

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 8-K

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

Date of Report (Date of Earliest Event Reported): July 24, 1996

CUC International Inc.

(Exact name of registrant as specified in its Charter)

Delaware	1-10308	06-0918165

(State or other jurisdiction of incorporation)	(Commission File Number)	(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

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

ITEM 5.

OTHER EVENTS

As previously disclosed by CUC International Inc., a Delaware corporation (the "Company") in prior fillings: During July 1996, the Company merged certain of its subsidiaries with Davidson & Associates, Inc. ("Davidson") and Sierra On-Line, Inc. ("Sierra") by issuing approximately 30.1 million shares and 25.6 million shares of the Company's common stock, par value \$.01 per share ("Common Stock"), respectively. Davidson and Sierra develop, publish and distribute educational and entertainment software for home and school use. During August 1996, the Company merged one of its subsidiaries with Ideon Group, Inc. ("Ideon"), principally a provider of credit card enhancement services, by issuing approximately 11 million shares of Common Stock (the "Ideon Merger").

The above mergers have been accounted for as poolings-of-interests. Generally accepted accounting principles proscribe giving effect to a consummated business combination accounted for by the pooling-of-interests method in financial statements that do not include the date of consummation. The Company has prepared restated supplemental consolidated financial statements reflecting the above-described transactions and is filing them as Exhibit 99.1 to this Current Report on Form 8-K so that the Company may incorporate such financial statements into any future registration statements by reference to this report. Unaudited restated supplemental interim consolidated financial statements as of April 30, 1996 and July 31, 1996 and for the three month periods ended April 30, 1996 and 1995 and for the three month and the six month periods ended July 31, 1996 and 1995 reflecting the above-described transactions have also been included herein as Exhibit 99.2.

The supplemental consolidated financial statements do not extend through the date of consummation of the Ideon Merger. However, they will become the historical consolidated financial statements of the Company after financial statements covering the date of consummation of the business combination are issued.

In addition, the selected supplemental consolidated financial data and management's discussion and analysis of financial condition and results of operations of the Company have been prepared to give retroactive effect to the above-described transactions and appear herein as Exhibits 99.3 and 99.4, respectively.

ITEM 7.

FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

(a) Financial statements of businesses acquired:

1. Audited consolidated financial statements of Sierra On-Line, Inc. and subsidiaries for the fiscal year ended March 31, 1996.
2. Audited consolidated financial statements of Davidson & Associates, Inc. for the year ended December 31, 1995.
3. Audited consolidated financial statements of Ideon Group, Inc. for the year ended December 31, 1995.

(b) Exhibits

- 23.1 Consent of Ernst & Young LLP.
- 23.2 Consent of Deloitte & Touche LLP.
- 23.3 Consent of Deloitte & Touche LLP.

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- 23.4 Consent of Price Waterhouse LLP.
- 23.5 Consent of KPMG Peat Marwick LLP.
- 27 Financial Data Schedule.

- 99.1 Supplemental Consolidated Financial Statements of CUC International Inc. for the fiscal year ended January 31, 1996 (as restated to reflect the acquisitions of Sierra On-Line, Inc. on July 24, 1996, Davidson & Associates Inc. on July 24, 1996 and Ideon Group, Inc. on August 7, 1996).
- 99.2 Supplemental Interim Consolidated Financial Statements of CUC International Inc. for the three month period ended April 30, 1996 and for the three month and the six month periods ended July 31, 1996 (as restated to reflect the acquisitions of Sierra On-Line, Inc. on July 24, 1996, Davidson & Associates, Inc. on July 24, 1996 and Ideon Group Inc. on August 7, 1996).
- 99.3 Selected Supplemental Consolidated Financial Data of CUC International Inc. (as restated to reflect the acquisitions of Sierra On-Line Inc. on July 24, 1996, Davidson & Associates, Inc. on July 24, 1996 and Ideon Group, Inc. on August 7, 1996).
- 99.4 Supplemental Management's Discussion and Analysis of Financial Condition and Results of Operations of CUC International Inc. (as restated to reflect the acquisitions of Sierra On-Line, Inc. on July 24, 1996, Davidson & Associates, Inc. on July 24, 1996 and Ideon Group, Inc. on August 7, 1996).

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(a) 1.

Sierra On-Line, Inc. and Subsidiaries
Consolidated Financial Statements
March 31, 1996 and 1995
With Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Sierra On-Line, Inc.
Bellevue, Washington

We have audited the accompanying consolidated balance sheets of Sierra On-Line, Inc. and subsidiaries (the "Company") as of March 31, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 1996. 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 referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 1996 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 1996 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP
Seattle, Washington

June 24, 1996

SIERRA ON-LINE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS MARCH 31, 1996 AND 1995 (in thousands, except share data)

ASSETS	1996	1995
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 40,220	\$ 50,186
Marketable investment securities	48,741	50,573
Accounts receivable, net of allowances of \$14,022 and \$7,265.....	43,677	12,984
Inventories	8,054	4,903
Deferred income taxes.....	8,159	1,777
Other current assets (including \$792 note receivable from related parties at March 31, 1995)	5,945	4,932
Total Current Assets	154,796	125,355
PROPERTY, PLANT AND EQUIPMENT, net	11,490	9,068
GOODWILL, net of accumulated amortization of \$4,635 and \$2,871.....	9,785	6,498
DEFERRED INCOME TAXES	1,241	1,522
OTHER ASSETS	1,585	2,911
	-----	-----
	\$ 178,897	\$ 145,354
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 15,536	\$ 6,127
Accrued compensation and related benefits	7,012	4,118
Accrued incentive payments	538	1,562
Royalties payable (including \$10 and \$633 payable to a related party).....	2,327	2,938
Deferred revenue	3,906	1,261
Accrued interest	33	1,160
Other accrued expenses (including \$1,954 and \$247 payable to related parties)....	7,268	5,028

Total Current Liabilities	36,620	22,194
ADVANCES UNDER PUBLISHING AGREEMENT AND		
OTHER LIABILITIES	1,030	5,907
MINORITY INTEREST IN JOINT VENTURE	1,233	---
CONVERTIBLE DEBT, net of unamortized discount and issuance costs		
of \$586 and \$1,066.....	23,389	34,634
COMMITMENTS AND CONTINGENCIES (Note 9)	---	---
STOCKHOLDERS' EQUITY:		
Preferred stock, par value \$.01 per share;		
1,000,000 shares authorized, none outstanding	---	---
Common stock and paid-in capital, par value \$.01 per share; 40,000,000		
shares authorized; 20,518,871 and 18,726,519 shares issued and outstanding.....	93,018	70,052
Retained earnings	24,728	12,696
Net unrealized holding gains (losses).....	(67)	101
Cumulative translation adjustment	(705)	119
	116,974	82,968
Less common stock in treasury, 94,154 shares, at cost	349	349
	116,625	82,619
Total Stockholders' Equity		
	\$ 178,897	\$ 145,354
	=====	=====

See Notes to Consolidated Financial Statements.

