) the transfer of the shares of Buyer Common Stock to be received by such Company Affiliate in the Merger (as defined in Section 1.1(a)); and

WHEREAS, Buyer, Merger Subsidiary and the Company desire to make certain representations, warranties, covenants and agreements in connection with the Merger and also to prescribe various conditions to the Merger.

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements
contained in this Agreement, the parties hereto agree as follows:

## ARTICLE I

## THE MERGER

SECTION 1.1 The Merger. (a) Subject to the terms and conditions of this Agreement, and in accordance with the Delaware General Corporation Law (the "DGCL"), at the Effective Time, Merger Subsidiary shall be merged (the "Merger") with and into the Company, whereupon the separate existence of Merger Subsidiary shall cease, and the Company shall be the surviving corporation (the "Surviving Corporation") and shall continue to be governed by the laws of the State of Delaware.

(b) The Company, Buyer and Merger Subsidiary will cause a certificate of merger (the "Certificate of Merger") with respect to the Merger to be executed and filed with the Secretary of State of the State of Delaware (the "Secretary of State") as provided in the DGCL. The Merger shall become effective on the date the Certificate of Merger has been duly filed with the Secretary of State or at such date as is agreed between the parties and specified in the Certificate of Merger, and such time is hereinafter referred to as the "Effective Time."

(c) From and after the Effective Time, the Surviving Corporation shall possess all the rights, privileges, powers and franchises and be subject to all of

the restrictions, disabilities, liabilities and duties of the Company and Merger Subsidiary.

SECTION 1.2 Effect on Shares. At the Effective Time:

(a) Conversion of Shares; Merger Consideration. Subject to the provisions of Section 1.5 and Section 1.7 hereof, each Share issued and outstanding immediately prior to the Effective Time (other than Shares held by the Company as treasury stock or by any Subsidiary of the Company or owned by Buyer, Merger Subsidiary or any other Subsidiary of Buyer) shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted into the right to receive that number of duly authorized, validly issued, fully paid and nonassessable shares of Buyer Common Stock (the "Merger Consideration")(such applicable number being hereinafter referred to as the "Conversion Number"), equal to the quotient obtained by dividing (x) $13.50 by (y) the Average Stock Price (as hereinafter defined); provided, however, that if the Average Stock Price is $22 or less the Conversion Number shall be 0.6136 and if the Average Stock Price is $36 or more the Conversion Number shall be 0.3750. The "Average Stock Price" shall mean the average closing price per share of Buyer Common Stock on the New York Stock Exchange (the "NYSE") as reported on the NYSE Composite Tape during the fifteen consecutive trading day period (the "Measurement Period") ending on the second calendar day immediately preceding the Company Stockholder Meeting (as defined herein); provided, however, that if such second calendar day is not a trading day, the Measurement Period shall end on the next calendar day immediately preceding such second calendar day that is a trading day.

(b) Cancellation of Shares. Each Share held by the Company as treasury stock or owned by Buyer, Merger Subsidiary or any other Subsidiary of Buyer immediately prior to the Effective Time shall automatically be canceled and retired and cease to exist, and no payment shall be made with respect thereto. All Shares to be converted into Buyer Common Stock pursuant to this Section 1.2 shall, by virtue of the Merger and without any action on the part of the holders thereof, cease to be outstanding, be canceled and retired and cease to exist; and each holder of a certificate representing

prior to the Effective Time any such Shares shall thereafter cease to have any rights with respect to such Shares, except the right to receive (i) certificates representing shares of Buyer Common Stock into which such Shares have been converted, (ii) any dividends and other distributions in accordance with Section 1.4 hereof and (iii) any cash, without interest, to be paid in lieu of any fractional share of Buyer Common Stock in accordance with Section 1.5 hereof.

(c) Capital Stock of Merger Subsidiary. Each share of common stock of Merger Subsidiary issued and outstanding immediately prior to the Effective Time shall be converted into and become one share of common stock, par value $0.01, of the Surviving Corporation with the same rights, powers and privileges as the shares so converted and shall constitute the only outstanding shares of capital stock of the Surviving Corporation.

SECTION 1.3 Exchange of Certificates. (a) Prior to the Effective Time, Buyer shall appoint a commercial bank having capital of not less than $500,000,000 (or such other Person or Persons as shall be acceptable to Buyer and the Company) to act as exchange agent hereunder (the "Exchange Agent"). At the Effective Time, Buyer shall deposit with the Exchange Agent, certificates (the "Buyer Certificates") representing Buyer Common Stock which immediately prior to the Effective Time represent a number of shares of Buyer Common Stock required to be issued pursuant to Section 1.2(a) in exchange for the outstanding Shares (together with cash as required to (i) pay any dividends or distributions with respect thereto in accordance with Section 1.4 hereof and (ii) make payments in lieu of fractional Shares pursuant to Section 1.5 hereof, being hereinafter referred to as the "Exchange Fund"). The Exchange Fund shall not be used for any other purpose except as provided for in this Agreement.

(b) Promptly after the Effective Time, the Exchange Agent shall mail to each holder of record of a certificate or certificates which immediately prior to the Effective Time represented outstanding Shares (the "Share Certificates") (i) a form of a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Share Certificates shall pass, only upon actual delivery thereof to the

Exchange Agent) and (ii) instructions for use in effecting the surrender of the Share Certificates in exchange for the property described in the next sentence. Upon surrender for cancellation to the Exchange Agent of Share Certificate(s) held by any record holder of a Share Certificate, together with such letter of transmittal duly executed, such holder shall be entitled to receive in exchange therefor (x) a Buyer Certificate representing the number of whole shares of Buyer Common Stock into which the Shares represented by the surrendered Share Certificate(s) shall have been converted at the Effective Time pursuant to this Article I, (y) cash in lieu of any fractional share of Buyer Common Stock in accordance with Section 1.5 hereof and (z) certain dividends and other distributions in accordance with Section 1.4 hereof; and the Share Certificate(s) so surrendered shall forthwith be cancelled.

(c) Subject to the provisions of Section 1.4 and Section 1.5 hereof, each Share Certificate which immediately prior to the Effective Time represented Shares to be converted in the Merger shall, from and after the Effective Time until surrendered in exchange for Buyer Certificate(s) in accordance with this Section 1.3, be deemed for all purposes to represent the number of shares of Buyer Common Stock into which such Shares shall have been so converted.

SECTION 1.4 Dividends; Transfer Taxes. No dividends or other
---

distributions that are declared on or after the Effective Time on Buyer Common Stock, or are payable to the holders of record thereof who became such on or after the Effective Time, shall be paid to any Person entitled by reason of the Merger to receive Buyer Certificates representing Buyer Common Stock, and no cash payment in lieu of any fractional share of Buyer Common Stock shall be paid to any such person pursuant to Section 1.5 hereof, until such Person shall have surrendered its Share Certificate(s) as provided in Section 1.3 hereof. Subject to applicable law, there shall be paid to each Person receiving a Buyer Certificate representing such shares of Buyer Common Stock: (i) at the time of such surrender or as promptly as practicable thereafter, the amount of any dividends or other distributions theretofore paid with respect to the shares of Buyer Common Stock represented by such Buyer Certificate and having a record date on or after the Effective Time and a payment

date prior to such surrender, and (ii) at the appropriate payment date or as promptly as practicable thereafter, the amount of any dividends or other distributions payable with respect to such shares of Buyer Common Stock and having a record date on or after the Effective Time but prior to such surrender and a payment date on or subsequent to such surrender. In no event shall the Person entitled to receive such dividends or other distributions be entitled to receive interest on such dividends or other distributions. Buyer shall make available to the Exchange Agent the cash necessary for this purpose. If any cash or Buyer Certificate representing shares of Buyer Common Stock is to be paid to or issued in a name other than that in which the Share Certificate surrendered in exchange therefor is registered, it shall be a condition of such exchange that the Share Certificate so surrendered shall be properly endorsed and otherwise in proper form for transfer and that the person requesting such exchange shall pay to the Exchange Agent any transfer or other taxes required by reason of the issuance of such Buyer Certificate and the distribution of such cash payment in a name other than that of the registered holder of the Share Certificate so surrendered, or shall establish to the satisfaction of the Exchange Agent that such tax has been paid or is not applicable. "Person" means an individual, a corporation, limited liability company, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or any agency or instrumentality thereof.

SECTION 1.5 No Fractional Shares. No certificates or scrip
---
representing fractional shares of Buyer Common Stock shall be issued upon the surrender for exchange of Share Certificates pursuant to this Article I; no dividend or other distribution by Buyer and no stock split, combination or reclassification shall relate to any such fractional share; and no such fractional share shall entitle the record or beneficial owner thereof to vote or to any other rights of a stockholder of Buyer. In lieu of any such fractional share, each holder of Shares who would otherwise have been entitled thereto upon the surrender of Share Certificate(s) for exchange pursuant to this Article I will be paid an amount in cash (without interest) rounded to the nearest whole cent, determined by multiplying (i) the per share closing price on the NYSE of Buyer Common Stock (as reported on the

NYSE Composite Tape) on the date on which the Effective Time shall occur (or, if Buyer Common Stock shall not trade on the NYSE on such date, the first day of trading in Buyer Common Stock on the NYSE, thereafter) by (ii) the fractional share to which such holder would otherwise be entitled. Buyer shall make available to the Exchange Agent the cash necessary for this purpose.

SECTION 1.6 Return of Exchange Fund. Any portion of the Exchange Fund which remains undistributed to the former holders of the Shares for one year after the Effective Time shall be delivered to Buyer, upon its request, and any such former holders who have not theretofore surrendered to the Exchange Agent their Share Certificate(s) in compliance with this Article I shall thereafter look only to Buyer for payment of their claim for shares of Buyer Common Stock, any cash in lieu of fractional shares of Buyer Common Stock and any dividends or distributions with respect to such shares of Buyer Common Stock. Neither Buyer nor the Company shall be liable to any former holder of Shares for any such shares of Buyer Common Stock held in the Exchange Fund (and any cash, dividends and distributions payable in respect thereof) which is delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

SECTION 1.7 Adjustment of Conversion Number. In the event of any stock split, combination, reclassification or stock dividend with respect to Buyer Common Stock, any change or conversion of Buyer Common Stock into other securities or any other dividend or distribution with respect to Buyer Common Stock (other than quarterly cash dividends issued in the ordinary course consistent with past practice) and any distribution by Buyer of shares of capital stock of any of its affiliates, or if a record date with respect to any of the foregoing should occur, prior to the Effective Time, appropriate and proportionate adjustments shall be made to the Conversion Number, and thereafter all references in this Agreement to the Conversion Number shall be deemed to be the Conversion Number as so adjusted.

SECTION 1.8 No Further Ownership Rights in Shares. All certificates representing shares of Buyer Common Stock delivered upon the surrender for exchange of any Share Certificate in accordance with the terms hereof

(including any cash paid pursuant to Section 1.4 or Section 1.5 hereof) shall be deemed to have been delivered (and paid) in full satisfaction of all rights pertaining to the Shares previously represented by such Share Certificate.

SECTION 1.9 Closing of Company Transfer Books. At the Effective Time, the stock transfer books of the Company shall be closed, and no transfer of Shares shall thereafter be made. Subject to the last sentence of Section 1.6 hereof, if after the Effective Time, Share Certificates are presented to the Surviving Corporation, they shall be cancelled and exchanged as provided in this Article I.

SECTION 1.10 Stock Options. (a) Not later than the Effective Time, each outstanding employee or director stock option (an "Option") to purchase Shares granted under any employee or director stock option or compensation plan or arrangement of the Company (other than any "stock purchase plan" within the meaning of Section 423 of the Code) immediately prior to the Effective Time in effect on the date hereof ("Company Stock Plans") whether or not then vested or exercisable, shall become and represent an option to purchase the number of shares of Buyer Common Stock (a "Substitute Option"), rounded up to the nearest whole share, determined by multiplying (i) the number of Shares subject to such Option immediately prior to the Effective Time by (ii) the Conversion Number, at an exercise price per share of Buyer Common Stock (increased to the nearest whole cent) equal to the exercise price per Share immediately prior to the Effective Time divided by the Conversion Number; provided, however, that in the case of any Option to which Section 421 of the Code applies by reason of its qualification as an incentive stock option under Section 422 of the Code, the conversion formula shall be adjusted if necessary to comply with Section 424(a) of the Code. After the Effective Time, except as provided above in this Section 1.10, each Substitute Option shall be exercisable upon the same terms and conditions as were applicable to the related Option immediately prior to the Effective Time. Buyer shall register under the Securities Act on Form S-8 or another appropriate form (and use its best efforts to maintain the effectiveness thereof and maintain the current status of the prospectuses contained therein) all Substitute Options and all shares of

Buyer Common Stock issuable pursuant to all Substitute Options. At or prior to the Effective Time, Buyer shall take all corporate action necessary to reserve for issuance a sufficient number of shares of Buyer Common Stock for delivery in connection with the Substitute Options.

(b) Notwithstanding the foregoing, each Option held by any director of the Company at the Effective Time, shall be converted at the Effective Time into the right to receive that number of duly authorized, validly issued, fully paid and nonassessable shares of Buyer Common Stock determined by multiplying (i) the number of Shares such holder could have purchased had such holder exercised such Option in full immediately prior to the Effective Time by (ii) a fraction, the numerator of which shall be the excess, if any, of (A) the Conversion Number multiplied by the Average Stock Price over (B) the applicable exercise price of such Option and the denominator of which shall be the Average Stock Price.

SECTION 1.11 Restricted Stock. Any unvested shares of restricted stock of the Company, however granted, shall to the extent required in the plan, agreement or instrument pursuant to which such restricted stock was granted, vest and become free of all restrictions immediately prior to the Effective Time and shall be convertible into Buyer Common Stock pursuant to Section 1.2 hereof.

## ARTICLE II

## CLOSING

SECTION 2.1 Closing. The closing of the Merger (the "Closing") will take place at 10:00 a.m., New York City time, on a date to be specified by the parties, which shall be no later than the third business day after satisfaction or waiver of all of the conditions set forth in Article IX hereof (the "Closing Date"), at the offices of Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153 unless another time, date or place is agreed to in writing by the parties hereto.

## ARTICLE III

## THE SURVIVING CORPORATION

SECTION 3.1 Certificate of Incorporation. The certificate of incorporation of the Company (the "Company Certificate of Incorporation") in effect at the Effective Time shall be the certificate of incorporation of the Surviving Corporation until amended in accordance with applicable law.

SECTION 3.2 Bylaws. The by-laws of the Company (the "Company By-laws") in effect at the Effective Time shall be the by-laws of the Surviving Corporation until amended in accordance with applicable law.

SECTION 3.3 Directors and Officers. From and after the Effective Time, until successors are duly elected or appointed and qualified in accordance with applicable law, the directors of Merger Subsidiary at the Effective Time shall be the initial directors of the Surviving Corporation and the officers of the Company at the Effective Time shall be the initial officers of the Surviving Corporation, in each case until their respective successors are duly elected and appointed or qualified.

## ARTICLE IV

## REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Buyer and Merger Subsidiary that:

SECTION 4.1 Corporate Existence and Power. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware, and except as set forth on Schedule 4.1 of the disclosure schedule delivered by the Company in connection herewith (the "Company Disclosure Schedule"), has all corporate powers and all governmental licenses, authorizations, consents and approvals (collectively, "Licenses") required to carry on its business as now conducted except where the failure to have any such License would not have a Material Adverse Effect (as defined below). The Company is duly qualified to do business as a foreign corporation and is in good standing

in each jurisdiction where the character of the property owned or leased by it or the nature of its activities makes such qualification necessary, except for those jurisdictions where the failure to be so qualified would not have a Material Adverse Effect. As used herein, the term "Material Adverse Effect" means a material adverse effect on the condition (financial or otherwise), business, assets or results of operations of the Company and its Subsidiaries (as defined in Section 4.6 hereof), or Buyer and Merger Subsidiary, as the case may be, in each case taken as a whole, that is not a result of general changes in the economy or the industries in which such entities operate. The Company has heretofore delivered or made available to Buyer true and complete copies of the Company Certificate of Incorporation and Company By-laws as currently in effect.

SECTION 4.2 Corporate Authorization. The execution, delivery and performance by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby are within the Company's corporate powers and, except for any required approval by the Company's stockholders in connection with the consummation of the Merger, have been duly authorized by all necessary corporate action. This Agreement, assuming due and valid authorization, execution and delivery by the parties hereto, constitutes a valid and binding agreement of the Company enforceable against the Company in accordance with its terms, except that (i) enforcement may be subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws, now or hereafter in effect, affecting creditors' rights generally, and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought. To the extent permitted under any Option or option plan, restricted stock plan, agreement or instrument or any employment, executive, severance or similar agreement to which the Company or any of its Subsidiaries is a party, such that none of the execution, delivery and performance by the Company of this Agreement or the consummation of the transactions contemplated hereby (including, without limitation, the election of the members of the Board of Directors of Merger Subsidiary as the initial directors of the Surviving Corporation at the Effective Time pursuant to Section 3.3) will constitute a "change of control"

or "change in control" thereunder or result in an alteration of the benefits and burdens (including, without limitation, by means of acceleration) thereunder, the necessary majority of members of the Board of Directors has approved the execution, delivery and performance by the Company of this Agreement, and the consummation by the Company of the transactions contemplated hereby.

SECTION 4.3 Governmental Authorization. Except as set forth in Schedule 4.3 of the Company Disclosure Schedule, the execution, delivery and performance by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby require no action by or in respect of, or filing with, any governmental body, agency, official or authority (each, a "Governmental Entity") other than: (i) the filing of a certificate of merger in accordance with the DGCL; (ii) compliance with any applicable requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act"); (iii) compliance with any applicable requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (iv) compliance with the applicable requirements of state blue sky laws; (v) compliance with the applicable requirements of any applicable takeover laws; and (vi) such other actions by or in respect of, or filings with, any Governmental Entity the failure of which to obtain or make would not have a Material Adverse Effect and which would not materially impair or materially delay the ability of the Company to consummate the transactions contemplated hereby.

SECTION 4.4 Non-Contravention. The execution, delivery and performance by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby do not and will not (i) contravene or conflict with the Company Certificate of Incorporation or Company By-laws, (ii) except as set forth in Schedule 4.4 of the Company Disclosure Schedule and assuming compliance with the matters referred to in Section 4.3 hereof, contravene or conflict with or constitute a violation of any provision of any law, regulation, judgment, injunction, order or decree binding upon or applicable to the Company or any Subsidiary of the Company, (iii) except as set forth in Schedule 4.4 of the Company Disclosure Schedule, with or without the giving of notice or passage of time or both, constitute a default under or give rise to a right of termination, cancellation or acceleration

of any right or obligation of the Company or any Subsidiary of the Company or to a loss of any benefit to which the Company or any Subsidiary of the Company is entitled under any provision of any agreement, contract or other instrument binding upon the Company or any Subsidiary of the Company or any license, franchise, permit or other similar authorization held by the Company or any Subsidiary of the Company, or (iv) result in the creation or imposition of any Lien (as defined below) on any asset of the Company or any Subsidiary of the Company, excluding from the foregoing clauses (ii), (iii) or (iv), such violations, breaches, defaults or Liens which would not have a Material Adverse Effect, and which will not materially impair or materially delay the ability of the Company to consummate the transactions contemplated hereby. For purposes of this Agreement, "Lien" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset.

SECTION 4.5 Capitalization. The authorized capital stock of the Company consists of 90,000,000 Shares and 10,000,000 shares of preferred stock (the "Preferred Stock"). As of March 31, 1996, there were (i) 27,981,831 Shares issued and outstanding; (ii) 6,964,169 Shares held in the Company's treasury; and (iii) no shares of Preferred Stock issued and outstanding. As of March 31, 1996, there were (i) 1,713,900 outstanding Options pursuant to the 1994 Long Term Stock-Based Incentive Plan with an exercise price range of a minimum exercise price of $7.625 and a maximum exercise price of $20.75; (ii) 108,700 outstanding Options pursuant to the Employees Stock Option Plan with a minimum exercise price of $9.875 and a maximum exercise price of $19.125; (iii) 300,000 outstanding Options granted to outside directors with an exercise price range of a minimum exercise price of $9.00 and a maximum exercise price of $13.00; (iv) 8,333 outstanding Options pursuant to the 1991 Employee Stock Option Plan with an exercise price of $9.00; (v) 10,000 outstanding Options pursuant to the 1992 Employee Stock Option Plan with an exercise price of $8.875 and (vi) 30,000 outstanding Options pursuant to the Directors Stock Plan with an exercise price of $15.875. Schedule 4.5 of the Company Disclosure Schedule accurately sets forth information regarding the exercise price, date of grant and number of granted Options for each holder of Options as of March 31, 1996. All outstanding shares of

capital stock of the Company have been duly authorized and validly issued and are fully paid and nonassessable. Except as set forth in this Section 4.5, and except for changes since March 31, 1996 resulting from the exercise of employee Options outstanding on such date, there are outstanding (i) no shares of capital stock or other voting securities of the Company, (ii) no securities of the Company or of any Subsidiary of the Company convertible into or exchangeable for shares of capital stock or voting securities of the Company, and (iii) except as set forth on Schedule 4.5 of the Company Disclosure Schedule, no options or other rights to acquire from the Company, and no obligation of the Company to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of the Company (the items in clauses (i), (ii) and (iii) being referred to collectively as the "Company Securities"). There are no outstanding obligations of the Company or any Subsidiary of the Company to repurchase, redeem or otherwise acquire any Company Securities. Except as set forth on Schedule 4.5 of the Company Disclosure Schedule, there are no stockholder agreements, voting trusts or understandings to which the Company is a party or by which it is bound relating to the voting or registration of any shares of capital stock of the Company. Except as otherwise provided in Section 1.11 of this Agreement, the Company has not taken any action that would result in any Options or shares of restricted stock that are unvested becoming vested in connection with or as a result of the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby. No Subsidiary of the Company owns any capital stock of the Company.

SECTION 4.6 Subsidiaries. (a) Each Subsidiary of the Company that is actively engaged in any business or owns any material assets (an "Active Subsidiary") (i) is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation, (ii) except as set forth in Schedule 4.6 of the Company Disclosure Schedule, has all corporate powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted and (iii) is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction where the character of the property owned or leased by it or the nature of its ac-

tivities makes such qualification necessary, except with respect to (ii) and (iii) above to the extent the failure of this representation and warranty to be true would not have a Material Adverse Effect. For purposes of this Agreement, "Subsidiary" means with respect to any Person, any corporation or other legal entity of which such Person owns, directly or indirectly, more than 50% of the outstanding stock or other equity interests, the holders of which are entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity. All Active Subsidiaries, their respective jurisdictions of incorporation and the ownership interest of the Company and its Subsidiaries in such Active Subsidiaries are identified on Schedule 4.6 of the Company Disclosure Schedule.

(b) Each outstanding share of capital stock of each Subsidiary of the Company has been duly and validly authorized and issued, is fully paid and nonassessable and is owned by the Company and/or one or more of its Subsidiaries free and clear of any Liens. There are no subscriptions, options, warrants, calls, rights, convertible securities or other agreements or commitments of any character relating to the issuance, transfer, sale, delivery, voting or redemption (including any rights of conversion or exchange under any outstanding security or other instrument) for, any of the capital stock or other equity interests of any of such Subsidiaries. There are no agreements requiring the Company or any of its Subsidiaries to make contributions to the capital of, or lend or advance funds to, any of the Subsidiaries of the Company.

SECTION 4.7 SEC Documents. The Company has filed all required reports, proxy statements, forms and other documents with the SEC since January 1, 1994 ("Company SEC Documents"). As of their respective dates, (i) the Company SEC Documents complied in all material respects with the requirements of the Securities Act, or the Exchange Act, as the case may be, and the rules and regulations of the Securities and Exchange Commission (the "SEC") promulgated thereunder applicable to such Company SEC Documents, and (ii) none of the Company SEC Documents contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the state-

ments made therein, in the light of the circumstances under which they were made, not misleading.

SECTION 4.8 Financial Statements; No Undisclosed Liabilities. The consolidated financial statements of the Company included in the Company SEC Documents (i) comply as to form in all material respects with all applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, (ii) have been prepared in conformity with generally accepted accounting principles ("GAAP"), applied on a consistent basis (except in the case of unaudited statements, as permitted by Form 10-Q of the SEC) during the periods involved (except as may be indicated in the related notes and schedules thereto) and (iii) fairly present in all material respects the consolidated financial position of the Company and its consolidated Subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments). Except as set forth in Schedule 4.8 of the Company Disclosure Schedule and except as set forth in the Company SEC Documents filed and publicly available prior to the date of this Agreement, and except for liabilities and obligations incurred in the ordinary course of business since the date of the most recent consolidated balance sheet included in the Company SEC Documents filed and publicly available prior to the date of this Agreement, neither the Company nor any of its Subsidiaries has any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) required by GAAP to be set forth on a consolidated balance sheet of the Company and its consolidated Subsidiaries or in the notes thereto.

SECTION 4.9 Form S-4 Registration Statement and Company Proxy Statement/Prospectus. None of the information to be supplied by the Company for inclusion or incorporation by reference in the Form S-4 Registration Statement (as hereinafter defined) or the Company Proxy Statement (as hereinafter defined) will (i) in the case of the Form S-4 Registration Statement, at the time it becomes effective, at the Effective Time or at the Company Stockholder Meeting (as hereinafter defined), contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not

misleading, or (ii) in the case of the Company Proxy Statement, at the time of the mailing of the Company Proxy Statement and at the time of the Company Stockholder Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading. If at any time prior to the Effective Time any event with respect to the Company, its officers and directors or any of its Subsidiaries should occur which is required to be described in an amendment of, or a supplement to, the Company Proxy Statement or the Form S-4 Registration Statement, such event shall be so described, and such amendment or supplement shall be promptly filed with the SEC and, as required by law, disseminated to the stockholders of the Company. The Company Proxy Statement will (with respect to information relating to the Company) comply as to form in all material respects with the requirements of the Exchange Act and the rules and regulations promulgated thereunder.

SECTION 4.10 Absence of Certain Changes. Except as disclosed in the Company SEC Documents filed by the Company or as set forth in Schedule 4.10 of the Company Disclosure Schedule, the Company and its Subsidiaries have conducted their business in the ordinary course of business and there has not been since January 1, 1996:

(a) any event, occurrence or facts which has had or reasonably could be expected to have a Material Adverse Effect;

(b) any declaration, setting aside or payment of any dividend (other than regular quarterly dividends) or other distribution with respect to any shares of capital stock of the Company, or any repurchase, redemption or other acquisition by the Company or any Subsidiary of the Company of any outstanding shares of capital stock or other securities of, or other ownership interests in, the Company or any Subsidiary of the Company;

(c) any amendment of any term of any outstanding security of the Company or any Subsidiary of the Company;

(d) any incurrence, assumption or guarantee by the Company or any Subsidiary of the Company of any indebtedness for borrowed money other than in the ordinary course of business;

(e) any creation or assumption by the Company or any Subsidiary of the Company of any Lien on any asset other than in the ordinary course of business and other than Liens which do not have and could not reasonably be expected to have a Material Adverse Effect;

(f) any making of any loan, advance or capital contributions to or investment in any Person other than advances to employees in the ordinary course of business and loans, advances or capital contributions to or investments in wholly-owned Subsidiaries of the Company made in the ordinary course of business;

(g) any damage, destruction or other casualty loss (whether or not covered by insurance) affecting the business or assets of the Company or any Subsidiary of the Company which has had or could reasonably be expected to have a Material Adverse Effect;

(h) any transaction or commitment made, or any contract or agreement entered into, by the Company or any Subsidiary of the Company relating to its assets or business (including the acquisition or disposition of any assets) or any relinquishment by the Company or any Subsidiary of the Company of any contract or other right, in either case, that have had or could reasonably be expected to have a Material Adverse Effect, other than transactions and commitments in the ordinary course of business and those contemplated by this Agreement;

(i) any change, or any application or request to the SEC for any change, in any method of accounting or accounting practice by the Company or any Subsidiary of the Company, except for any such change required by reason of a concurrent change in generally accepted accounting principles;

(j) any (i) grant of any severance or termination pay to any director, officer or employee of the Company or any Subsidiary of the Company, (ii) employment, consulting, indemnification, severance, termination, deferred compensation or other similar agreement (or any amendment to any such existing agreement) with any director, officer or employee of the Company or any Subsidiary of the Company entered into, (iii) increase in benefits payable under any existing severance or termination pay policies or employment agreements or (iv) increase in compensation, bonus or other benefits payable to directors, officers or employees of the Company or any Subsidiary of the Company, in each case, other than in the ordinary course of business; or

(k) any authorization of any of, or commitment or agreement to take any of, the foregoing actions except as otherwise expressly permitted by this Agreement.