SIERRA ON-LINE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS YEARS ENDED MARCH 31, 1996, 1995 AND 1994 (in thousands, except per share data)

	1996	1995	1994
	-----	-----	-----
REVENUES:			
Net sales.....	\$ 156,123	\$ 95,821	\$ 70,712
Other	2,054	2,058	2,389
	158,177	97,879	73,101
	-----	-----	-----
OPERATING EXPENSES:			
Manufacturing costs	32,821	21,663	20,058
Amortization of software development costs	865	9,689	8,379
Royalties (including \$1,294, \$819, and \$256 earned			
by related party).....	11,777	7,370	4,005
Selling, general and administrative	52,135	32,777	25,685
Research and development	35,899	21,967	17,686
Purchased in-process research and development	---	---	1,102
Amortization	2,075	1,212	722
	135,572	94,678	77,637
	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS	22,605	3,201	(4,536)
	-----	-----	-----
OTHER INCOME (EXPENSE):			
Gain on sale of The ImagiNation Network	---	19,739	---
Equity in loss from The ImagiNation Network.....	---	(1,990)	(5,066)
Shareholder litigation costs.....	---	(1,500)	---
Contract termination and consulting fees	(2,302)	---	---
Interest income (including \$12, \$84 and \$152			
earned from related parties).....	5,022	3,713	1,331
Interest expense	(2,690)	(4,306)	(280)
	30	15,656	(4,015)
	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	22,635	18,857	(8,551)
INCOME TAX PROVISION (BENEFIT)	7,680	5,865	(679)
CHANGE IN VALUATION ALLOWANCE	(1,215)	---	---
	-----	-----	-----
NET INCOME (LOSS)	\$ 16,170	\$ 12,992	\$ (7,872)
	=====	=====	=====
NET INCOME (LOSS) PER SHARE:			
Primary	\$ 0.77	\$ 0.70	\$ (0.46)
Fully diluted	0.76	0.68	(0.46)

WEIGHTED AVERAGE SHARES OUTSTANDING:

Primary	21,007	18,513	17,143
Fully diluted	23,009	22,216	17,143

See Notes to Consolidated Financial Statements.

SIERRA ON-LINE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED MARCH 31, 1996, 1995 AND 1994
(in thousands, except share data)

	Common Stock and Paid-in Capital		Retained Earnings (Deficit)	Net Unrealized Holding Gains	Cumulative Translation Adjustment	Treasury Stock		Total Stock- holders' Equity
	Shares	Amount	(Deficit)			Shares	Amount	
BALANCE, APRIL 1, 1993	16,776,183	\$44,311	\$ 7,898	\$ ---	\$ (247)	104,474	\$ (392)	\$ 51,570
Net loss			(7,872)					(7,872)
Stock options exercised	595,108	3,256						3,256
Tax benefit of stock option transactions		442						442
INN liquidation preference		3,977						3,977
S Corporation distributions			(295)					(295)
Foreign currency translation adjustment					28			28
BALANCE, MARCH 31, 1994	17,371,291	51,986	(269)		(219)	104,474	(392)	51,106
Net income			12,992					12,992
Equity contributions		266						266
Stock options exercised	333,807	2,131						2,131
Tax benefit of stock option transactions		1,772						1,772
Conversion of convertible debt	1,021,421	13,897						13,897
Treasury stock issued						(10,320)	43	43
S Corporation distributions			(27)					(27)
Net unrealized holding gains on marketable investment securities available-for-sale				101				101
Foreign currency translation adjustment					338			338
BALANCE, MARCH 31, 1995	18,726,519	70,052	12,696	101	119	94,154	(349)	82,619
Net income			16,170					16,170
Stock options exercised and stock purchased under the Employee Stock Purchase Plan	624,611	3,758						3,758
Tax benefit of stock option transactions		3,624						3,624
Conversion of convertible debt	837,498	11,379						11,379
S Corporation distributions			(4,138)					(4,138)
Stock issued for bonuses and an amendment to an incentive payment plan	182,285	4,107						4,107
Stock issued in business acquisitions	147,958	98						98
Net unrealized holding gains on marketable investment securities available-for-sale				(168)				(168)
Foreign currency translation adjustment					(824)			(824)
BALANCE, MARCH 31, 1996	20,518,871	\$93,018	\$24,728	\$ (67)	\$ (705)	94,154	\$ (349)	\$ 116,625

See Notes to Consolidated Financial Statements.

SIERRA ON-LINE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 1996, 1995 AND 1994
(in thousands)

	1996	1995	1994
	-----	-----	-----
OPERATING ACTIVITIES:			
Net income (loss)	\$ 16,170	\$ 12,992	\$ (7,872)
Reconciliation to net cash provided by (used for) operating activities:			
Depreciation	4,187	3,298	3,085
Amortization of intangible assets and issuance costs	2,763	11,153	9,102
Gain on sale of The ImagiNation Network	---	(19,739)	---
Equity loss from The ImagiNation Network	---	1,990	5,066
Sierra Pioneer Joint Venture minority interest	1,233	---	---
Purchased in-process research and development	---	---	1,102
Provision for doubtful accounts	1,205	829	650
Deferred income taxes	(2,476)	(2,840)	(1,394)
Other	---	1,880	(661)
Cash provided (used) by changes in assets and liabilities:			
Accounts receivable	(32,370)	(2,670)	(5,020)
Inventories	(3,151)	127	(898)
Other current assets	(1,013)	2,937	1,880
Software development costs	---	(5,037)	(6,060)
Research and development acquired	---	---	(2,452)
Other assets	461	(1,090)	(225)
Accounts payable	9,125	1,498	(219)
Accrued compensation and related benefits	2,894	2,067	212
Royalties payable	(611)	1,583	570
Deferred revenue	2,645	268	993
Accrued interest	(1,127)	1,160	---
Other accrued expenses	218	1,093	489
Advances under publishing agreement and other liabilities	(4,877)	4,692	(14)
	-----	-----	-----
Net cash provided by (used for) operating activities	(4,724)	16,191	(1,666)
INVESTING ACTIVITIES:			
Proceeds from sale of The ImagiNation Network	---	19,739	---
Proceeds from matured marketable investment securities	93,556	40,319	67,865
Purchases of marketable investment securities	(91,724)	(69,880)	(65,550)
Net purchases of property, plant and equipment	(6,609)	(4,901)	(3,628)
Loan to The ImagiNation Network	---	(2,895)	---
Payment for purchase of subsidiaries, net of cash acquired and research and development	(1,987)	(1,620)	(2,797)
Net repayment of advances to The ImagiNation Network	---	---	1,646
	-----	-----	-----
Net cash used by investing activities	(6,764)	(19,238)	(2,464)
FINANCING ACTIVITIES:			
Net proceeds from convertible debt offering	---	48,250	---
Proceeds from exercise of options and warrants	3,758	2,131	3,255
S Corporation distributions	(2,184)	(27)	(295)
Other	(312)	(780)	40
	-----	-----	-----
Net cash provided by financing activities	1,262	49,574	3,000
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,226)	46,527	(1,130)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	260	96	---
CASH AND CASH EQUIVALENTS:			
BEGINNING OF YEAR	50,186	3,563	4,693
	-----	-----	-----
END OF YEAR	\$ 40,220	\$ 50,186	\$ 3,563
	=====	=====	=====

See Notes to Consolidated Financial Statements

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Supplemental disclosure of cash flow and noncash investing and financing information for the years ended March 31 is as follows (in thousands):

	1996	1995	1994
	----	----	----
Cash paid (received) during the year for:			
Income taxes, net	\$ 9,584	\$ 7,181	\$ (739)
Interest	\$ 3,817	\$ 4,578	\$ ---

During fiscal 1996 and 1995, the Company converted \$11,725,000 and \$14,300,000 of convertible debt into 837,500 and 1,021,421 shares of common stock, respectively.

In fiscal 1994, the Company purchased all of the capital stock of Coktel Vision for \$5,332,000. In connection with the acquisition, liabilities assumed were as follows (in thousands):

Fair value of net assets acquired	\$ 7,641
Cash paid	(5,332)

Liabilities assumed	\$ 2,309
	=====

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 1996, 1995 AND 1994

NOTE 1: BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Pending Sale of the Company to CUC International, Inc.