SECTION 4.11 Litigation. Except as set forth in either the Company SEC Documents or in Schedule 4.11 of the Company Disclosure Schedule, there is no action, suit, investigation or proceeding pending against, or to the knowledge of the Company threatened against, the Company, any Subsidiary of the Company or any of their respective properties before any court or arbitrator or any Governmental Entity, which, (a) if determined or resolved adversely to the Company or any Subsidiary of the Company in accordance with the plaintiff's demands, could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect or (b) as of the date hereof, questions the validity of this Agreement or any action to be taken by the Company in connection with the consummation of the transactions contemplated by this Agreement. Except as set forth in the Company SEC Documents, as of the date of this Agreement, none of the Company or its Subsidiaries is subject to any outstanding order, writ, injunction or decree which, insofar as can be reasonably foreseen, could reasonably be expected to have a Material Adverse Effect or would prevent or materially delay the consummation of the transactions contemplated hereby. Except as set forth in the Company SEC Documents, Schedule 4.11 of the Company Disclosure Schedule sets forth a complete list of (x) all actions, suits, investigations or proceedings pending against, or to the

knowledge of the Company, threatened against any former or current director or officer of the Company or any Subsidiary of the Company and (y) to the knowledge of the Company, all material actions, suits, investigations, or proceedings pending or threatened against any former or current employee of the Company or any Subsidiary of the Company, in the case of each of (x) and (y), based on, or arising out of the fact that, such person is or was a director, officer or employee, as the case may be, of the Company or any Subsidiary of the Company, as well as such matters as have been completed and in respect of which the Company has any remaining indemnification or other monetary obligations.

SECTION 4.12 Taxes. (a) Except as set forth on Schedule 4.12 of the Company Disclosure Schedule: (i) the Company and each of its Subsidiaries has filed or has had filed on its behalf in a timely manner (within any applicable extension periods) with the appropriate Governmental Entity all income and other material Tax Returns (as defined herein) with respect to Taxes (as defined herein) of the Company and each of its Subsidiaries; (ii) all material Taxes with respect to the Company and its Subsidiaries have been paid in full or have been provided for in accordance with GAAP on the Company's most recent balance sheet which is part of the Company SEC Documents; (iii) there are no outstanding agreements or waivers extending the statutory period of limitations applicable to any federal, state, local or foreign income or other material Tax Returns required to be filed by or with respect to the Company and its Subsidiaries; (iv) none of the Tax Returns of or with respect to the Company or any of its Subsidiaries is currently being audited or examined by any Governmental Entity; and (v) no deficiency for any income or other material Taxes has been assessed with respect to the Company or any of its Subsidiaries which has not been abated or paid in full.

(b) For purposes of this Agreement, (i) "Taxes" shall mean all taxes, charges, fees, levies or other assessments, including, without limitation, income, gross receipts, sales, use, ad valorem, goods and services, capital, transfer, franchise, profits, license, withholding, payroll, employment, employer health, excise, estimated, severance, stamp, occupation, property or other taxes, customs duties, fees, assessments or charges of

any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts imposed by any taxing authority and (ii) "Tax Return" shall mean any report, return, documents, declaration or other information or filing required to be supplied to any taxing authority or jurisdiction with respect to Taxes.

SECTION 4.13 Employee Matters. (a) Schedule 4.13(a) contains a true and complete list of each bonus, deferred compensation, incentive compensation, stock purchase, stock option, severance or termination pay, hospitalization or other medical, life or other insurance, supplemental unemployment benefits, profit-sharing, pension, or retirement plan, program, agreement or arrangement, and each other employee benefit plan, program, agreement or arrangement, sponsored, maintained or contributed to or required to be contributed to by the Company or by any trade or business, whether or not incorporated (an "ERISA Affiliate"), that together with the Company would be deemed a "single employer" within the meaning of Section 4001(b)(1) of the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations promulgated thereunder ("ERISA"), for the benefit of any employee or former employee of the Company, whether formal or informal and whether legally binding or not (the "Plans"). Schedule 4.13(a) identifies each of the Plans that is an "employee welfare benefit plan," or "employee pension benefit plan" as such terms are defined in Sections 3(1) and 3(2) of ERISA (such plans being hereinafter referred to collectively as the "ERISA Plans").

(b) With respect to each of the Plans, the Company has heretofore delivered or made available to Buyer true and complete copies of each of the following documents:

(i) a copy of the Plan or a description of all material terms thereof (including all amendments thereto);

(ii) a copy of the annual report, if required under ERISA, with respect to each such Plan for the last three years;

(iii) a copy of the actuarial report, if required under ERISA, with respect to each such Plan for the last three years; and

(iv) the most recent determination letter received from the Internal Revenue Service with respect to each Plan that is intended to be qualified under Section 401 of the Code.

(c) No material liability under Title IV of ERISA has been incurred by the Company or any ERISA Affiliate since the effective date of ERISA that has not been satisfied in full, and no condition exists that presents a material risk to the Company or an ERISA Affiliate of incurring a material liability under such Title, other than liability for premiums due the Pension Benefit Guaranty Corporation ("PBGC"), which payments have been or will be made when due.

(d) With respect to each of the ERISA Plans that is subject to Title IV of ERISA, the present value of accrued benefits under such Plan, based upon the actuarial assumptions used for funding purposes in the most recent actuarial report prepared by such Plan's actuary with respect to such Plan, did not, as of its latest valuation date, exceed the then current value of the assets of such Plan allocable to such accrued benefits.

(e) Neither the Company, any ERISA Affiliate, any of the ERISA Plans, any trust created thereunder nor any trustee or administrator thereof has engaged in a transaction or has taken or failed to take any action in connection with which the Company, any ERISA Affiliate, any of the ERISA Plans, any such trust, any trustee or administrator thereof, or any party dealing with the ERISA Plans or any such trust could be subject to either a material civil penalty assessed pursuant to Section 409 or Section 502(i) of ERISA or a material tax imposed pursuant to Section 4975, Section 4976 or Section 4980B of the Code.

(f) Full payment has been made, or will be made in accordance with Section 404(a)(6) of the Code, of all amounts which the Company or any ERISA Affiliate is required to pay under the terms of each of the ERISA Plans and Section 412 of the Code.

(g) Each of the Plans has been operated and administered in all material respects in accordance with applicable laws, including but not limited to ERISA and the Code.

(h) The Company has not taken any action that would result in the acceleration of any benefits under any Plan in connection with or as a result of the execution, delivery and performance by the Company of this Agreement or the consummation by the Company of the transactions contemplated hereby.

SECTION 4.14 Labor Matters. Except to the extent set forth in Schedule 4.14 of the Disclosure Schedule (i) there is no labor strike, dispute, slowdown, stoppage or lockout actually pending or threatened, to the knowledge of the Company, against the Company and during the past three years there has not been any such action; (ii) to the knowledge of the Company, there is no current union organizing activities among the Company's employees nor does any question concerning representation exist concerning such employees; (iii) there is no unfair labor practice charge or complaint against the Company pending or, to the knowledge of the Company, threatened before the National Labor Relations Board or any similar state or foreign agency; (iv) there is no grievance pending relating to any collective bargaining agreement or other grievance procedure; (v) to the knowledge of the Company, no charges with respect to or relating to the Company are pending before the Equal Employment Opportunity Commission or any other agency responsible for the prevention of unlawful employment practices; (vi) the Company and its Subsidiaries have complied with the Worker Adjustment and Retraining Notification Act (the "WARN Act"), and other state or local laws substantially similar in effect to the WARN Act, where the failure to be in compliance with such state or local laws would have a Material Adverse Effect; and (vii) there are no collective bargaining agreements, employment contracts or severance agreements with any union or any employees of the Company.

SECTION 4.15 Compliance with Laws. Except as set forth in Schedule 4.11 (as applicable) and Schedule 4.15 of the Company Disclosure Schedule, the Company and its Subsidiaries, and their respective businesses, are in compliance with all Licenses, laws, statutes, ordinances

or regulations, including, but not limited to, Environmental Laws (as defined in Section 4.17 below), except where such violations would not have a Material Adverse Effect.

SECTION 4.16 Finders' Fees. Except for Lazard Freres & Co., L.L.C., there is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf, of the Company or any Subsidiary of the Company who would be entitled to any fee or commission from the Company, any Subsidiary of the Company, Buyer or any of Buyer's affiliates upon consummation of the transactions contemplated by this Agreement. An executed, true and complete copy of such engagement letter has been delivered to Buyer.

SECTION 4.17 Environmental Matters. (a) Except as set forth in the Company SEC Documents or in Schedule 4.17 of the Company Disclosure Schedule:

(i) since January 1, 1995, the Company has not received any written communication from any person or entity (including any Governmental Entity) stating that it or its Subsidiaries may be a potentially responsible party under Environmental Law (as defined in Section 4.17(c) hereof) with respect to any actual or alleged environmental contamination; neither the Company nor its Subsidiaries nor, to the Company's knowledge, any Governmental Entity is conducting or has conducted any environmental remediation or environmental investigation which could reasonably be expected to result in liability for the Company or its Subsidiaries under Environmental Law; and the Company and its Subsidiaries have not received any request for information under Environmental Law from any Governmental Entity with respect to any actual or alleged environmental contamination, except, in each case, for communications, environmental remediation and investigations and requests for information which would not, individually or in the aggregate, have a Material Adverse Effect; and

(ii) since January 1, 1995, the Company and its Subsidiaries have not received any written communication from any person or entity (including any Governmental Entity) stating or alleging that

the Company or its Subsidiaries may have violated any Environmental Law, or that the Company or its Subsidiaries has caused or contributed to any environmental contamination that has caused any property damage or personal injury under Environmental Law, except, in each case, for statements and allegations of violations and statements and allegations of responsibility for property damage and personal injury which would not, individually or in the aggregate, have a Material Adverse Effect.

(b) (i) The Company has made available to Buyer each material environmental investigation, study, audit, test, review and other analysis in the possession of the Company or its Subsidiaries prepared in the last five years conducted in relation to the business of the Company or any property or facility now or previously owned, operated or leased by the Company or any Subsidiary of the Company; and (ii) the Company has made available to Buyer each consent decree, consent order or similar document currently in force and to which it is a party relating to any property currently owned, leased or operated by the Company or its Subsidiaries.

(c) For purposes of this Section 4.17, "Environmental Law" means all applicable state, federal and local laws, regulations and rules, including common law, judgments, decrees and orders relating to pollution, the preservation of the environment, and the release of material into the environment.

SECTION 4.18 Property. The Company and its Subsidiaries, as the case may be, have good and valid title to, or in the case of leased property, have valid leasehold interests in all properties and assets necessary to conduct the business of the Company as currently conducted, except to the extent the failure of this representation and warranty to be true would not have a Material Adverse Effect. There are no developments affecting any of such properties or assets pending or, to the knowledge of the Company threatened, which, could reasonably be expected to have a Material Adverse Effect.

SECTION 4.19 Intangible Property. (a) The Company and its Subsidiaries own or possess adequate licenses or other valid rights to use all trademarks, trademark rights, trade names, trade name rights, copy-

rights, service marks, trade secrets and applications for trademarks and for service marks, which are material to the Company's business and operations (collectively, "Intangible Property") used or held for use in connection with the business of the Company and the Subsidiaries of the Company as currently conducted. All material trademarks are validly registered or registrations have been applied for.

(b) The Company, except as set forth in Schedule 4.19(b) of the Company Disclosure Schedule, is unaware of any assertion or claim challenging the validity of any Intangible Property. Except as set forth in Schedule 4.19(b) of the Company Disclosure Schedule, the conduct of the business of the Company and its Subsidiaries as currently conducted does not conflict with any trademark, trademark right, trade name or trade name right of any third party in a manner that could reasonably be expected to have a Material Adverse Effect. To the knowledge of the Company, there are no material infringements of any Intangible Property.

SECTION 4.20 Material Contracts. Except as set forth on Schedule 4.13(a), Schedule 4.20 or Schedule 7.3 of the Company Disclosure Schedule, the Company SEC Documents list all Material Contracts (as defined below) of the Company (and all material amendments thereto) and all agreements or commitments to enter into a Material Contract, and except as set forth on Schedule 4.20 of the Company Disclosure Schedule or in the Company SEC Documents, to the knowledge of the Company, each Material Contract is valid, binding and enforceable and in full force and effect, except where such failure to be valid, binding and enforceable and in full force and effect would not have a Material Adverse Effect, and there are no defaults thereunder, except those defaults that would not have a Material Adverse Effect. For purposes of this Agreement, "Material Contracts" shall mean (i) all contracts, agreements or understandings with customers of the Company and its Subsidiaries in the last fiscal year where each customers' contracts, agreements or understandings in the aggregate account for more than $5 million of (x) SafeCard Services, Incorporated's ("SafeCard") net annual billings or (y) each Subsidiaries' of the Company, other than SafeCard's, annual revenues; (ii) all the acquisition, merger, asset purchase or sale agreements entered into by the Company

in the last two fiscal years with a transaction value in excess of $10 million; (iii) all indemnification, termination, severance, or "golden parachute" agreements; and (iv) any other agreement within the meaning set forth in Item 601(b)(10) Regulation S-K of Title 17, Part 229 of the Code of Federal Regulations. Except as set forth on Schedule 4.20 of the Company Disclosure Schedule, no party to any such Material Contract has (i) given written notice to the Company or any Subsidiary of the Company of or made a claim in writing against the Company or any Subsidiary of the Company with respect to any breach or default thereunder, in any such case in which such breach or default could reasonably be expected to have a Material Adverse Effect on the Company or (ii) given written or, to the knowledge of the senior executive officers of the Company, oral notice to the Company or any Subsidiary of the Company that it does not intend to renew or it intends to terminate any of its business relationships with the Company or any Subsidiary of the Company.

SECTION 4.21 Accounting Matters. Neither the Company nor, to the best of the Company's knowledge, any of its affiliates has taken or agreed to take any action that would prevent Buyer from accounting for the transactions to be effected pursuant to this Agreement as a pooling of interests in accordance with GAAP and applicable SEC regulations. The Company has not knowingly and willfully failed to bring to the attention of Buyer any actions, or agreements or understandings, whether written or oral, to act that would be reasonably likely to prevent Buyer from accounting for the Merger as a pooling of interests. The representations and warranties of the Company in the Company Affiliate Letter are true and correct.

SECTION 4.22 Vote Required. The affirmative vote of the holders of a majority of the outstanding Shares is the only vote of the holders of any class or series of the Company's capital stock necessary or required under this Agreement or under applicable law to approve the Merger, this Agreement and the transactions contemplated hereby.

SECTION 4.23 Fairness Opinion. The Board of Directors of the Company has received the written opinion of Lazard Freres & Co. L.L.C., to the effect that, as of such date, the consideration to be received by holders of

Shares pursuant to the Merger is fair from a financial point of view to such holders. An executed, true and complete copy of such opinion has been delivered to Buyer and, as of the date hereof, such opinion has not been modified in any material respect or withdrawn.

SECTION 4.24 Disclosure. No representation or warranty by the Company contained in this Agreement and no statement contained in any certificate delivered by the Company to Buyer or Merger Subsidiary pursuant to this Agreement contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein and therein not misleading when taken together in light of the circumstances in which they were made.