On February 17, 1996, the Board of Directors approved the sale of the Company to CUC International Inc. (CUC). Under the terms of the merger agreement, the shareholders of the Company will receive 1.225 shares of CUC common stock for each share of the Company's common stock. The sale is subject to shareholder approval.

Consulting fees related to the merger have been expensed as incurred and approximate \$0.6 million. Upon shareholder approval of the merger, the Company will be obligated to pay approximately \$7.7 million in additional consulting fees.

Basis of Presentation

The consolidated financial statements include the accounts of Sierra On-Line, Inc. (Sierra), a Delaware corporation, its wholly-owned subsidiaries, and its 51% interest in a corporate joint venture (collectively referred to as the Company). Significant subsidiaries include Sierra On-Line Limited (Sierra U.K.), Dynamix, Inc. (Dynamix), Bright Star Technology, Inc. (Bright Star), Coktel Vision, S.A. (Coktel), Software Inspiration, Ltd. (Inspiration), PXL Acquisition Corp. (Pixellite), Papyrus Design Group, Inc. (Papyrus), and Sierra/Pioneer Joint Venture (Pioneer). The accounts of The ImagiNation Network, Inc. (INN) were consolidated with those of the Company through July 26, 1993 and accounted for under the equity method from July 1993 to December 1994 when the Company sold its remaining interest in INN to AT&T Corp.

All significant intercompany balances and transactions are eliminated.

Nature of Operations

The Company designs, develops, publishes, markets and distributes interactive entertainment and education software for personal computers, CD-ROM-based PC systems and selected emerging platforms. Using its design and development capabilities, the Company creates branded product series for existing and emerging hardware platforms. The Company's products are distributed in North America, Europe, and Asia. Sales are generated through a domestic field sales organization and electronic superstores, software specialty stores, mass merchants, direct mail, and bundling arrangements. The Company performs its own disk duplicating and packaging for diskette-based products at its Oakhurst, California and Paris, France facilities. The Company does not internally replicate CD-ROM-based products but rather subcontracts that work to several third parties.

The Company is subject to certain business risks which could affect future operations and financial performance. These risks include changing computing environments, rapid technological change, development of new products, concentrations in manufacturing facilities, competitive pricing, and reliance on distribution channels.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Changes in these estimates and assumptions may have a material impact on the financial statements. The Company has used estimates in determining certain provisions including sales returns, uncollectible trade accounts receivable, useful lives for fixed assets and intangible assets, and tax liabilities.

Cash and Cash Equivalents

Cash and cash equivalents include cash, certificates of deposit and short term investments with original maturities of three months or less.

Marketable Investment Securities

Marketable investment securities consist of corporate bonds, U.S. Treasury notes, and commercial paper. All securities are classified as available-for-sale and are reported at fair value with net unrealized holding gains and losses excluded from earnings and reported in stockholders' equity. Fair value is based upon quoted market prices using the specific identification method.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation and amortization are provided using a straight-line method over estimated useful lives ranging from two to 18 years.

Software Development Costs and Purchased In-Process Research and Development Expenses

Under the criteria set forth in SFAS No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed, capitalization of software development costs begins upon the establishment of technological feasibility of the product. The establishment of technological feasibility and the on-going assessment of the recoverability of costs require considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future gross product revenues, estimated economic life and changes in software and hardware technology. Amounts that have been capitalized under this statement, after consideration of the above factors, are amortized on either a straight-line basis over the estimated useful lives of the products (six to 24 months) or the ratio of current product revenues to the total revenues expected over the life of the product, whichever produces the greater expense.

Purchased in-process research and development is charged to expense on the date acquired if it has no alternative future use and technological feasibility is not established.

Goodwill

Goodwill represents the excess purchase price paid over the net assets of acquired companies. Goodwill is amortized on a straight-line basis over seven years.

The carrying value of goodwill is reviewed on a regular basis for the existence of facts or circumstances both internally and externally that may suggest impairment. To date, no such impairment has been indicated. Should there be an impairment in the future, the Company will measure the amount of the impairment based on the discounted expected future cash flows from the impaired assets.

Foreign Currency

Assets and liabilities denominated in foreign currencies are translated to U.S. dollars at the exchange rate on the balance sheet date. Revenues, costs and expenses are translated at average rates of exchange prevailing during the year. The translation adjustment resulting from this process is presented separately in shareholders' equity. The gains and losses from foreign currency transactions are included in selling, general and administrative expense in the statements of operations.

Revenue Recognition

The Company recognizes revenue in accordance with the American Institute of Certified Public Accountants Statement of Position (SOP) No. 91-1, Software Revenue Recognition. Revenue from product sales is recognized upon shipment, provided no significant vendor obligations remain and collection of the resulting receivable is deemed probable. Other insignificant vendor obligations consisting primarily of costs associated with telephone support to customers after delivery of software are accrued. Revenue from royalty and

service arrangements is insignificant.

The Company's agreements with certain distributors and retailers permit them to exchange products or provide price protection under certain circumstances. The Company provides an allowance for estimated exchanges and price protection.

Advertising

The Company accounts for advertising costs in accordance with SOP No. 93-7, Reporting on Advertising Costs. Direct response advertising is capitalized only if customer sales can be directly correlated to the advertising and if future benefit can be demonstrated. Capitalized advertising costs are amortized using the straight-line method over the estimated benefit period of three months. Advertising expense for fiscal 1996, 1995 and 1994 was \$7,530,000, \$8,750,000 and \$7,850,000, respectively. Amounts capitalized at March 31, 1996 and 1995 approximated \$561,000 and \$598,000, respectively.

Income Taxes (Benefit)

The Company computes income taxes using an asset and liability method, under which deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities.

Net Income (Loss) Per Share

Net income (loss) per share is based upon the weighted average number of common shares outstanding during the period and after consideration of the dilutive effect, if any, of stock options granted using the treasury stock method. In addition, conversion of the Company's 6-1/2% Convertible Subordinated Notes are included in fully diluted income per share using the if-converted method when such securities are dilutive.

As a result of applying the if-converted method, net income for the purposes of computing fully diluted net income per share amounts has been adjusted for the assumed decrease in interest expense, net of income taxes, as follows (in thousands):

	1996	1995
	-----	-----
Net income.....	\$ 16,170	\$ 12,992
Adjustment.....	1,205	2,115
	-----	-----
	\$ 17,375	\$ 15,107
	=====	=====

Stock Split

On March 3, 1995, the Company recorded a two-for-one stock split to holders of record on February 17, 1995. Outstanding shares, stock options and per share data have been retroactively restated for all periods to give effect to the stock split.

Concentration of Credit Risk

Accounts receivable include amounts from geographically dispersed dealers and distributors in the computer software industry. Concentrations of credit risk are considered minimal and bad debts have not been significant. The Company does not require collateral or other security to support credit sales.

Reclassifications

Certain reclassifications have been made to the 1994 and 1995 balances to conform with the 1996 presentation.

NOTE 2: BUSINESS COMBINATIONS

Pixellite, Inspiration and Papyrus

On May 31, 1995 the Company merged with Pixellite, a developer of personal printing software, in exchange for 245,779 shares of Sierra's common stock.

On June 20, 1995 the Company also merged with Inspiration, a developer of strategy games, in exchange for 730,352 shares of Sierra's common stock. On November 30, 1995 the Company merged with Papyrus, developers of NASCAR Racing and Indy Car Racing, in exchange for 1,169,404 shares of Sierra's common stock.