## ARTICLE V

## REPRESENTATIONS AND WARRANTIES OF BUYER AND MERGER SUBSIDIARY

Buyer and Merger Subsidiary represent and warrant to the Company that:

SECTION 5.1 Corporate Existence and Power. Each of Buyer and Merger Subsidiary is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation, and except as set forth on Schedule 5.1 of the disclosure schedule delivered by Buyer and Merger Subsidiary in connection herewith (the "Buyer Disclosure Schedule"), has all corporate powers and all Licenses required to carry on its business as now conducted except where the failure to have any such License would not, individually or in the aggregate, have a Material Adverse Effect. Each of Buyer and Merger Subsidiary is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction where the character of the property owned or leased by it or the nature of its activities makes such qualification necessary, except for those jurisdictions where the failure to be so qualified would not, individually or in the aggregate, have a Material Adverse Effect. Each of Buyer and Merger Subsidiary has heretofore delivered or made available to the Company true and complete copies of Buyer's and Merger Subsidiary's Certificate of Incorporation and By-laws as currently in effect.

SECTION 5.2 Corporate Authorization. The execution, delivery and performance by Buyer and Merger Subsidiary of this Agreement and the consummation by Buyer and Merger Subsidiary of the transactions contemplated hereby are within the corporate powers of Buyer and Merger Subsidiary and have been duly authorized by all necessary corporate action. This Agreement, assuming due and valid authorization, execution and delivery by the other parties hereto, constitutes a valid and binding agreement of each of Buyer and Merger Subsidiary enforceable against Buyer and Merger Subsidiary in accordance with its terms, except that (i) enforcement may be subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws, now or hereafter in effect, affecting creditors' rights generally, and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

SECTION 5.3 Governmental Authorization. The execution, delivery and performance by Buyer and Merger Subsidiary of this Agreement and the consummation by Buyer and Merger Subsidiary of the transactions contemplated hereby require no action by or in respect of, or filing with, any Governmental Entity other than: (i) the filing of a certificate of merger in accordance with the DGCL; (ii) compliance with any applicable requirements of the HSR Act; (iii) compliance with any applicable requirements of the Securities Act and Exchange Act; (iv) compliance with the applicable requirements of any applicable takeover laws; and (v) such other actions by or in respect of, or filings with, any Governmental Entity the failure of which to obtain or make would not have a Material Adverse Effect and which would not materially impair or delay the ability of Buyer or Merger Subsidiary to consummate the transactions contemplated hereby.

SECTION 5.4 Non-Contravention. The execution, delivery and performance by Buyer and Merger Subsidiary of this Agreement and the consummation by Buyer and Merger Subsidiary of the transactions contemplated hereby do not and will not (i) contravene or conflict with the Certificate of Incorporation or By-laws of Merger Subsidiary or Buyer, (ii) assuming compliance with the matters referred to in Section 5.3 hereof, contravene or conflict with or constitute a violation of any provision of law,

regulation, judgment, injunction, order or decree binding upon or applicable to Buyer or Merger Subsidiary, (iii) with or without the giving of notice or passage of time or both, constitute a default under or give rise to a right of termination, cancellation or acceleration of any right or obligation of Buyer or Merger Subsidiary or to a loss of any benefit to which Buyer or Merger Subsidiary is entitled under any provision of any agreement, contract or other instrument binding upon Buyer or Merger Subsidiary or any license, franchise, permit or other similar authorization held by Buyer or Merger Subsidiary, or (iv) result in the creation or imposition of any Lien on any asset of Buyer or Merger Subsidiary excluding from the foregoing clauses (ii), (iii) or (iv) such violations, breaches, defaults or Liens which would not have a Material Adverse Effect, and which will not materially impair or materially delay the ability of Buyer and Merger Subsidiary to consummate the transactions contemplated hereby.

SECTION 5.5 Form S-4 Registration Statement and Company Proxy Statement/Prospectus. None of the information to be supplied by Buyer and Merger Subsidiary for inclusion or incorporation by reference in the Form S-4 Registration Statement will (i) in the case of the Form S-4 Registration Statement at the time it becomes effective, at the Effective Time or at the Company Stockholder Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or (ii) in the case of the Company Proxy Statement, at the time of the mailing of the Company Proxy Statement and at the time of the Company Stockholder Meeting or at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading. If at any time prior to the Effective Time any event with respect to Buyer and Merger Subsidiary, their respective officers and directors or any of Buyer's Subsidiaries should occur which is required to be described in an amendment of, or a supplement to, the Form S-4 Registration Statement or the Company Proxy Statement, such event shall be so described, and such amendment or supplement shall be promptly filed with the SEC and, as required by law, disseminated to the stockholders of the Company. The S-4 Registration Statement will

(with respect to information relating to Buyer and Merger Subsidiary) comply as to form in all material respects with the requirements of the Securities Act and the rules and regulations promulgated thereunder.

SECTION 5.6 Finders' Fees. Except for Goldman, Sachs & Co., whose fees will be paid by Buyer, there is no investment banker, broker, finder or other intermediary who might be entitled to any fee or commission in connection with or upon consummation of the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Buyer or Merger Subsidiary.

SECTION 5.7 No Vote Required. No vote or special meeting of the stockholders of Buyer or Merger Subsidiary is necessary or required by this Agreement or under applicable law to approve the Merger, this Agreement or the transactions contemplated hereby.

SECTION 5.8 Share Ownership. As of the date hereof, Buyer and Merger Subsidiary do not own any Shares.

SECTION 5.9 Capitalization. The authorized capital stock of Buyer consists of 400,000,000 shares of Buyer Common Stock, and 1,000,000 shares of preferred stock, par value $.01 par value per share (the "Buyer Preferred Stock"). As of March 29, 1996, there were issued and outstanding (i) 190,460,240 shares of Buyer Common Stock; (ii) no shares of Buyer Preferred Stock; and (iii) options to purchase an aggregate of 21,056,064 shares of Buyer Common Stock with exercise prices ranging from $.36 to $35.75. All of the outstanding shares of capital stock of Buyer have been duly authorized and validly issued and are fully paid and nonassessable. Schedule 5.9 of the Buyer Disclosure Schedule accurately sets forth, as of the date of this Agreement, certain information regarding the outstanding options, and such information is true and correct. Except as set forth in this Section 5.9 or as disclosed on Schedule 5.9 of the Buyer Disclosure Schedule or in the Buyer SEC Documents, and except for changes since March 29, 1996 resulting from the exercise of employee stock options outstanding on such date, as of the date of this Agreement, there are outstanding (i) no shares of capital stock or other voting securities of Buyer, (ii) no securities of Buyer

or of any Subsidiary of Buyer convertible into or exchangeable for shares of capital stock or voting securities of Buyer, and (iii) no options or other rights to acquire from Buyer, and no obligation of Buyer to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of the Company (the items in clauses (i), (ii) and (iii) being referred to collectively as the "Buyer Securities"). There are no outstanding obligations of Buyer or of any Subsidiary of Buyer to repurchase, redeem or otherwise acquire any Buyer Securities. There are no stockholder agreements, voting trusts or understandings to which Buyer is a party or to which it is bound relating to the voting of any shares of capital stock of Buyer.

SECTION 5.10 Accounting Matters. Neither Buyer, nor Merger Subsidiary, nor, to the best of Buyer's or Merger Subsidiary's knowledge, any of its affiliates has taken or agreed to take any action that would prevent Buyer or Merger Subsidiary from accounting for the transactions to be effected pursuant to this Agreement as a pooling of interests in accordance with GAAP and applicable SEC regulations. Buyer has not knowingly and willfully failed to bring to the attention of the Company any actions, or agreements or understandings, whether written or oral, to act that would be reasonably likely to prevent Buyer from accounting for the Merger as a pooling of interests.

SECTION 5.11 Ownership of Merger Subsidiary; No Prior Activities; Assets of Merger Subsidiary. (a) Merger Subsidiary was formed solely for the purpose of the Merger and engaging in the transactions contemplated hereby.

(b) As of the date hereof and the Effective Time, the capital stock of Merger Subsidiary is and will be directly owned 100% by Buyer. Further, there are not as of the date hereof and there will not be at the Effective Time any outstanding or authorized options, warrants, calls, rights, commitments or any other agreements of any character which Merger Subsidiary is a party to, or may be bound by, requiring it to issue, transfer, sell, purchase, redeem or acquire any shares of capital stock or any securities or rights convertible into, exchangeable for, or evidencing the right to subscribe

for or acquire, any shares of capital stock of Merger Subsidiary.

(c) As of the date hereof and the Effective Time, except for obligations or liabilities incurred in connection with its incorporation or organization and the transactions contemplated hereby, Merger Subsidiary has not and will not have incurred, directly or indirectly through any Subsidiary or affiliate, any obligations or liabilities or engaged in any business or activities of any type or kind whatsoever or entered into any agreements or arrangements with any Person or entity.

SECTION 5.12 SEC Documents. Buyer has filed all required reports, proxy statements, forms and other documents with the SEC since January 1, 1994 ("Buyer SEC Documents"). As of their respective dates (i) the Buyer SEC Documents complied in all material respects with the requirements of the Securities Act, or the Exchange Act, as the case may be, and the rules and regulations of the SEC promulgated thereunder applicable to such Buyer SEC Documents, and (ii) none of the Buyer SEC Documents contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

SECTION 5.13 Financial Statements. The consolidated financial statements of Buyer included in the Buyer SEC Documents (i) comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, (ii) have been prepared in conformity with GAAP applied on a consistent basis (except in the case of unaudited statements, as permitted by Form 10-Q of the SEC) during the periods involved (except as may be indicated in the related notes and schedules thereto) and (iii) fairly present in all material respects the consolidated financial position of Buyer and its consolidated subsidiaries as of the dates thereof, and the results of its operations and its cash flows for the periods then ended (subject, in the case of the unaudited statements, to normal year-end audit adjustments and except that, in the case of financial statements included therein which were later restated to account for one or more business combinations accounted for as poolings-of-interest, such

original financial statements do not reflect such restatements).

SECTION 5.14 Absence of Certain Changes or Events. Except as disclosed in the Buyer SEC Documents filed by Buyer and as set forth in Schedule 5.14 of the Buyer Disclosure Schedule, since the date of the most recent consolidated balance sheet included in the Buyer SEC Documents filed and publicly available prior to date of this Agreement, the business of Buyer has been carried on only in the ordinary and usual course and there has not been any adverse change in its business, properties, operations or financial condition and no event has occurred and no fact or set of circumstances has arisen which has resulted in or could reasonably be expected to result in a Material Adverse Effect.

SECTION 5.15 Litigation. Except as set forth in either Buyer SEC Documents or in Schedule 5.15 of the Buyer Disclosure Schedule, there is no action, suit, investigation or proceeding pending against, or to the knowledge of Buyer or Merger Subsidiary threatened against, Buyer or Merger Subsidiary or any of their respective properties before any court or arbitrator or any Governmental Entity, which, (a) if determined or resolved adversely to Buyer or Merger Subsidiary in accordance with the plaintiff's demands, could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect or (b) as of the date of this Agreement, questions the validity of this Agreement or any action to be taken by Buyer or Merger Subsidiary in connection with the consummation of the transactions contemplated by this Agreement. Except as publicly disclosed by Buyer, as of the date of this Agreement, none of Buyer or its Subsidiaries is subject to any outstanding order, writ, injunction or decree which, insofar as can be reasonably foreseen in the future, could reasonably be expected to have a Material Adverse Effect on Buyer or would prevent or materially delay the consummation of the transactions contemplated hereby.

SECTION 5.16 Authorization for Buyer Common Stock. Buyer has taken all necessary action to permit it to issue the number of shares of Buyer Common Stock required to be issued pursuant to this Agreement. Shares of Buyer Common Stock issued pursuant to Agreement will, when issued, be validly issued, fully paid and nonassess

able and no person will have any preemptive right of subscription or purchase in respect thereof. Shares of Buyer Common Stock will, when issued, be registered under the Securities Act and the Exchange Act and registered or exempt from registration under any applicable state securities laws and will, when issued, be listed on the NYSE, subject to official notice of issuance.

SECTION 5.17 Taxes. Except as set forth on Schedule 5.17 of the Buyer Disclosure Schedule: (i) Buyer and each of its Subsidiaries has filed or has had filed on its behalf in a timely manner (within any applicable extension periods) with the appropriate Governmental Entity all income and other material Tax Returns with respect to Taxes of Buyer and each of its Subsidiaries; (ii) all material Taxes with respect to Buyer and its Subsidiaries have been paid in full or have been provided for in accordance with GAAP on the Buyer's most recent balance sheet which is part of the Buyer SEC Documents; (iii) there are no outstanding agreements or waivers extending the statutory period of limitations applicable to any federal, state, local or foreign income or other material Tax Returns required to be filed by or with respect to Buyer and its Subsidiaries; (iv) none of the Tax Returns of or with respect to Buyer or any of its Subsidiaries is currently being audited or examined by any Governmental Entity; and (v) no deficiency for any income or other material Taxes has been assessed with respect to Buyer or any of its Subsidiaries which has not been abated or paid in full.

SECTION 5.18 Disclosure. No representation or warranty by Buyer or Merger Subsidiary contained in this Agreement and no statement contained in any certificate delivered by Buyer or Merger Subsidiary to the Company pursuant to this Agreement contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein and therein not misleading when taken together in light of the circumstances in which they were made.

ARTICLE VI

COVENANTS OF THE COMPANY

The Company agrees that:

SECTION 6.1 Conduct of the Company. From the date hereof until the Effective Time, the Company and its Subsidiaries shall conduct their business in the ordinary course and shall use their reasonable efforts to preserve intact their business organizations and relationships with third parties and to keep available the services of their present officers and employees. Without limiting the generality of the foregoing other than as set forth on Schedule 6.1 of the Company Disclosure Schedule, as specifically contemplated by this Agreement or with the written consent of Buyer or Merger Subsidiary (which consent shall not be unreasonably withheld or delayed), from the date hereof until the Effective Time, the Company will not (and will not cause or permit any Subsidiary to):

(a) split, combine or reclassify any shares of capital stock, declare, set aside or pay any dividend (other than regular quarterly dividends and any dividend of a wholly-owned Subsidiary of the Company to the Company or another wholly-owned Subsidiary of the Company) or other distribution (whether in cash, stock or property or any combination thereof) with respect to any shares of capital stock of the Company, or any repurchase, redemption or other acquisition by the Company or any Subsidiary of the Company of any outstanding shares of capital stock or other securities of, or other ownership interests in, the Company or any Subsidiary of the Company;

(b) amend any term of any outstanding security of the Company or any Subsidiary of the Company;

(c) except for working capital purposes pursuant to the Revolving Credit Agreement, dated as of February 8, 1996, by and among the First National Bank of Boston, Fleet Bank of Maine, Key Bank of Maine, Bank of Scotland and Wright Express Corporation, and, except in the ordinary course of business consistent with past practice pursuant to the Equipment Financing Agreement, dated as of February 7,

1996, by and between The First National Bank of Boston and Wright Express Corporation, incur, assume or guarantee any indebtedness for borrowed money of (x) except in the ordinary course of business in an amount not to exceed $500,000 in the aggregate at any one time outstanding, the Company or any Subsidiary of the Company or (y) any other Person;

(d) create, assume or suffer to exist any Lien on any material asset, other than in the ordinary course of business;

(e) make any loan, advance or capital contribution to or invest in any Person, other than in the ordinary course of business;

(f) cause any damage, destruction or other casualty loss (whether or not covered by insurance) affecting the business or assets of the Company or any Subsidiary of the Company which has had or could reasonably be expected to have a Material Adverse Effect;

(g) (x) other than in the ordinary course of business consistent with past practice, (i) enter into any transaction, commitment, contract or agreement by the Company or any Subsidiary of the Company relating to their assets or business (excluding the acquisition or disposition of any assets) or (ii) relinquish any contract or other right, that (with respect to (ii)) has had or could reasonably be expected to have a Material Adverse Effect, other than (with respect to each of (i) and (ii)) those expressly permitted by this Agreement or (y) enter into any transaction, commitment, contract or agreement to acquire or dispose of any assets of the Company or any Subsidiary of the Company in excess of $150,000 in any individual transaction or $750,000 in the aggregate;

(h) change, or apply to the SEC for, or request from the SEC any change of, any method of accounting or accounting practice by the Company or any Subsidiary of the Company, except for any such change required by reason of a concurrent change in GAAP;

(i) (A) grant any severance or termination pay to any current or former director or executive officer, or, other than in the ordinary course of business, to any officer or any other employee of the Company or any Subsidiary of the Company, (B) enter into any employment, consulting, indemnification, severance, termination, deferred compensation or other similar agreement (or any amendment to any such existing agreement) with any current or former director or executive officer, or other than in the ordinary course of business, with any officer or any other employee of the Company or any Subsidiary of the Company, (C) other than in the ordinary course of business, increase the benefits payable under any existing severance or termination pay policies or employment agreements or (D) increase the compensation, bonus or other benefits payable to any current or former director or executive officer, or other than in the ordinary course of business, to any officer or any other employee of the Company or any Subsidiary of the Company;

(j) amend its certificate of incorporation or bylaws (or other similar governing instrument);

(k) authorize for issuance, sell, deliver or agree to issue, sell or deliver (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase or otherwise) any stock of any class or any other securities or equity equivalents (including, without limitation, any stock options or stock appreciation rights) of the Company, except for the issuance of stock upon the exercise of Options outstanding on the date of this Agreement;

(l) except as may be required pursuant to GAAP, revalue in any material respect any of its assets, including, without limitation, writing down the value of inventory or writing-off notes or accounts receivable other than in the ordinary course of business;

(m) adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of

the Company or any of its Subsidiaries (other than the Merger);

(n) make or revoke any tax election or settle or compromise any tax liability, in each case, material to the Company and its Subsidiaries taken as a whole or change (or make a request to any taxing authority to change) any material aspect of its method of accounting for tax purposes;

(o) subject to Section 6.1(q) below, pay, discharge or satisfy any liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction in the ordinary course of business of liabilities or obligations reflected or reserved against in, or contemplated by, the consolidated financial statements (or notes thereof) of the Company and its Subsidiaries or incurred in the ordinary course of business consistent with past practice;

(p) except as otherwise permitted by paragraph (i) or as set forth on Schedule 6.1(p) of the Company Disclosure Schedule, settle or compromise any pending or threatened suit, action, or proceeding;

(q) enter into any agreement or understanding, whether oral or written, with any Halmos Entity or Halmos Assign (as each such term is defined in Section 7.3(c)); except for agreements or understandings in the ordinary course necessary for the continued defense or prosecution of any such pending litigation matters set forth in Schedule 4.11 of the Company Disclosure Schedule or as disclosed in the Company SEC Documents; or

(r) take, authorize any of, or commit or agree to take any of, the foregoing actions except as otherwise expressly permitted by this Agreement.

SECTION 6.2 Stockholder Meeting; Proxy Material. The Company shall cause a meeting of its stockholders (including any postponements or adjournments thereto, the "Company Stockholder Meeting") to be duly called and held as soon as reasonably practicable for the purpose of voting on the approval and adoption of this Agreement and

the Merger. The Board of Directors of the Company shall recommend approval and adoption of this Agreement and the Merger by the Company's stockholders; provided that the Company's Board of Directors may withdraw, modify or change
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such recommendation if it has determined, based upon the advice of outside legal counsel to the Company, that such recommendation would be reasonably likely to be inconsistent with the Board of Directors' fiduciary duties under applicable law. The Company will (i) as promptly as practicable following the date of this Agreement, prepare and file with the SEC, will use its reasonable efforts to have cleared by the SEC and thereafter mail to its stockholders as promptly as practicable, a proxy statement that will be the same proxy statement/prospectus contained in the Form S-4 Registration Statement (as hereinafter defined) and a form of proxy, in connection with the vote of the Company's stockholders with respect to the Merger (such proxy statement/prospectus, together with any amendments thereof or supplements thereto, in each case in the form or forms mailed to the Company's stockholders, is herein called the "Company Proxy Statement"), (ii) use its reasonable efforts to obtain the necessary approvals by its stockholders of this Agreement and the transactions contemplated hereby and (iii) otherwise comply in all material respects with all legal requirements applicable to such meeting. The Company may, if it withdraws, modifies or changes its recommendation in accordance with this Section 6.2, delay the filing or mailing, as the case may be, of the Company Proxy Statement or the holding of the Company Stockholder Meeting, in each case only to the extent necessary to revise the Company Proxy Statement to reflect such withdrawal, modification or change and, in the case of the Company Stockholder Meeting, to provide the minimum notice thereof required under applicable law, the Company Certificate of Incorporation or the Company By-laws. In addition, the Company will upon reasonable advance notice provide Buyer with all financial and other data regarding the Company as may be reasonably requested by Buyer in connection with the proxy statements and registration statements on Form S-4 relating to the transactions described in Schedule 6.2 of the Buyer Disclosure Schedule. The Company acknowledges that such proxy statements and registration statements may be required to include such data concerning the Company, and that the Company Proxy Statement may be required to

contain certain financial and other data concerning the other parties to such transactions.

SECTION 6.3 Access to Information; Confidential Agreement. (a) From the date hereof until the Effective Time, the Company will give Buyer, its counsel, financial advisors, auditors and other authorized representatives reasonable access during normal business hours to the offices, properties, books and records of the Company and the Subsidiaries of the Company, will furnish to Buyer, its counsel, financial advisors, auditors and other authorized representatives such financial and operating data and other information as such Persons may reasonably request and will instruct the Company's employees, counsel and financial advisors to cooperate with Buyer in its investigation of the business of the Company and the Subsidiaries of the Company; provided that all requests for information, to visit plants or facilities or to interview the Company's employees or agents should be directed to and coordinated with an executive officer of the Company; and provided further that no investigation pursuant to this Section 6.3 shall affect any representation or warranty given by the Company to Buyer hereunder and any information received by Buyer or its representatives shall remain subject to the Confidentiality Agreement dated February 13, 1996 between Buyer and the Company (the "Confidentiality Agreement").

(b) The parties hereto agree that the Confidentiality Agreement shall be hereby amended to provide that any provision therein which in any manner limits, restricts or prohibits the voting or acquisition of Shares by Buyer or any of its affiliates or the representation of Buyer's designees on the Company's Board of Directors or which in any manner would be inconsistent with this Agreement or the transactions contemplated hereby shall be amended as of the date hereof to permit the acquisition of Shares pursuant to the Merger, the voting of Shares at the Company Stockholder Meeting or to otherwise effect the transactions contemplated hereby. The Confidentiality Agreement shall otherwise remain in full force and effect.

SECTION 6.4 No Solicitation. (a) From the date of this Agreement until the termination of this Agreement in accordance with its terms, the Company and its Subsidiaries will not, and the Company will use its

reasonable best efforts to ensure that the respective officers, directors and employees of the Company and its Subsidiaries, and any investment banker, financial advisor, attorney, accountant or other representative or agent retained by it or any of its Subsidiaries, will not (i) solicit, initiate or encourage (including by way of furnishing information) any Acquisition Proposal (as defined below) or (ii) participate or engage in negotiations or discussions, or disclose any nonpublic information relating to the Company or any Subsidiary of the Company or afford access to the properties, books or records of the Company or any Subsidiary of the Company, regarding any Acquisition Proposal; provided that, if the Company's Board of Directors determines, based upon the
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advice of outside legal counsel to the Company, that the failure to engage in such negotiations or discussions or provide such information would be reasonably likely to be inconsistent with the Board of Directors' fiduciary duties under applicable law, the Company may in response to an Acquisition Proposal and subject to compliance with Section 6.4(c), furnish information with respect to the Company and its Subsidiaries pursuant to a confidentiality agreement and participate in negotiations regarding such Acquisition Proposal. For purposes of this Agreement, "Acquisition Proposal" means any inquiry, offer or proposal from any person relating to any direct or indirect acquisition or purchase of a substantial portion of the assets of the Company or any of its Subsidiaries or of over 20% of any class of equity securities of the equity interest of the Company or any of its Subsidiaries, any tender offer or exchange offer that if consummated would result in any person beneficially owning 20% or more equity interest of any class of equity securities of the Company or any of its Subsidiaries, any merger, consolidation, business combination, sale of substantially all the assets, recapitalization, liquidation, dissolution or similar transaction involving the Company or any of its Subsidiaries, other than the transactions contemplated by this Agreement. Nothing contained in this Section 6.4 shall prohibit the Company or its Board of Directors from taking and disclosing to the Company's stockholders a position with respect to a tender or exchange offer by a third party pursuant to Rules 14d-9 and 14e-2(a) promulgated under the Exchange Act or from making such disclosure to the Company's stockholders or making such disclosure as may be required by applicable law; provided, however,
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neither the Company nor its Board

of Directors nor any committee thereof shall, except as permitted by Section 6.2 or 6.4(b), withdraw, modify or change, or propose to withdraw, modify or change, its recommendation of approval and adoption of this Agreement and the Merger or approve or recommend, or propose to approve or recommend, an Acquisition Proposal.

(b) Except as set forth in this Section 6.2 or Section 6.4(b), neither the Company nor the Board of Directors of the Company nor any committee thereof shall (x) withdraw, modify or change, or propose to withdraw, modify or change, in a manner adverse to Buyer, the recommendation by such Board of Directors or such committee of the approval and adoption of this Agreement and the Merger, (y) approve or recommend, or propose to approve or recommend, any Acquisition Proposal or (z) cause the Company to enter into any agreement with respect to any Acquisition Proposal. Notwithstanding the foregoing, in the event that the Board of Directors of the Company determines, based upon the advice of outside legal counsel to the Company, that the failure to take any of the actions contemplated by the preceding sentence would be reasonably likely to be inconsistent with the Board of Directors' fiduciary duties, the Board of Directors of the Company may withdraw, modify or change its recommendation of approval and adoption of this Agreement and the Merger, approve or recommend a Superior Proposal or cause the Company to enter into an agreement with respect to a Superior Proposal; but in the case of approving, recommending or causing the Company to enter into an agreement with respect to a Superior Proposal, only at a time that is after the second day following Buyer's receipt of written notice (a "Notice of Superior Proposal") advising Buyer that the Board of Directors of the Company has received a Superior Proposal, specifying the material terms and conditions of such Superior Proposal and identifying the person making such Superior Proposal. In addition, if the Company enters into an agreement with respect to a Superior Proposal and this Agreement is terminated pursuant to Section 10.1(vi)(B) or Section 10.1(vii), the Company shall promptly pay, or cause to be paid, to Buyer, the Buyers' Expenses (as such term is defined in Section 12.4). For purposes of this Agreement, a "Superior Proposal" means any bona fide Acquisition Proposal to acquire, directly or indirectly, for consideration consisting of cash and/or securities, more than 50% of the shares of the Company common stock

then outstanding or all or substantially all the assets of the Company and otherwise on terms which the Board of Directors of the Company determines in its good faith judgment (based on the advice of a financial advisor of nationally recognized reputation) to be more favorable to the Company's stockholders than the Merger.

(c) In addition to the obligations of the Company set forth in paragraphs (a) and (b) of this Section 6.4, the Company shall notify Buyer in writing within one business day of any request for information or of any Acquisition Proposal, or any inquiry with respect to or which would reasonably be expected to result in an Acquisition Proposal, the material terms and conditions of such request, Acquisition Proposal or inquiry. The Company will use it reasonable best efforts to keep Buyer informed of the status and details (including amendments or proposed amendments) of any such request, Acquisition Proposal or inquiry.

SECTION 6.5 Conveyance Taxes. The Company shall timely pay any real property transfer or gains, sales, use, transfer, value added, stock transfer and stamp taxes, any transfer, recording, registration and other fees, and any similar taxes (collectively, the "Conveyance Taxes") which become payable prior to the Effective Time in connection with the transactions contemplated hereunder that are required to be paid in connection therewith.

## ARTICLE VII

## COVENANTS OF BUYER

Buyer agrees that:

SECTION 7.1 Obligations of Merger Subsidiary. Buyer will take all action necessary to cause Merger Subsidiary to perform its obligations under this Agreement and to consummate the Merger on the terms and conditions set forth in this Agreement.

SECTION 7.2 Voting of Shares. Merger Subsidiary shall and Buyer shall cause Merger Subsidiary to vote all Shares, if any, beneficially owned by Merger Subsidiary or its affiliates in favor of adoption and

approval of the Merger and this Agreement at the Company Stockholder Meeting.

SECTION 7.3 Director and Officer Liability. (a) Buyer, Merger Subsidiary and the Company agree that all rights to indemnification and all limitations on liability existing in favor of any Indemnitee (as defined below) as provided in the Company Certificate of Incorporation, Company By-laws or any Indemnity Agreement (as hereinafter defined) shall survive the Merger and continue in full force and effect. To the extent permitted by (i) the DGCL, (ii) the Company's Certificate of Incorporation and the Company's By-laws or (iii) any agreement providing for indemnification by the Company or any Subsidiary of the Company of any Indemnitee (A) in effect on the date of this Agreement (or entered into thereafter in accordance with the provisions of Section 6.1 of this Agreement) and listed on Schedule 7.3 of the Company Disclosure Schedule (unless entered into after the date hereof in accordance with Section 6.1) or (B) in effect on the date of this Agreement and listed in the Company SEC Documents (each, an "Indemnity Agreement"), advancement of Expenses (as hereinafter defined) pursuant to this Section 7.3 shall be mandatory rather than permissive and the Surviving Corporation shall advance Costs (as defined in Section 7.3(b) hereof) in connection with such indemnification. Buyer shall, and shall cause the Surviving Corporation to, expressly assume and honor in accordance with their terms all Indemnity Agreements.