These mergers have been accounted for as poolings-of-interests. The pooling-of-interests method of accounting is intended to present as a single interest two or more common shareholders' interests which were previously independent; accordingly, the historical financial statements for the periods prior to the mergers are restated as though the companies had been combined.

The following summarizes amounts previously reported by Sierra prior to the transaction for the years ended March 31, 1995 and 1994 (in thousands, except per share data):

	1995	1994
	-----	-----
REVENUES:		
Sierra.....	\$ 83,440	\$ 62,745
Pixellite, Inspiration and Papyrus	14,439	10,356
	-----	-----
Combined	\$ 97,879	\$ 73,101
	=====	=====
NET INCOME (LOSS)		
Sierra.....	\$ 11,938	\$ (8,676)
Pixellite, Inspiration and Papyrus	1,054	804
	-----	-----
Combined	\$ 12,992	\$ (7,872)
	=====	=====
PRIMARY NET INCOME (LOSS) PER SHARE:		
Sierra	\$ 0.74	\$ (0.59)
Pixellite, Inspiration and Papyrus	(0.04)	0.13
	-----	-----
Combined	\$ 0.70	\$ (0.46)
	=====	=====
FULLY DILUTED NET INCOME (LOSS) PER SHARE:		
Sierra	\$ 0.71	\$ (0.59)
Pixellite, Inspiration and Papyrus.....	(0.03)	0.13
	-----	-----
Combined	\$ 0.68	\$ (0.46)
	=====	=====

Green Thumb and Arion

The Company also merged with Green Thumb in July 1995 and with Arion in September 1995 in exchange for 87,762 and 60,196 shares of Sierra Common Stock, respectively. The financial statements have not been restated for the Green Thumb and Arion mergers as these companies did not impact the Company's operations significantly.

All fees and expenses related to the Pixellite, Inspiration, Papyrus, Green Thumb and Arion mergers have been expensed as required under the pooling-of-interests accounting method. Such fees and expenses approximated \$2.3 million and include legal, accounting and finders fees.

Coktel

On October 29, 1993, the Company acquired Coktel Vision S.A. ("Coktel"), a French developer and publisher of educational and entertainment software products, for an initial purchase price of approximately \$5,332,000. This business combination was accounted for as a purchase, and, accordingly, the net assets and operations of Coktel have been included in the Company's consolidated financial statements since October 29, 1993. Approximately \$1,102,000 of the purchase price was attributed to in-process research and development and accordingly was charged to expense at the date of acquisition. Amounts allocated to software development costs approximated \$1,350,000 and amounts allocated to goodwill were approximately \$2,419,000. Goodwill is being amortized over an estimated useful life of seven years on a straight-line basis.

Contingent purchase payments were due under an incentive payment plan. During fiscal years 1995 and 1994, approximately \$1,562,000 and \$1,313,000 was earned and paid under this plan. At March 31, 1995, incentive payments due approximated \$1,562,000. In December 1995, the Company amended the Coktel

acquisition agreement whereby it issued 150,000 shares of Common Stock in exchange for each former Coktel shareholder relinquishing their rights to receive any further incentive payments. As a result of this amendment, the Company recorded goodwill of approximately \$4.1 million which is being amortized over its remaining useful life of approximately five years on a straight-line basis.

The Company could be obligated to make additional payments as provided in the agreement, however, management believes that the likelihood of additional payments is remote.

NOTE 3: MARKETABLE INVESTMENT SECURITIES

The Company's investments, including aggregate fair values, cost, gross unrealized holding gains, and gross unrealized holding losses, consist of the following at March 31 (in thousands):

	Fair Value	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses
	-----	-----	-----	-----
1996:				
U.S. Government obligations	\$ 15,471	\$ 15,481	\$ ---	\$ 10
Corporate debt securities	27,438	27,521	24	107
Commercial paper	5,832	5,832	---	---
	-----	-----	-----	-----
	\$ 48,741	\$ 48,834	\$ 24	\$ 117
	=====	=====	=====	=====
1995:				
U.S. Government obligations	\$ 10,394	\$ 10,357	\$ 39	\$ 2
Corporate debt securities	23,050	22,996	80	26
Commercial paper	17,129	17,067	64	2
	-----	-----	-----	-----
	\$ 50,573	\$ 50,420	\$ 183	\$ 30
	=====	=====	=====	=====

Fair values of investments are based on quoted market prices on the last business day of the fiscal year. All investments available-for-sale at March 31, 1996 will mature within one year.

NOTE 4: INVENTORIES

Inventories consist of the following at March 31 (in thousands):

	1996	1995
	-----	-----
Raw materials	\$ 3,207	\$ 2,841
Work in progress	---	65
Finished goods	4,847	1,997
	-----	-----
	\$ 8,054	\$ 4,903
	=====	=====

NOTE 5: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following at March 31 (in thousands):

	1996	1995
	-----	-----
Land	\$ 142	\$ 203
Buildings and improvements	3,858	3,591
Computers and equipment	20,669	16,703
Furniture and fixtures	1,936	1,312
	-----	-----
	26,605	21,809
Less accumulated depreciation and		

amortization.....	(15,115)	(12,741)
	-----	-----
	\$ 11,490	\$ 9,068
	=====	=====

NOTE 6: FINANCING ARRANGEMENTS

Line of Credit

In fiscal 1996, the Company entered into an unsecured bank line of credit that provides for borrowings of up to \$10 million, expiring August 31, 1996. Any borrowings under this line of credit would be collateralized by substantially all the Company's assets and incur interest at either the bank's prime rate or IBOR plus 150 basis points, at the Company's choice. The line contains covenants requiring the Company to maintain certain financial ratios and minimum balances in cash and cash equivalents. The Company is in compliance with all covenants under this line of credit as of March 31, 1996. There have been no borrowings by the Company under this line of credit to date.

Convertible Notes

On April 12, 1994, the Company issued \$50,000,000 in principal amount of 6-1/2% convertible subordinated notes due April 1, 2001 (the "Notes"). Interest on the Notes is payable semi-annually on April 1 and October 1 of each year. The Notes are convertible into common stock of the Company, at a conversion price of \$14.00 per share, subject to adjustment under certain conditions. The Notes are redeemable after April 2, 1997, at the option of the Company, at specified redemption prices. The Notes will be subordinated to all existing and future Senior Indebtedness (as defined in the Indenture governing the Notes) of the Company. Issuance costs have been netted against the principal convertible debt balance are being amortized on a straight-line basis over seven years. The fair value of these notes at March 31, 1996 was \$58.3 million as determined by the Private Offerings, Resales and Trading through Automated Linkages Market.

During fiscal 1996 and 1995 the Company paid \$0.9 million and \$1.0 million, included in interest expense, to induce conversion of \$11,725,000 and \$14,300,000 of convertible debt into 837,500 and 1,021,421 shares of common stock.

NOTE 7: INCOME TAX PROVISION (BENEFIT)

A reconciliation of the statutory federal income tax rate to the Company's effective income tax rate is as follows for the years ended March 31:

	1996	1995	1994
	-----	-----	-----
Statutory rate	35.0%	35.0%	(35.0)%
State income taxes, net of federal income tax benefit	3.0	3.0	---
Utilization of net operating losses	---	(3.9)	---
Non-consolidated losses	---	(4.5)	18.3
Foreign subsidiaries	---	(2.2)	3.4
Non-deductible expenses	8.9	4.5	2.1
Subchapter S Corporation earnings	(5.5)	(1.3)	(0.6)
Reduction in valuation allowance	(14.3)	---	---
Other	1.4	0.5	3.9
	-----	-----	-----
Effective rate	28.5%	31.1%	(7.9)%
	=====	=====	=====

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

	1996	1995	1994
	-----	-----	-----
Current:			
Federal	\$ 6,095	\$ 7,772	\$ 540

State	516	922	32
Foreign	1,207	(55)	143
	-----	-----	-----
	7,818	8,639	715
Deferred:			
Federal	(1,179)	(2,298)	(1,003)
State	(183)	(268)	(391)
Foreign	---	(208)	---
	-----	-----	-----
	(1,362)	(2,774)	(1,394)
	-----	-----	-----
	\$ 6,456	\$ 5,865	\$ (679)
	=====	=====	=====

Deferred income tax liabilities (assets) reflect the tax effect of temporary differences between the amounts of assets and liabilities for financial reporting purposes and amounts as measured for tax purposes. A valuation allowance against deferred tax assets has been provided for when it is more likely than not that some or all of the deferred tax assets will not be realized. The effect of temporary differences that cause significant portions of deferred tax assets and liabilities are as follows at March 31 (in thousands):

	1996	1995
	-----	-----
Deferred Assets:		
Inventory overhead allocation ..	\$ (327)	\$ (398)
Accrued expenses	(7,012)	(5,638)
Tax credits	---	(77)
Stock Option Benefit	(1,509)	---
Net operating losses	---	(334)
Other	(651)	(187)
	-----	-----
Subtotal	(9,499)	(6,634)
Valuation allowance.....	---	3,230
	-----	-----
	(9,499)	(3,404)
Deferred Liabilities:		
Software development costs	99	105
	-----	-----
	\$ (9,400)	\$ (3,299)
	=====	=====

NOTE 8: STOCK OPTION AND STOCK PURCHASE PLANS

Stock Option Plans

The Company has reserved 6,170,000 shares of common stock for issuance under its 1995 Stock Option and Award Plan and the 1987 Stock Option Plan for officers, employees, directors, vendors, consultants and independent contractors. Options granted under these plans may be either incentive stock options or nonqualified stock options and are granted at the fair market value of the Company's common stock at the date of grant. Options vest and expire under the terms established at the date of grant. The Company also has 218,556 shares reserved for issuance under an option plan it acquired through its merger with Papyrus. A summary of stock option transactions under all plans follows:

	Shares	Range of Price Per Share
	-----	-----
Options outstanding, April 1, 1993 ...	2,114,768	\$0.47 - \$10.13
Granted	760,838	0.09 - 11.50
Exercised	(541,108)	0.47 - 10.13
Canceled	(457,366)	3.86 - 10.13
	-----	-----
Options outstanding, March 31, 1994....	1,877,132	0.09 - 11.50
Granted	963,217	0.09 - 22.00
Exercised	(333,807)	0.47 - 11.50
Canceled	(215,482)	4.59 - 11.88
	-----	-----
Options outstanding, March 31, 1995 ...	2,291,060	0.09 - 22.00
Granted	754,613	0.80 - 41.75
Exercised	(616,592)	0.09 - 17.69

Canceled	(229,161)	4.92	-	35.13
	-----			-----
Options outstanding, March 31, 1996 ...	2,199,920	\$0.09	-	\$41.75
	=====			

Of the options outstanding at March 31, 1996, 501,888 options are currently exercisable at prices ranging from \$0.09 to \$22.00 per share, and 1,770,873 options remain available for future grants.

Employee Stock Purchase Plan

The Company has reserved 200,000 shares of common stock for issuance under the Employee Stock Purchase Plan for officers and full-time employees with six months of service. Under the Plan, stock may be purchased at the completion of the semi-annual purchase periods at a price equal to 85% of the lowest fair market value of either the first or last day of the purchase period. During fiscal 1996, 8,019 shares of common stock was purchased under the Plan. The Board of Directors has approved the termination of the Plan effective June 30, 1996, subject to completion of the merger with CUC International Inc.

New Accounting Standard

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards, Accounting for Stock-Based Compensation (SFAS 123), which will be effective for the Company beginning April 1, 1996. SFAS 123 requires expanded disclosures of stock-based compensation arrangements with employees and encourages (but does not require) compensation cost to be measured based on the fair value of the equity instrument awarded. Companies are permitted, however, to continue to apply APB Opinion No. 25, which recognizes compensation cost based on the intrinsic value of the equity instrument awarded. The Company will continue to apply APB Opinion No. 25 to its stock based compensation awards to employees and will disclose the required pro forma effect on net income and earnings per share.

NOTE 9: COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company has entered into long-term lease obligations for certain office and warehouse facilities in addition to various leases for office equipment and company vehicles. These commitments expire at various times through fiscal 2003. The Company's expense for lease obligations for the years ended March 31, 1996, 1995 and 1994 were \$2,774,000, \$2,062,000, and \$1,356,000, respectively.

Future minimum annual lease payments on these obligations are as follows for the years ended March 31 (in thousands):

	Payments

1997	\$ 2,852
1998	2,672
1999	2,190
2000	2,071
2001	1,537
Thereafter	1,192

Total	\$ 12,514
	=====

Contingencies

The Company is a defendant in various lawsuits arising in the ordinary course of business. Management believes that losses to the Company from these lawsuits, if any, will not have a material adverse effect on its financial condition or results of operations. In fiscal 1995, the Company paid approximately \$1.5 million in shareholder litigation costs in settlement of a securities class action lawsuit filed in December 1992.

NOTE 10: SALE OF THE IMAGINATION NETWORK

The operating activities of INN were consolidated with those of the Company

through July 26, 1993. On July 27, 1993, the Company sold 42% of INN's voting stock and reduced its ownership interest to 58% and reduced its voting control such that the Company began recording INN operations utilizing the equity method. Upon sale of its 42% interest, the Company recorded its liquidation preference in excess of recorded book value as shareholders' equity.

In December 1994, the Company sold its remaining equity interest in INN to AT&T and recorded a gain of \$19,739,000. The Company also entered into a multi-year publishing agreement with AT&T to provide content for INN. The publishing agreement provides for AT&T to fund up to \$4,000,000 of the Company's development expenditures under an existing publishing agreement and up to \$23,000,000 of Sierra's development expenditures, subject to certain limitations, through non-refundable royalty advances. The non-refundable royalty advances are reflected net of research and development expense. A summary of gross research and development expense and non-refundable royalty advances for the years ended March 31, are as follows (in thousands):

	1996	1995
	-----	-----
Research and development expense	\$ 39,685	\$23,552
Non-refundable royalty advances	(3,786)	(1,585)
	-----	-----
	\$ 35,899	\$21,967
	=====	=====

NOTE 11: RELATED PARTY TRANSACTIONS

The Company pays royalties to certain independent developers, including a director of the Company. Royalty expense related to this director was approximately \$1,294,000, \$819,000, and \$256,000 during the years ended March 31, 1996, 1995 and 1994, respectively. Royalties payable to the director at March 31, 1996 and 1995 were \$10,000 and \$633,000, respectively.

From July 1993 through December 1994, the Company paid certain operating expenses on behalf of INN. Total amounts advanced under this arrangement totaled \$456,000 and \$3,271,000 during fiscal 1995 and fiscal 1994, respectively. In April 1994, the Company accepted an unsecured Promissory Note from INN for approximately \$2,895,000. This amount was paid in full, including interest accrued at Bank of America's prime rate, in December 1994.