(b) In addition to the other rights provided for in this Section 7.3 and not in limitation thereof (but without in any way limiting or modifying the obligations of any insurance carrier contemplated by Section 7.3(d)), for ten years from and after the Effective Time, Buyer shall, and shall cause the Surviving Corporation to, to the fullest extent permitted by applicable law, (i) indemnify and hold harmless the individuals who on or prior to the Effective Time were officers, directors or employees of the Company or any of its Subsidiaries, and the heirs, executors, trustees, fiduciaries and administrators of such officers, directors or employees (collectively, the "Indemnitees," which term shall not include any Halmos Entity or other Person described or referred to in Section 7.3(c) hereof, even if any such Halmos Entity or other Person is or was an officer, director or employee of the Company) against all losses, Expenses (as

hereinafter defined), claims, damages, liabilities, judgments, or amounts paid in settlement (collectively, "Costs") in respect to any threatened, pending or completed claim, action, suit or proceeding, whether criminal, civil, administrative or investigative based on, or arising out of or relating to the fact that such person is or was a director, officer or employee of the Company or any of its Subsidiaries and arising out of acts or omissions occurring on or prior to the Effective Time (including, without limitation, in respect of acts or omissions in connection with this Agreement and the transactions contemplated hereby) (an "Indemnifiable Claim") and (ii) advance to such Indemnitees all Expenses incurred in connection with any Indemnifiable Claim promptly after receipt of reasonably detailed statements therefor; provided, that, except as
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otherwise provided pursuant to any Indemnity Agreement, the person to whom Expenses are to be advanced provides an undertaking to repay such advances if it is ultimately determined that such person is not entitled to indemnification from Buyer or the Surviving Corporation. In the event any Indemnifiable Claim is asserted or made within such ten year period, all rights to indemnification and advancement of Expenses in respect of any such Indemnifiable Claim shall continue until such Indemnifiable Claim is disposed of or all judgments, orders, decrees or other rulings in connection with such Indemnifiable Claim are fully satisfied; provided, however, that Buyer shall not be liable for any settlement
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effected without its written consent (which consent shall not be unreasonably withheld or delayed). Except as otherwise may be provided pursuant to any Indemnity Agreement, the Indemnitees as a group may retain only one law firm with respect to each related matter except to the extent there is, in the opinion of counsel to an Indemnitee, under applicable standards of professional conduct, a conflict on any significant issue between positions of any two or more Indemnitees; provided, that, any law firm or firms so retained shall be
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reasonably acceptable to Buyer. For the purposes of this Section 7.3, "Expenses" shall include reasonable attorneys' fees and all other costs, charges and expenses paid or incurred in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in any Indemnifiable Claim.

(c) Notwithstanding the foregoing, with respect to any Indemnifiable Claim commenced or threatened by or on behalf of, (i) Peter Halmos, Steven Halmos, Halmos Trading and Investment Company, The Halmos Foundation, Creditline Corporation, Continuity Marketing Corporation and High Plains Capital Corporation (collectively, the "Halmos Entities"), (ii) any heirs, executors, successors, family members, assigns and any other Person claiming by, through or because of, a Halmos Entity ("Halmos Assign"), (iii) a Person that directly or indirectly, whether through the ownership of voting securities or otherwise, controls or is controlled by or is under common control with any Halmos Entity, (iv) any Person in which any Halmos Entity or Halmos Assign has a 10% ownership interest, (v) any employee or agent as of the date of this Agreement of any Halmos Entity or (vi) any Person acting at the direct or indirect request of any Halmos Entity or Halmos Assign, against any Indemnitee asserted at any time after ten years after the Effective Time, Buyer shall, and shall cause the Surviving Corporation to, indemnify and hold harmless and advance Expenses to such Indemnitees to the extent provided in Section 7.3(b), but without any time limit on the period for which the obligation of Buyer pursuant to this Section 7.3(c) shall be in effect.

(d) For three years from the Effective Time, Buyer will, and will cause the Surviving Corporation to maintain in effect the Company's current directors' and officers' liability insurance covering those Persons who are currently covered by the Company's directors' and officers' liability insurance policy (a copy of which has been made available to Buyer), or Buyer may substitute therefor policies for directors' and officers' liability insurance covering such Persons for at least the same coverage with respect to matters occurring prior to the Effective Time; provided, however, that in no event shall
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Buyer be required to expend in any one year an amount in excess of $887,040 (i.e., the amount that is 200% of the annual premiums currently paid by the Company for such insurance); provided, further, that if the annual premiums of
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such insurance coverage exceed such amount, Buyer shall be obligated to cause the Surviving Corporation to obtain a policy with the greatest coverage available for a cost not exceeding such amount. In the event that any Indemnitee is entitled to coverage under an officers' and directors' liability insurance policy pursuant to this

Section 7.3(d) and such policy has lapsed, terminated, been repudiated or is otherwise in breach or default as a result of Buyer's failure to maintain and fulfill its obligations pursuant to such policy as provided in this Section 7.3(d), Buyer shall, and shall cause the Surviving Corporation to pay to the Indemnitee such amounts and provide any other coverage or benefits as the Indemnitee shall have received pursuant to such policy. Buyer agrees that, should the Surviving Corporation fail to comply with the obligations of this Section 7.3, Buyer shall be responsible therefor.

(e) Notwithstanding any other provisions hereof, the obligations of the Company, the Surviving Corporation and Buyer contained in this Section 7.3 shall be binding upon the successors and assigns of Buyer and the Surviving Corporation. In the event the Company or the Surviving Corporation or any of their respective successors or assigns (i) consolidates with or merges into any other Person or (ii) transfers all or substantially all of its properties or assets to any Person, then, and in each case, proper provision shall be made so that successors and assigns of the Company or the Surviving Corporation, as the case may be, honor the indemnification obligations set forth in this Section 7.3.

(f) The obligations of the Company, the Surviving Corporation, and Buyer under this Section 7.3 shall not be terminated or modified in such a manner as to adversely affect any Indemnitee to whom this Section 7.3 applies without the consent of such affected Indemnitee (it being expressly agreed that the Indemnitees to whom this Section 7.3 applies shall be third party beneficiaries of this Section 7.3).

(g) Buyer shall, and shall cause the Surviving Corporation to, advance all Expenses to any Indemnitee incurred by enforcing the indemnity or other obligations provided for in this Section 7.3.

## ARTICLE VIII

## COVENANTS OF BUYER, MERGER SUBSIDIARY AND THE COMPANY

The parties hereto agree that:

SECTION 8.1 Reasonable Best Efforts. Subject to the terms and conditions of this Agreement, each party will use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate the transactions contemplated by this Agreement.

SECTION 8.2 Certain Filings. The Company and Buyer shall cooperate with one another (a) in connection with the preparation of the Proxy Statement and the Form S-4 Registration Statement, and (b) in determining whether any action by or in respect of, or filing with, any Governmental Entity is required, or any actions, consents, approvals or waivers are required to be obtained from parties to any material contracts, in connection with the consummation of the transactions contemplated by this Agreement and (c) in seeking any such actions, consents, approvals or waivers or making any such filings, furnishing information required in connection therewith or with the Company Proxy Statement or the Form S-4 Registration Statement and seeking timely to obtain any such actions, consents, approvals or waivers.

SECTION 8.3 Public Announcements. Buyer, Merger Subsidiary and the Company will consult with each other before issuing any press release or making any public statement with respect to this Agreement and the transactions contemplated hereby and, except as may be required by applicable law or any listing agreement with any national securities exchange or foreign securities exchange, as determined by Buyer, Merger Subsidiary or the Company, as the case may be, will not issue any such press release or make any such public statement prior to such consultation.

SECTION 8.4 Conveyance Taxes. Buyer and the Company shall cooperate in the preparation, execution and filing of all Tax Returns, questionnaires, applications, or other documents regarding any Conveyance Taxes which become payable in connection with the transactions contemplated hereunder that are required to be filed on or before the Effective Time.

SECTION 8.5 Further Assurances. At and after the Effective Time, the officers and directors of the Surviving Corporation will be authorized to execute and deliver, in the name and on behalf of the Company or Merger Subsidiary, any deeds, bills of sale, assignments or assurances and to take and do, in the name and on behalf of the Company or Merger Subsidiary, any other actions and things to vest, perfect or confirm of record or otherwise in the Surviving Corporation any and all right, title and interest in, to and under any of the rights, properties or assets of the Company acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger.

SECTION 8.6 Employee Matters. (a) For a period of one year immediately following the Effective Time, Buyer agrees to cause the Surviving Corporation and its Subsidiaries to provide to all active employees of the Company as of the Effective Time who continue to be employed by the Company ("Continuing Employees") coverage under group medical, dental, 401(k) savings, disability insurance, life insurance, accidental death and disability, and vacation plans or arrangements which are, in the aggregate, substantially similar to the Plans providing such benefits to the employees immediately prior to the Effective Time.

(b) Buyer shall, and shall cause its Subsidiaries to, honor in accordance with their terms all agreements, contracts, arrangements, commitments and understandings described in Schedule 8.6 of the Company Disclosure Schedule.

(c) For a period of one year immediately following the Closing Date, Buyer agrees to cause the Surviving Corporation and its Subsidiaries to provide to all active employees of the Company at the Closing Date which may be affected by any reduction in force subsequent to the Closing Date the benefits set forth in the Severance Policy adopted by the Board of Directors of the Company in connection with the July 1995 restructuring and applied in the September 1995 and December 1995 restructurings and adopted by resolution for any reductions in force in 1996 at the February 6, 1996 meeting of the Board of Directors.

SECTION 8.7 Company Proxy Statement and Registration Statement.

Buyer will, as promptly as practicable, prepare and, following receipt of notification from the SEC that it has no further comments on the Company Proxy Statement, file with the SEC a registration statement on Form S-4 (the "Form S-4 Registration Statement"), containing the Company Proxy Statement, and the prospectus in connection with the registration under the Securities Act of Buyer Common Shares issuable upon conversion of the Shares and the other transactions contemplated hereby. Buyer will cooperate with the Company in the preparation and filing of the Company Proxy Statement and will provide the Company with all financial and other data concerning Buyer (including, if required, pro forma financial statements and financial and other data regarding the other parties to the transactions described in Schedule 6.2 of the Buyer Disclosure Schedule) as is necessary in order for the Company to prepare the Company Proxy Statement. Buyer and the Company will, and will cause their accountants and lawyers to, use their best efforts to have or cause the Form S-4 Registration Statement declared effective as promptly as practicable, including, without limitation, causing their accountants to deliver necessary or required instruments such as opinions and certificates, and will take any other action required or necessary to be taken under federal or state securities laws or otherwise in connection with the registration process.

SECTION 8.8 Tax-Free Reorganization Treatment. The Company, Buyer and Merger Subsidiary shall execute and deliver to Skadden, Arps, Slate, Meagher & Flom, counsel to the Company, a certificate substantially in the form attached hereto as Exhibit 2 or Exhibit 3, as the case may be, (the "Buyer Tax Certificate" and the "Company Tax Certificate", as the case may be) at such time or times as reasonably requested by such law firm in connection with its delivery of an opinion with respect to the transactions contemplated hereby, and shall provide a copy thereof to Buyer and the Company. Prior to the Effective Time, none of the Company, Buyer and Merger Subsidiary shall take or cause to be taken any action which would cause to be untrue (or fail to take or cause not to be taken any action which would cause to be true) any of the information, representations or covenants in Exhibit 2 or Exhibit 3, as the case may be.

SECTION 8.9 Notification of Certain Matters. The Company shall give prompt notice to Buyer and Merger Subsidiary, and Buyer and Merger Subsidiary shall give prompt notice to the Company, of (i) the occurrence or nonoccurrence of any event the occurrence or nonoccurrence of which would be likely to cause any representation or warranty contained in this Agreement to be untrue or inaccurate in any material respect at or prior to the Effective Time, (ii) any material failure of the Company, Buyer or Merger Subsidiary, as the case may be, to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it hereunder, (iii) any notice of, or other communication relating to, a default or event which, with notice or lapse of time or both, would become a default, received by it or any of its subsidiaries subsequent to the date of this Agreement and prior to the Effective Time, under any material contract or agreement, (iv) any notice or other communication from any third party alleging that the consent of such third party is or may be required in connection with the transactions contemplated by this Agreement, or (v) any Material Adverse Effect, other than changes resulting from general economic conditions; provided, however, that the delivery of any notice pursuant to this Section 8.9 shall not cure such breach or noncompliance or limit or otherwise affect the remedies available hereunder to the party receiving such notice.

SECTION 8.10 Blue Sky Permits. Buyer shall use its best efforts to obtain, prior to the effective date of the Form S-4 Registration Statement, all necessary state securities laws or "blue sky" permits and approvals required to carry out the transactions contemplated by this Agreement and the Merger, and will pay all expenses incident thereto.

SECTION 8.11 NYSE Listing. Buyer shall use its best efforts to cause the shares of Buyer Common Stock constituting the Merger Consideration to be listed on the NYSE, subject to notice of official issuance thereof.

SECTION 8.12 Pooling Letter. (a) Buyer shall use its best efforts to cause Ernst & Young LLP, its independent auditors, to deliver to Buyer a letter to the effect that pooling of interests accounting (under Accounting Principles Board Opinion No. 16) is appropriate

for the Merger, provided that the Merger is consummated in accordance with the terms and conditions of this Agreement, and the Company shall use its best efforts to cause its independent auditors, Price Waterhouse LLP, to cooperate fully with Ernst & Young LLP (including, without limitation, by delivering to the Company a letter substantially similar to Ernst & Young LLP's letter to Buyer) in connection with the delivery to Buyer of such letter.

(b) The Company shall use its best efforts to cause Price Waterhouse LLP to deliver to the Company a letter to the effect that pooling of interests accounting (under Accounting Principles Board Opinion No. 16) is appropriate for the Merger, provided that the Merger is consummated in accordance with the terms and conditions of this Agreement, and Buyer shall use its best efforts to cause Ernst & Young LLP to cooperate fully with Price Waterhouse LLP (including, without limitation, by delivering to Buyer a letter substantially similar to Price Waterhouse LLP's letter to the Company) in connection with the delivery to the Company of such letter.

SECTION 8.13 Pooling. The Company and Buyer each agrees that it will not knowingly take any action which could prevent the Merger from being accounted for as a pooling of interests for accounting purposes (under Accounting Principles Board Opinion No. 16) and the Company will bring to the attention of Buyer, and Buyer will bring to the attention of the Company, any actions, or agreements or understandings, whether written or oral, that could be reasonably likely to prevent Buyer from accounting for the Merger as a pooling of interests. The Company will use its reasonable best efforts to inform all Company Affiliates and other relevant employees as to those actions that should or should not be taken by such persons so that the Merger will be accounted for as a pooling of interests.

SECTION 8.14 SEC Filings. Each of Buyer and the Company shall promptly provide the other party (or its counsel) with copies of all filings made by the other party or any of its Subsidiaries with the SEC or any other state or federal Governmental Entity in connection with this Agreement and the transactions contemplated hereby.