The Company held certain notes receivable from officers of a subsidiary. Amounts receivable from those officers at March 31, 1995 was \$792,000. Interest earned under these agreements was \$12,000, \$84,000, and \$152,000 for the years ended March 31, 1996, 1995 and 1994, respectively. The notes were paid in full in May 1995.

During fiscal years 1996, 1995 and 1994, the Company has reported distributions which represent dividends for undistributed S Corporation earnings to the shareholders of Pixellite and Papyrus. At March 31, 1996 and 1995, notes payable associated with these dividends approximated \$2.0 million and \$247,000, respectively.

NOTE 12: GEOGRAPHIC INFORMATION

The following schedule presents financial information of the Company classified by geographic area for the years ended March 31 (in thousands):

	United States	Europe	Eliminations	Consolidated
	-----	-----	-----	-----
1996				
Sales to unaffiliated customers	\$ 119,014	\$ 37,109	\$ ---	\$ 156,123
	=====	=====	=====	=====
Income from operations	\$ 17,914	\$ 4,691	\$ ---	\$ 22,605
	=====	=====	=====	=====
Identifiable assets	\$ 161,788	\$ 17,109	\$ ---	\$ 178,897
	=====	=====	=====	=====
1995				
Sales to unaffiliated customers	\$ 76,305	\$ 19,516	\$ ---	\$ 95,821
Intercompany transfers	880	---	(880)	---
	-----	-----	-----	-----
	\$ 77,185	\$ 19,516	\$ (880)	\$ 95,821
	=====	=====	=====	=====
Income from operations	\$ 1,291	\$ 1,910	\$ ---	\$ 3,201
	=====	=====	=====	=====
Identifiable assets	\$ 137,116	\$ 8,238	\$ ---	\$ 145,354
	=====	=====	=====	=====

1994				
Sales to unaffiliated customers	\$ 61,606	\$ 9,106	\$ ---	\$ 70,712
Intercompany transfers	3,901	720	(4,621)	---
	\$ 65,507	\$ 9,826	\$ (4,621)	\$ 70,712
Income (loss) from operations	\$ (4,962)	\$ 514	\$ (88)	\$ (4,536)
Identifiable assets	\$ 63,003	\$ 5,902	\$ ---	\$ 68,905

Intercompany transfers primarily represent shipments of finished goods inventory to international subsidiaries. The intercompany transfers are made at transfer prices which approximate prices charged to unaffiliated customers and have been eliminated from consolidated net sales. In the years ended March 31, 1996, 1995 and 1994, the majority of the Company's sales in Europe were conducted by Coktel, a French corporation, and Papyrus and Sierra U.K., both U.K. corporations.

NOTE 13: QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Summarized quarterly financial information for fiscal 1996 and fiscal 1995 is as follows (in thousands, except per share data):

	Revenues	Net Income (Loss)	Primary Net Income (Loss) Per Share	Fully Diluted Net Income Per Share
Quarter ended:				
June 30, 1995	\$ 24,872	\$ 852	\$ 0.04	\$ 0.04
September 30, 1995	34,522	3,609	0.17	0.15
December 31, 1995	63,220	12,284	0.58	0.55
March 31, 1996	35,563	(575)	(0.03)	(0.03)
	\$ 158,177	\$ 16,170		
Quarter ended:				
June 30, 1994	\$ 13,550	\$ (4,304)	\$ (0.25)	\$ (0.25)
September 30, 1994	20,966	(1,220)	(0.07)	(0.07)
December 31, 1994(1)	41,213	17,796	0.97	0.83
March 31, 1995	22,150	720	0.05	0.05
	\$ 97,879	\$ 12,992		

(1) Includes \$19,739,000 gain on sale of the Company's 58% interest in The ImagiNation Network to AT&T.

(a) 2.

Davidson & Associates, Inc.
Consolidated Financial Statements
December 31, 1995 and 1994
With Independent Auditors' Report

The Board of Directors
Davidson & Associates, Inc.:

We have audited the accompanying consolidated balance sheets of Davidson & Associates, Inc. and subsidiaries as of December 31, 1995 and 1994 and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Davidson & Associates, Inc. and subsidiaries as of December 31, 1995 and 1994 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1995 in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Long Beach, California
February 21, 1996

Consolidated Balance Sheets -- December 31, 1995 and 1994

Assets	1995	1994
Current assets:		
Cash and cash equivalents	\$ 3,117,000	3,858,000
Marketable investment securities	14,682,000	11,286,000
Accounts receivable:		
Trade, less allowance for doubtful receivables and returns of \$10,363,000 for 1995 and \$4,556,000 for 1994	36,637,000	23,937,000
Other	251,000	568,000
Inventories	11,792,000	7,444,000
Prepaid expenses and other current assets	1,340,000	1,528,000
Deferred tax assets	5,324,000	2,240,000
Total current assets	73,143,000	50,861,000
Net property and equipment, at cost	8,001,000	6,529,000
Intangible assets, net of accumulated amortization	2,029,000	2,438,000
Other assets	2,549,000	754,000
	\$ 85,722,000	60,582,000
Liabilities and Shareholders' Equity :		
Current liabilities		
Accounts payable	\$ 13,032,000	7,407,000
Accrued expenses	7,722,000	5,211,000
Deferred revenues	199,000	791,000
Income taxes payable	4,123,000	1,464,000
Total current liabilities	25,076,000	14,873,000
Minority interest	1,048,000	--
Shareholders' equity:		
Preferred stock, no par value. Authorized 1,000,000 shares; no shares issued and outstanding in 1995 and 1994	--	--
Common stock, \$.00025 par value. Authorized 100,000,000 shares in 1995 and 60,000,000 shares in 1994; issued and outstanding 34,965,904 shares in 1995 and 34,868,504 shares in 1994	8,000	8,000
Additional paid-in capital	35,432,000	34,103,000
Retained earnings	24,158,000	11,840,000
Net unrealized loss on marketable investment securities	--	(242,000)
Net shareholders' equity	59,598,000	45,709,000
Contingencies		
	\$ 85,722,000	60,582,000

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings -- Three-year period ended December 31, 1995

	1995	1994	1993
Net revenues	\$ 147,226,000	93,171,000	62,372,000
Cost of revenues	72,527,000	44,262,000	29,385,000

Gross profit	74,699,000	48,909,000	32,987,000
Operating costs and expenses:			
Research and development	19,745,000	10,419,000	3,547,000
Selling, general and administrative	33,861,000	23,224,000	18,654,000
Non-recurring expense (in-process research & development)	--	3,950,000	--
Total operating costs and expenses	53,606,000	37,593,000	22,201,000
Operating income	21,093,000	11,316,000	10,786,000
Other income (expense):			
Interest income, net	819,000	691,000	469,000
Other income (expense), net	1,000	83,000	(88,000)
Earnings before income taxes	21,913,000	12,090,000	11,167,000
Income taxes	8,225,000	5,612,000	4,218,000
Earnings before minority interest	13,688,000	6,478,000	6,949,000
Minority interest in net earnings of subsidiary	111,000	--	--
Net earnings	\$ 13,577,000	6,478,000	6,949,000
Net earnings per share	\$.38	.19	.21
Weighted average number of common shares and common share equivalents outstanding during year	35,768,000	34,986,000	33,599,000
Additional unaudited pro forma data (note 10)			
Earnings before income taxes	\$ 21,913,000	12,090,000	11,167,000
Less: Pro forma income tax expense	8,525,000	6,145,000	4,406,000
Less: Minority interest in net earnings of subsidiary	111,000	--	--
Pro forma net earnings	\$ 13,277,000	5,945,000	6,761,000
Pro forma net earnings per share	\$.37	.17	.20

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity -- Three-year period ended December 31, 1995

	Common Stock		Additional paid-in capital	Retained earnings	Unrealized gain (loss) Investment Securities Valued at Market	Net shareholders' equity
	Shares	Amount				
Balance at December 31, 1992	30,095,106	\$ 7,000	4,772,000	233,000	--	5,012,000
Proceeds from issuance of common stock, net of offering costs	4,380,000	1,000	25,581,000	--	--	25,582,000
Net earnings	--	--	--	6,949,000	--	6,949,000
Distributions to shareholders of pooled companies (note 2)	--	--	--	(210,000)	--	(210,000)
Balance at December 31, 1993	34,475,106	8,000	30,353,000	6,972,000	--	37,333,000
Issuance of stock in connection with acquisition of Learningways, Inc.	358,648	--	3,586,000	--	--	3,586,000
Exercise of stock options	34,750	--	164,000	--	--	164,000
Valuation of marketable investment securities to market	--	--	--	--	(242,000)	(242,000)
Net earnings	--	--	--	6,478,000	--	6,478,000
Distributions to shareholders of pooled companies (note 2)	--	--	--	(1,610,000)	--	(1,610,000)
Balance at December 31, 1994	34,868,504	8,000	34,103,000	11,840,000	(242,000)	45,709,000
Exercise of stock options	97,400	--	717,000	--	--	717,000
Tax benefits arising from exercise of non-qualified stock options	--	--	437,000	--	--	437,000
Net increase in unrealized gain	--	--	--	--	242,000	242,000
Net earnings	--	--	--	13,577,000	--	13,577,000
Undistributed earnings of subchapter						

S subsidiaries	--	--	175,000	(175,000)	--	--
Distributions to shareholders of pooled companies (note 2)	--	--	--	(1,084,000)	--	(1,084,000)
Balance at December 31, 1995	34,965,904	\$ 8,000	35,432,000	24,158,000	--	59,598,000

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows -- Three-year period ended December 31, 1995

	1995	1994	1993
Cash flows from operating activities:			
Net earnings	\$ 13,577,000	6,478,000	6,949,000
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	2,428,000	1,329,000	1,223,000
Non-recurring expense: write-off of purchased in-process research & development (non-cash portion)	3,587,000	--	--
Proceeds from sales of capital equipment	--	19,000	--
Increase in allowance for doubtful receivables and returns	5,807,000	974,000	1,901,000
Changes in assets and liabilities, net of effects from acquisition of business:			
Accounts receivable	(18,507,000)	(13,119,000)	(5,988,000)
Other receivables	317,000	(140,000)	(251,000)
Inventories	(4,348,000)	(3,606,000)	(345,000)
Prepaid expenses and other current assets	188,000	(707,000)	(584,000)
Deferred tax assets	(3,084,000)	(444,000)	(1,016,000)
Other assets	(1,795,000)	(1,031,000)	(102,000)
Accounts payable	5,625,000	3,752,000	1,829,000
Accrued expenses	2,511,000	3,535,000	75,000
Income taxes payable	3,096,000	(46,000)	1,159,000
Deferred revenues	(592,000)	23,000	384,000
Minority interest	111,000	--	--
Total adjustments	(8,243,000)	(5,874,000)	(1,715,000)
Net cash provided by operating activities	5,334,000	604,000	5,234,000
Cash flows from investing activities:			
Marketable investment securities, net	(3,154,000)	5,468,000	(16,996,000)
Capital expenditures	(3,491,000)	(4,870,000)	(1,070,000)
Acquisition of business, net of cash acquired	--	60,000	--
Net cash provided (used) by investing activities	(6,645,000)	658,000	(18,066,000)
Cash flows from financing activities:			
Proceeds from issuance of common stock, net	717,000	164,000	25,582,000
Payment of distributions payable to shareholders	--	--	(1,295,000)
Payment of dividend notes to shareholders	--	--	(10,458,000)
Capital contribution from minority interest	937,000	--	--
Distribution of S corporation earnings to pooled companies	(1,084,000)	(1,610,000)	(210,000)
Net cash provided (used) by financing activities	570,000	(1,446,000)	13,619,000
Net increase in cash and cash equivalents	(741,000)	(184,000)	787,000
Cash and cash equivalents at beginning of year	3,858,000	4,042,000	3,255,000
Cash and cash equivalents at end of year	\$ 3,117,000	3,858,000	4,042,000
Supplementary disclosures of cash flow information:			
Cash paid during the year for:			
Income taxes	\$ 8,182,000	4,999,000	590,000

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements -- December 31, 1995 and 1994

(1) Summary of Significant Accounting Principles

Principles of Consolidation

The consolidated financial statements include the accounts of Davidson & Associates, Inc. , its wholly owned subsidiaries, First Byte and Davidson & Associates Europe Limited, and its 75%-owned subsidiary, New Media Express L.L.C. (collectively the "Company"). All significant intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include commercial paper, money market funds and certificates of deposit having original maturities of three months or less.

Marketable Investment Securities

The Company adopted the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (Statement 115) at December 31, 1994. Under Statement 115, the Company classifies its marketable investment securities as available-for-sale.

Available-for-sale securities are recorded at fair value. Unrealized holding gains and losses, net of the tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of shareholders' equity until realized. Declines in the market value of available-for-sale securities deemed to be other than temporary result in charges to current earnings and establishment of a new cost basis.

At December 31, 1995 and 1994 the Company's marketable investment securities consisted principally of highly liquid investments in tax-free municipal obligations with various maturity dates through 2010. As of December 31, 1995, the Company's aggregate investment securities had a cost basis of \$14,670,000 and a fair market value of \$14,671,000. Unrealized holding losses and unrealized holding gains were immaterial as of December 31, 1995.

Accounts Receivable and Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash, short-term investments, and accounts receivable. The Company has investment policies that limit investments to short-term investment grade securities.

Accounts receivable are principally from distributors, retail chains, software specialty retail chains, computer superstores, school districts and individual schools. The Company performs periodic credit evaluations of its customers and maintains reserves, including reserves under the Company's stock balancing policy, which estimate the potential for future product returns.

Allowance for returns at December 31, 1995 and 1994 was approximately \$9,634,000 and \$2,684,000, respectively. Such reserves have been included in allowance for doubtful receivables. Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. Cost includes materials, labor and overhead for published software and acquisition cost for computer manuals and peripheral equipment.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided on furniture and equipment using the straight-line method over the estimated economic life of the assets, generally five years. Depreciation is provided on leasehold improvements using the straight-line method over the estimated economic life or the lease term, whichever is shorter.

Intangible Assets

Intangible assets primarily consist of goodwill and capitalized costs related to a non-competition agreement. Such assets are amortized on a straight-line basis over the expected periods to be benefited, generally five to twenty years. The Company assesses the recoverability of these intangible assets by determining whether the amortization of the balance over their remaining lives can be recovered by undiscounted future operating cash flows.

Revenue Recognition

The Company recognizes revenues as products are shipped, net of allowances for returns, provided that no significant vendor obligations remain and collection of the resulting receivable is deemed probable by management. Returns by the Company's publishing business customers aggregated \$7,226,000, \$4,229,000 and \$1,773,000 in 1995, 1994 and 1993, respectively. The Company provides customer support as an accommodation to purchasers of its products for a limited time. Costs associated with such post-sale customer support were immaterial. Revenues from non-refundable license fees are recognized as income when earned. Revenue under royalty arrangements is recognized as unit sales are reported by the licensee.