SECTION 8.15 Affiliate Agreements. Buyer and Merger Subsidiary shall have received the Affiliate Letters from the Company Affiliates.

SECTION 8.16 Affiliates. Promptly upon the Company obtaining knowledge of persons who, to the best knowledge of the Company, following the date of this Agreement until the Effective Time, become "affiliates" of the Company for purposes of Rule 145 of the Securities Act, the Company shall use its reasonable best efforts to identify any such person in writing to Buyer, and will use its reasonable best efforts to cause such persons prior to the mailing of the Company Proxy Statement, or if thereafter as soon as reasonably practicable, to deliver to Buyer an Affiliate Letter; provided, however, that the Company will not affirmatively, without the prior written consent of Buyer, take any action, by hiring or appointing a new officer or director or otherwise, so as to cause any person to become an "affiliate" unless such person executes an Affiliate Letter prior thereto.

## ARTICLE IX

## CONDITIONS TO THE MERGER

SECTION 9.1 Conditions to the Obligations of Each Party. The obligations of the Company, Buyer and Merger Subsidiary to consummate the Merger are subject to the satisfaction on or prior to the Effective Time of the following conditions, except to the extent permitted by applicable law, that such conditions may be waived:

(i) Stockholder Approval. The Merger shall have been duly approved by a majority of the votes cast by stockholders of the Company entitled to vote thereon in accordance with applicable law and the Company Certificate of Incorporation and Company By-laws.

(ii) Listing of Buyer Common Stock. The shares of Buyer Common Stock issuable in accordance with the Merger shall have been approved for listing on the NYSE, subject to official notice of issuance.

(iii) Registration Statement. The Form S-4 Registration Statement shall have become effective in accordance with the provisions of the Securities Act, and no order suspending such effectiveness shall have been issued and remain in effect.

(iv) HSR Act. Any applicable waiting period under the HSR Act relating to the Merger shall have expired.

(v) No Injunction. No provision of any applicable law or regulation and no judgment, injunction, order or decree shall prohibit the consummation of the Merger or any transactions contemplated hereby.

(vi) Pooling. Buyer shall have received a letter from Ernst & Young LLP and the Company shall have received a letter from Price Waterhouse LLP each to the effect that pooling of interests accounting (under Accounting Principles Board Opinion No. 16) is appropriate for the Merger, provided that the Merger is consummated in accordance with the terms of this Agreement; provided, further, that the foregoing shall not be a condition to the Company's obligations if either Price Waterhouse LLP or Ernst & Young LLP is unable to deliver such letter as a result of the Company having breached the Company's representation set forth in Section 4.21 or the Company's covenants set forth in Sections 8.12, 8.13 or 8.16 or the Company or any of its affiliates having taken or failed to take any other action, in any such case that would prevent, in the opinion of such firm, Buyer from accounting for the Merger as a pooling of interests.

SECTION 9.2 Conditions to the Obligations of the Company. The obligations of the Company to consummate the Merger are subject to the satisfaction on or prior to the Effective Time of the following conditions, except to the extent permitted by applicable law, that such conditions may be waived:

(i) Performance of Obligations Buyer and Merger Subsidiary. Each of Buyer and Merger Subsidiary will have performed in all material respects its agreements and covenants contained in or contem

plated by this Agreement which are required to be performed by it at or prior to the Effective Time.

(ii) Representations and Warranties. The representations and warranties of Buyer and Merger Subsidiary set forth in this Agreement shall be true and correct in all material respects (i) on and as of the date hereof and (ii) on and as of the Closing Date with the same effect as thought such representations and warranties had been made on and as of the Closing Date (except for representations and warranties that expressly speak only as of a specific date or time which need only be true and correct as of such date and time).

(iii) Closing Certificate. The Company shall have received a certificate signed by the chief executive officer of Buyer, dated the Closing Date, to the effect that, to the best of such officer's knowledge, the conditions set forth in Section 9.2(i) and 9.2(ii) hereof have been satisfied.

(iv) Tax Opinion. The Company shall have received an opinion of Skadden, Arps, Slate, Meagher & Flom, counsel to the Company, in form and substance reasonably satisfactory to the Company, dated as of the Effective Time, substantially to the effect that on the basis of facts, representations and assumptions set forth in such opinion which are consistent with the state of facts then existing, the Merger will be treated as a reorganization within the meaning of Section 368(a) of the Code, and, accordingly, for United States federal income tax purposes, that:

(A) no gain or loss will be recognized by the Company, Buyer or Merger Subsidiary as a result of the Merger;

(B) no gain or loss will be recognized by a stockholder of the Company whose Shares are exchanged solely for Buyer Common Stock pursuant to the Merger (except with respect to cash received by a holder of Shares in lieu of a fractional share interest in Buyer Common Stock);

(C) the tax basis of the Buyer Common Stock received by a holder of Shares in the Merger will be the same as the tax basis of the Shares surrendered in exchange therefor (reduced by any amount allocable to a fractional share interest in Buyer Common Stock for which cash is received); and

(D) the holding period of the shares of Buyer Common Stock received by a holder of Shares in the Merger will include the period during which such Shares surrendered in exchange therefor were held, provided that such Shares were held as capital assets at the Effective Time of the Merger.

In rendering such opinion, such firm may require and rely upon representations contained in the Buyer Tax Certificate, the Company Tax Certificate and such other certificates from such other persons as such firm may require.

SECTION 9.3 Conditions to the Obligations of Buyer and Merger Subsidiary. The obligations of Buyer and Merger Subsidiary to consummate the Merger are subject to the satisfaction on or prior to the Effective Time of the following conditions, except to the extent permitted by applicable law, that such conditions may be waived:

(i) Performance of Obligations the Company. The Company will have performed in all material respects its agreements and covenants contained in or contemplated by this Agreement which are required to be performed by it at or prior to the Effective Time.

(ii) Representations and Warranties. The representations and warranties of the Company set forth in this Agreement shall be true and correct in all material respects (i) on and as of the date hereof and (ii) on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of the Closing Date (except for representations and warranties that

expressly speak only as of a specific date or time which need only be true and correct as of such date and time).

(iii) Closing Certificate. Buyer and Merger Subsidiary shall have received a certificate signed by the chief executive officer of the Company, dated the Closing Date, to the effect that, to the best of such officer's knowledge, the conditions set forth in Section 9.3(i) and 9.3(ii) hereof have been satisfied.

(iv) Affiliate Agreements. Each Company Affiliate shall have performed his or its respective obligations under the applicable Affiliate Letter.

## ARTICLE X

## TERMINATION

SECTION 10.1 Termination. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time (notwithstanding any approval of this Agreement by the stockholders of the Company):

(i) by mutual written consent of the Company and Buyer;

(ii) by either the Company or Buyer, if the Merger has not been consummated by December 31, 1996 (as such date may be extended by mutual agreement or pursuant to the proviso to this sentence, the "Outside Termination Date"); provided, however, that the right to terminate this Agreement under this paragraph shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure to meet the date requirements of this paragraph;

(iii) by either the Company or Buyer, if there shall be any law or regulation that makes consummation of the Merger illegal or if any judgment, injunction, order or decree enjoining Buyer or the Company from consummating the Merger is entered and

such judgment, injunction, order or decree shall become final and nonappealable;

(iv) by the Company if (A) there shall have been a breach of any representation or warranty on the part of Buyer or Merger Subsidiary set forth in this Agreement, or if any representation or warranty of Buyer or Merger Subsidiary shall have become untrue, in either case such that the condition set forth in Section 9.2(ii) would be incapable of being satisfied by the Outside Termination Date or (B) there shall have been a breach by Buyer or Merger Subsidiary of any of their respective covenants or agreements hereunder having a Material Adverse Effect on Buyer or materially adversely affecting (or materially delaying) the consummation of the Merger, and Buyer or Merger Subsidiary, as the case may be, has not cured such breach within twenty business days after notice by the Company thereof;

(v) by Buyer and Merger Subsidiary if (A) there shall have been a breach of any representation or warranty on the part of the Company set forth in this Agreement, or if any representation or warranty of the Company shall have become untrue, in either case such that the condition set forth in Section 9.3(ii) would be incapable of being satisfied by the Outside Termination Date or (B) there shall have been a breach by the Company of its covenants or agreements hereunder having a Material Adverse Effect on the Company or materially adversely affecting (or materially delaying) the consummation of the Merger, and the Company has not cured such breach within twenty business days after notice by Buyer or Merger Subsidiary thereof;

(vi) by Buyer or Merger Subsidiary, if (A) the Board of Directors of the Company or any committee thereof shall have withdrawn, modified or changed in a manner adverse to Buyer or Merger Subsidiary its recommendation of the Merger or this Agreement or approved or recommended a Superior Proposal or (B) the Company shall have entered into a definitive agreement with respect to an Acquisition Proposal;

(vii) by the Company, upon entering into a definitive agreement in accordance with Section

6.4(b), provided (x) it has complied with all provisions of Section 6.4, including the notice provisions therein, and (y) that it makes simultaneous payment of Buyer's Expenses (as defined in Section 12.4); or

(viii) by Buyer, Merger Subsidiary or the Company, if the Company's stockholders do not approve the Merger at the Company Stockholder Meeting.

The party desiring to terminate this Agreement pursuant to this Section 10.1 (other than with respect to Section 10.1(i)) shall give written notice of such termination to the other party.

SECTION 10.2 Effect of Termination. If this Agreement is terminated pursuant to Section 10.1 hereof, this Agreement shall become void and of no effect with no liability on the part of any party hereto; provided that (i) the agreements contained in Sections 4.16, 5.6, 10.2 and 12.4, hereof shall survive the termination hereof; (ii) the Confidentiality Agreement shall remain in full force and effect and Section 6.3(b) hereof shall have no binding effect whatsoever; and (iii) nothing contained in this Section 10.2 shall relieve any party from liability for any breach of this Agreement.

## ARTICLE XI

## DEFINED TERMS

For the purposes of this Agreement, the following terms shall have the following respective meanings:

"Active Subsidiary" shall have the meaning set forth in Section 4.6(a).

"Affiliate Letter" shall have the meaning set forth in the Introduction.

"Agreement" shall have the meaning set forth in the Introduction.

"Acquisition Proposal" shall have the meaning set forth in Section 6.4.(a).

"Affiliates" shall have the meaning set forth in Section 8.9.

"Average Stock Price" shall have the meaning set forth in Section 1.2(a).

"blue sky" shall have the meaning set forth in Section 8.10.

"Buyer" shall have the meaning set forth in the Introduction.

"Buyer Certificates" shall have the meaning set forth in Section 1.3(a).

"Buyer Common Stock" shall have the meaning set forth in the Introduction.

"Buyer Disclosure Schedule" shall have the meaning set forth in Section 5.1.

"Buyer Preferred Stock" shall have the meaning set forth in Section 5.9.

"Buyer's Expenses" shall have the meaning set forth in Section 12.4(d).

"Buyer SEC Documents" shall have the meaning set forth in Section 5.12.

"Buyer Securities" shall have the meaning set forth in Section 5.9.

"Buyer Tax Certificate" shall have the meaning set forth in Section 8.8.

"Buyer's Accountants" shall have the meaning set forth in Section 8.12(a).

"Certificate of Merger" shall have the meaning set forth in Section 1.1(b).

"Closing" shall have the meaning set forth in Section 2.1.

"Closing Date" shall have the meaning set forth in Section 2.1.

"Code" shall have the meaning set forth in the Introduction.

"Company" shall have the meaning set forth in the Introduction.

"Company Affiliate" shall have the meaning set forth in Section the Introduction.

"Company Affiliate Letter" shall have the meaning set forth in the Introduction.

"Company By-laws" shall have the meaning set forth Section 3.2.

"Company Certificate of Incorporation" shall have the meaning set forth in Section 3.1.

"Company Disclosure Schedule" shall have the meaning set forth in Section 4.1.

"Company Proxy Statement" shall have the meaning set forth in Section 6.2(i).

"Company SEC Documents" shall have the meaning set forth in Section 4.7.

"Company Securities" shall have the meaning set forth in Section 4.5.

"Company Stock Plans" shall have the meaning set forth in Section 1.10.

"Company Stockholder Meeting" shall have the meaning set forth in Section 6.2.

"Company Tax Certificate" shall have the meaning set forth in Section 8.8.

"Company's Accountants" shall have the meaning set forth in Section 8.12(a).

"Company's Expenses" shall have the meaning set forth in Section 12.4(e).

"Confidentiality Agreement" shall have the meaning set forth in Section 6.3(a).

"Continuing Employees" shall have the meaning set forth in Section 8.6(a).

"Conversion Number" shall have the meaning set forth in Section 1.2(a).

"Conveyance Taxes" shall have the meaning set forth in Section 6.5.

"Costs" shall have the meaning set forth in Section 7.3(b).

"DGCL" shall have the meaning set forth in Section 1.1(a).

"Effective Time" shall have the meaning set forth in Section 1.1(b).

"employee pension benefit plan" shall have the meaning set forth in Section 4.13(a).

"employee welfare benefit plan" shall have the meaning set forth in Section 4.13(a).

"Environmental Law" shall have the meaning set forth in Section 4.17(c).

"ERISA" shall have the meaning set forth in Section 4.13(a).

"ERISA Affiliate" shall have the meaning set forth in Section 4.13(a).

"ERISA Plans" shall have the meaning set forth in Section 4.13(a).

"Exchange Act" shall have the meaning set forth in Section 4.3.

"Exchange Agent" shall have the meaning set forth in Section 1.3(a).

"Exchange Fund" shall have the meaning set forth in Section 1.3(a).

"Expenses" shall have the meaning set forth in Section 7.3(b).

"Form S-4 Registration Statement" shall have the meaning set forth in Section 8.7.

"GAAP" shall have the meaning set forth in Section 4.8.

"Governmental Entity" shall have the meaning set forth in Section 4.3.

"Halmos Entities" shall have the meaning set forth in Section 7.3(c)(i).

"Halmos Assign" shall have the meaning set forth in Section 7.3(c)(iii).

"HSR Act" shall have the meaning set forth in Section 4.3.

"Indemnifiable Claim" shall have the meaning set forth in Section 7.3(b).

"Indemnitees" shall have the meaning set forth in Section 7.3(b).

"Indemnity Agreement" shall have the meaning set forth in Section 7.3(a).

"Intangible Property" shall have the meaning set forth in Section 4.19(a).

"Licenses" shall have the meaning set forth in Section 4.1.

"Lien" shall have the meaning set forth in Section 4.4.

"Material Adverse Effect" shall have the meaning set forth in Section 4.1.

"Material Contracts" shall have the meaning set forth in Section 4.20.

"Measurement Period" shall have the meaning set forth in Section 1.2(a).

"Merger" shall have the meaning set forth in Section 1.1(a).

"Merger Consideration" shall have the meaning set forth in Section 1.2(a).

"Merger Subsidiary" shall have the meaning set forth in the Introduction.

"Notice of Superior Proposal" shall have the meaning set forth in Section 6.4(b).

"NYSE" shall have the meaning set forth in Section 1.2(a).

"Option" shall have the meaning set forth in Section 1.10.

"Outside Termination Date" shall have the meaning set forth in Section 10.1(ii).

"PBGC" shall have the meaning set forth in Section 4.13(c).

"Person" shall have the meaning set forth in Section 1.4.

"Plans" shall have the meaning set forth in Section 4.13(a)

"Preferred Stock" shall have the meaning set forth in Section 4.5.

"SafeCard" shall have the meaning set forth in Section 4.20.

"SEC" shall have the meaning set forth in Section 4.7.

"Secretary of State" shall have the meaning set forth in Section 1.1(b).

"Securities Act" shall have the meaning set forth in the Introduction.

"Share Certificates" shall have the meaning set forth in Section 1.3(b).

"Shares" shall have the meaning set forth in the Introduction.

"single employer" shall have the meaning set forth in Section 4.13(a).

"Subsidiary" shall have the meaning set forth in Section 4.6(a).

"Substitute Option" shall have the meaning set forth in Section 1.10.

"Surviving Corporation" shall have the meaning set forth in Section 1.1(a).

"Tax Return" shall have the meaning set forth in Section 4.12(b)(ii).

"Taxes" shall have the meaning set forth in Section 4.12(b)(i).

"Third Party" shall have the meaning set forth in Section 12.4(e).

"Third Party Acquisition" shall have the meaning set forth in Section 12.4(e).

## ARTICLE XII

## MISCELLANEOUS

SECTION 12.1 Notices. All notices, requests and other communications to any party hereunder shall be in writing (including telecopy or similar writing) and shall be given,

if to Buyer or Merger Subsidiary, to:

CUC International, Inc.
707 Summer Street
Stamford, CT 06901
Telecopy: (203) 348-1982
Attention: Amy N. Lipton, Esq.

with a copy to:

Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, New York 10153
Telecopy: (212) 310-8007
Attention: Howard Chatzinoff, Esq.

if to the Company, to:

Ideon Group, Inc.
7596 Centurion Parkway
Jacksonville, Florida 32256
Telecopy: (904) 218-1850
Attention: Mr. Eugene Miller, Chairman of
the Board and Chief Executive Officer

with a copy to:

Skadden, Arps, Slate, Meagher & Flom
919 Third Avenue
New York, New York 10022
Telecopy: (212) 735-2000
Attention: Roger S. Aaron, Esq.

or such other address or telecopy number as such party may hereafter specify for the purpose by notice to the other parties hereto. Each such notice, request or other communication shall be effective (i) if given by telecopy, when such telecopy is transmitted to the telecopy number specified in this Section 11.1 and the appropriate telecopy confirmation is received or (ii) if given by any other means, when delivered at the address specified in this Section 12.1.

SECTION 12.2 Survival of Representations and Warranties. The representations and warranties contained herein and in any certificate or other writing delivered pursuant hereto shall not survive the Effective Time or the termination of this Agreement. All covenants and agreements contained herein which by their terms are to be performed in whole or in part subsequent to the Effective Time shall survive the Merger in accordance with their terms. Nothing contained in this Section 12.2 shall relieve any party from liability for any willful breach of this Agreement.

SECTION 12.3 Amendments; No Waivers. (a) Except as may otherwise be provided herein, any provision of this Agreement may be amended or waived prior to the Effective Time if, and only if, such amendment or waiver is in writing and signed, in the case of an amendment, by the Company, Buyer and Merger Subsidiary or in the case of a waiver, by the party against whom the waiver is to be effective; provided that after the adoption of this Agreement by the stockholders of the Company, no such amendment or waiver shall, without the further approval of such stockholders, alter or change (i) the amount or kind of consideration to be received in exchange for any shares of capital stock of the Company or (ii) any of the terms or conditions of this Agreement if such alteration or change could adversely affect the holders of any shares of capital stock of the Company.

(b) No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

SECTION 12.4 Expenses. (a) Except as provided below in this Section 12.4, all fees and expenses incurred in connection with the Merger, this Agreement and the transactions contemplated by this Agreement shall be paid by the party incurring such fees or expenses, whether or not the Merger is consummated.

(b) The Company shall pay, or cause to be paid, in same day funds to Buyer, Buyer's Expenses (as hereinafter defined), in the event that the Company shall enter into a definitive agreement with respect to a Superior Proposal and this Agreement shall be terminated pursuant to Section 10.1(vi)(B) or Section 10.1(vii). In addition, in the event that this Agreement shall be terminated pursuant to Section 10.1(vi) or Section 10.1(vii) and, (i) within twelve months thereafter, the Company enters into an agreement with respect to a Third Party Acquisition (which is consummated within twelve months after such termination), or a Third Party Acquisition occurs and is completed, (ii) after the date hereof and prior to the date of termination, (x) the Company or its agents had engaged in negotiations with a Third Party with respect to a Third Party Acquisition, (y)

the Company or its agents furnished information to a Third Party with respect to a Third Party Acquisition or (z) a Third Party submitted to the Company a proposal (which shall include price and other material terms and conditions) for a Third Party Acquisition and (iii) with respect to (x) and (y) above, the relevant Third Party makes or announces (before or after such termination) a proposal with respect to a Third Party Acquisition; then the Company shall pay, or cause to be paid, in same day funds, to Buyer, (A) a termination fee in the amount of $7,000,000, which termination fee shall be paid on the date of consummation of a Third Party Acquisition (if and only if a Third Party Acquisition shall be consummated within twelve months after the date of termination), and (B) to the extent not previously paid by the Company to Buyer pursuant to the first sentence of this Section 12.4(b), Buyers' Expenses. It is expressly agreed that the amount to be paid pursuant to this Section 12.4(b) represents liquidated damages and not a penalty.

(c) The cost of printing the Form S-4 Registration Statement and the Company Proxy Statement shall be borne equally by the Company and Buyer.

(d) The Company shall pay or cause to be paid (not later than ten business days after submission of statements therefor) in same day funds to Buyer, Buyer's Expenses in the event this Agreement shall be terminated pursuant to Section 10.1(v). Buyer shall pay or cause to be paid (not later than ten business days after submission of statements therefor) in same day funds to the Company, Company's Expenses in the event this Agreement shall be terminated pursuant to Section 10.1(iv). If Buyer or Merger Subsidiary shall submit a request for reimbursement hereunder, Buyer or Merger Subsidiary will provide the Company in due course with invoices or other reasonable evidence of such expenses upon request. If the Company shall submit a request for reimbursement hereunder, the Company will provide Buyer in due course with invoices or other reasonable evidence of such expenses upon request.

(e) For purposes of this Section 12.4, "Third Party Acquisition" means the occurrence of any of the following events: (i) the acquisition of the Company by merger or otherwise by any person (which includes a "person" as such term is defined in Section 13(d)(3) of the Exchange Act) or entity other than Buyer, Merger Subsidiary or any affiliate thereof (a "Third Party"); (ii) the acquisition by

a Third Party of more than 35% of the total assets of the Company and its Subsidiaries, taken as a whole; or (iii) the acquisition by a Third Party of 35% or more of the outstanding shares of Company Common Stock. For purposes of this Section 12.4, "Buyer's Expenses" shall mean documented out-of-pocket fees and expenses reasonably and actually incurred or paid by or on behalf of Buyer in connection with the Merger and the consummation of any of the transactions contemplated by this Agreement, including, reasonable fees and expenses of counsel, accountants, experts, financial advisors and consultants to Buyer, in an aggregate amount not to exceed $1,000,000. For purposes of this Section 12.4, "Company's Expenses" shall mean documented out-of-pocket fees and expenses reasonably and actually incurred or paid by or on behalf of the Company in connection with the Merger and the consummation of any of the transactions contemplated by this Agreement, including, reasonable fees and expenses of counsel, accountants, experts, financial advisors and consultants to the Company, in an aggregate amount not to exceed $1,000,000.

SECTION 12.5 Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, provided that no party may assign, delegate or otherwise transfer any of its rights or obligations under this Agreement without the consent of the other parties hereto.

SECTION 12.6 Governing Law. This Agreement shall be construed in accordance with and governed by the law of the State of Delaware without regard to conflicts of laws.

SECTION 12.7 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated herein is not affected in any manner materially adverse to any party hereto. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner.

SECTION 12.8 Third Party Beneficiaries. No provision of this Agreement other than Section 7.3 and Section 8.6 hereof is intended to confer upon any Person other than the parties hereto any rights or remedies hereunder.

SECTION 12.9 Entire Agreement. This Agreement, including any exhibits or schedules hereto and the Confidentiality Agreement constitutes the entire agreement among the parties hereto with respect to the subject matter hereof and supersede all other prior agreements or undertaking with respect thereto, both written and oral.

SECTION 12.10 Counterparts; Effectiveness. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when each party hereto shall have received counterparts hereof signed by all of the other parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

IDEON GROUP, INC.

By: /s/ Eugene Miller
---
Name: Eugene Miller
Title: Chairman and CEO

CUC INTERNATIONAL INC.

By:
---
Name:
Title:

IG ACQUISITION CORP.

By:
---
Name:
Title:

Exhibit 11

CUC International Inc. and Subsidiaries

Exhibit 11--Statement Re: Computation of per Share Earnings

| | Year ended January 31, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| | (in thousands, except per common share amounts) | | |
| Primary | | | |
| Average shares outstanding | 180,821 | 177,480 | 171,489 |
| Net effect of dilutive stock options or stock options exercised during the year--based on the treasury stock method using average market price | 13,845 | 11,739 | 11,624 |
| Total | 194,666 | 189,219 | 183,113 |
| Net income | $163,374 | $124,566 | $ 94,151 |
| Net income per common share | $ .839 | $ .658 | $ .514 |
| Fully diluted | | | |
| Average shares outstanding | 180,821 | 177,480 | 171,489 |
| Net effect of dilutive stock options or stock options exercised during the year--based on the treasury stock method using the year-end market price, if higher than average market price or market price at date of exercise | 14,569 | 12,153 | 12,628 |
| Net effect of zero coupon convertible notes--based on the if converted method | 2,436 | 2,780 | 6,198 |
| | 197,826 | 192,413 | 190,315 |
| Net income | $163,374 | $124,566 | $94,151 |
| Interest expense: | | | |
| Zero coupon convertible notes | 1,010 | 1,026 | 1,965 |
| Net income | $164,384 | $125,592 | $96,116 |
| Net income per common share | $ .831 | $ .653 | $ .505 |

CUC International Inc. and Subsidiaries

Exhibit 21--Subsidiaries of the Company

| Subsidiary | State of Incorporation |
|---|---|
| FISI*Madison Financial Corporation | Tennessee |
| Benefit Consultants, Inc. | Delaware |
| Entertainment Publications, Inc. | Michigan |
| Interval International, Inc. | Florida |

Exhibit 23.1

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statements (Form S-8s: Numbers 33-17247, 33-17248, 33-17249, 33-26875, 33-75682, 33-93322, 33-41823, 33-48175, 33-58896, 33-91656, 33-74068, 33-74066, 33-91658, 333-00475, 33-75684, 33-80834, and 33-93372) pertaining to the CUC International Inc. 1985 Non-Qualified Stock Option Plan, the CUC International Inc. 1985 Incentive Stock Option Plan, the CUC International Inc. 1987 Performance Share Stock Option Plan, the CUC International Inc. 1987 Stock Option Plan, the CUC International Inc. 1987 Stock Option Plan as amended, the CUC International Inc. 1987 Stock Option Plan as amended, the CUC International Inc. 1990 Directors' Stock Option Plan, the Entertainment Publications Inc. 1988 Non-Qualified Stock Option Plan, the CUC International Inc. 1992 Bonus and Salary Replacement Stock Option Plan, the CUC International Inc. 1992 Bonus and Salary Replacement Stock Option Plan as amended, the CUC International Inc. 1992 Directors Stock Option Plan, the CUC International Inc. 1992 Employee Stock Option Plan, the CUC International Inc. 1992 Employee Stock Option Plan as amended, the CUC International Inc. 1992 Employee Stock Option Plan as amended, the CUC International Inc. 1994 Employee Stock Purchase Plan, the CUC International Inc. Savings Incentive Plan, and the CUC International Inc. 1994 Directors Stock Option Plan, respectively, and in the Registration Statements (Form S-3s: Numbers 33-30306, 33-47271, 33-58598, 33-63237 and 33-95126) and in the Registration Statement (Form S-4: Number 33-64801) and in the related Prospectuses of our report dated March 19, 1996, with respect to the consolidated financial statements and schedule of CUC International Inc. included in its Annual Report (Form 10-K) for the year ended January 31, 1996.

ERNST & YOUNG LLP

Stamford, Connecticut
April 22, 1996

Exhibit 23.2

Independent Auditors' Consent

We consent to the incorporation by reference in the Annual Report on Form 10-K under the Securities Exchange Act of 1934 of CUC International Inc. for the year ended January 31, 1996 of our report dated March 13, 1995 (relating to the financial statements of Advance Ross Corporation not presented separately herein), and contained in Registration Statements Nos. 33-17247, 33-17248, 33-17249, 33-26875, 33-75682, 33-93322, 33-41823, 33-48175, 33-58896, 33-91656, 33-74068, 33-74066, 33-91658, 333-00475, 33-75684, 33-80834, and 33-93372 of CUC International Inc. on Form S-8 and in Registration Statement Nos. 33-30306, 33-47271, 33-58598, 33-63237, 33-95126 of CUC International Inc. on Form S-3 and in Registration Statement No. 33-64801 of CUC International Inc. on Form S-4, all under the Securities Act of 1933, insofar as such report relates to the financial statements and schedule of Advance Ross Corporation (not presented separately herein) as of December 31, 1994 and for the years ended December 31, 1994 and 1993.

DELOITTE & TOUCHE LLP

Chicago, Illinois
April 22, 1996

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0000723612
CUC INTERNATIONAL INC.
1,000

| | |
|---|---|
| YEAR | |
| | JAN-31-1996 |
| | JAN-31-1996 |
| | 269,987 |
| | 0 |
| | 308,547 |
| | 10,705 |
| | 0 |
| | 767,707 |
| | 135,016 |
| | 73,575 |
| | 1,141,306 |
| | 149,845 |
| | 14,410 |
| | 0 |
| | 0 |
| | 1,918 |
| | 725,294 |
| | 1,141,306 |
| | 1,414,964 |
| | 1,414,964 |
| | 0 |
| | 1,144,240 |
| | 5,247 |
| | 0 |
| | (866) |
| | 266,343 |
| | 102,969 |
| | 163,374 |
| | 0 |
| | 0 |
| | 0 |
| | 163,374 |
| | .839 |
| | .831 |