The Company also develops software for others under contracts calling for payment of development fees and ongoing royalties in certain circumstances. Development revenues are recognized as earned and the related costs under development contracts are recognized as incurred in the same period.

Royalty Costs

Royalties are accrued based on net revenues, pursuant to contractual agreements with authors of software products published by the Company. Royalty costs, which are included in cost of revenues, for each of the years in the three-year period ended December 31, 1995 were \$14,748,000, \$8,719,000, and \$554,000 in 1995, 1994 and 1993, respectively.

Research and Development Costs

Research and development costs related to designing, developing and testing new software products are charged to expense as incurred.

Investments in Joint Ventures

The Company accounts for investments in joint ventures on the equity method of accounting when its ownership percentage is between 20% and 50%. The joint ventures had minimal operations during 1995 and 1994 and accordingly, the investments were immaterial to the accompanying consolidated financial statements.

Income Taxes

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement 109). Statement 109 requires that deferred income taxes be recognized for the tax consequences of "temporary differences." This is achieved by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

New Accounting Pronouncements

The Financial Accounting Standards Board has issued Statement No. 123 which is effective for years commencing after December 15, 1995. The Company intends to apply the pro forma disclosure requirements of Statement No. 123 in its 1996 financial statements. Accordingly, the pro forma effect of stock options granted during the year ended December 31, 1995 has not yet been determined.

Net Earnings per Share

Net earnings per share is based on the weighted average number of common and common equivalent shares outstanding during each period, after retroactive adjustment for stock splits, plus the shares that would be outstanding assuming exercise of dilutive stock options, which are considered common stock equivalents. The number of shares that would be issued from the exercise of stock options has been reduced by the number of shares that could have been purchased from the proceeds at the current market price of the Company's common stock (see note 8).

Following is an analysis of the components of the shares used to compute net

earnings per share in 1995, 1994 and 1993:

	1995	1994	1993
Weighted average shares outstanding during the period*	33,659,000	33,408,000	32,119,000
Incremental shares issued in connection with mergers accounted for as poolings of interest (note 2)	1,274,000	1,274,000	1,274,000
Incremental shares issuable under stock option plans	835,000	304,000	206,000
Number of shares used in the computation of net earnings per share	35,768,000	34,986,000	33,599,000

*All share data has been adjusted retroactively to reflect the 2-for-1 stock split effected on September 6, 1995.

Reclassifications

Certain 1994 and 1993 accounts have been reclassified to be consistent with 1995. The effect of the reclassifications was not material to the accompanying financial statements.

(2) Acquisitions

On November 21, 1995, the Company acquired all of the outstanding shares of Maverick Software, Inc. by issuing 223,476 shares of its common stock. On March 1, 1995, the Company acquired all of the outstanding shares of The Cute Company, which subsequently changed its name to FUNNYBONE Interactive, by issuing 423,076 shares of its common stock. Both mergers were accounted for as poolings of interests. Maverick Software, Inc. and FUNNYBONE Interactive are now operated as divisions of the Company. All financial information included in the accompanying consolidated financial statements has been restated to include the operating results of FUNNYBONE Interactive and Maverick Software, Inc.

A summary of the impact of these poolings on operations for 1994 and 1993, as previously reported, is as follows:

	As Previously Reported	Effect of Pooled Companies	Restated for Poolings
1994:			
Net revenues	\$ 87,914,000	5,257,000	93,171,000
Earnings before income taxes	10,756,000	1,334,000	12,090,000
Net earnings	5,144,000	1,334,000	6,478,000
Pro forma net earnings	5,144,000	801,000	5,945,000
1993:			
Net revenues	\$ 59,078,000	3,294,000	62,372,000
Earnings before income taxes	10,696,000	471,000	11,167,000
Net earnings	6,478,000	471,000	6,949,000
Pro forma net earnings	6,478,000	283,000	6,761,000

On June 1, 1994, the Company acquired all of the outstanding shares of Learningways, Inc. ("Learningways") for cash of approximately \$664,000 and 358,648 shares of the Company's common stock. Total consideration was valued at \$4,225,000. The acquisition was accounted for as a purchase. In connection with this acquisition, the Company expensed certain in-process research and development for technology in process of approximately \$3.9 million which was recorded as a non-recurring expense in the accompanying 1994 consolidated statement of earnings. The results of operations of Learningways have been included in the Company's consolidated financial statements since the date of acquisition. Had the acquisition occurred at the beginning of 1994, the impact on the Company's reported results of operations would not have been material. Learningways is now operated as a division of the Company.

On February 18, 1994, the Company acquired all of the outstanding shares of Chaos Studios, Inc., which subsequently changed its name to Blizzard Entertainment, by issuing 626,980 shares of its common stock. The merger was accounted for as a pooling of interests. All financial information included in the accompanying consolidated financial statements has been restated to include Blizzard's operating results. Blizzard Entertainment is now operated as a division of the Company.

In May, 1992, the Company acquired Educational Resources Ltd. (Educational Resources). The acquisition was accounted for as a purchase. The Company issued 2,400,000 shares of its common stock for all of the outstanding common stock of Educational Resources. The value of the consideration given exceeded the fair value of the net assets of Educational Resources, resulting in goodwill totaling \$1,387,000. Educational Resources is now operated as a division of the Company.

In connection with the acquisition of Educational Resources, the Company entered into employment and non-competition agreements with the former sole stockholder and with an officer of Educational Resources. The non-competition agreements required the immediate payment of an aggregate \$1,500,000 by the Company to the sole stockholder and to an officer of Educational Resources for agreements not to compete with the Company for a five-year period.

Intangible assets arising from the above transactions at December 31, 1995 and 1994 consist of the following:

	1995	1994
Goodwill	\$ 1,936,000	1,936,000
Covenant not to compete	1,650,000	1,650,000
Other intangible assets	364,000	364,000
Less accumulated amortization	(1,921,000)	(1,512,000)
	\$ 2,029,000	2,438,000

(3) Inventories

Inventories at December 31, 1995 and 1994 consist of the following:

	1995	1994
Raw materials	\$ 2,611,000	2,051,000
Finished goods	9,181,000	5,393,000
	\$ 11,792,000	7,444,000

(4) Property and Equipment

Property and equipment at December 31, 1995 and 1994 consist of the following:

	1995	1994
Furniture and equipment	\$ 10,669,000	7,363,000
Leasehold improvements	2,628,000	2,280,000
	13,297,000	9,643,000
Less accumulated depreciation and amortization	(5,296,000)	(3,114,000)
	\$ 8,001,000	6,529,000

(5) Other Assets

In 1995, the Company made a \$2,000,000 investment in IVI Publishing, Inc. In exchange, the Company received 2,000 shares of six percent, preferred stock which are convertible into the investee's common shares at \$11.21 per share, representing less than 3% of the investee's common shares outstanding at the time of the Company's investment. In addition, the Company received 12,500 common share warrants to purchase shares of the investee's common stock at \$11.21 per share. The Company has recorded this investment under the cost method and has included the investment in other assets in the accompanying consolidated balance sheet.

(6) Line of Credit

The Company has an unsecured working capital line of credit agreement with a bank (the Agreement). The Agreement expires in April 1996 and provides for total advances up to \$1,000,000 bearing interest at the bank's prime rate. As of December 31, 1995, there were no borrowings under the agreement.

(7) Accrued Expenses

Accrued expenses at December 31, 1995 and 1994 consist of the following:

1995	1994
------	------

Due to affiliated label companies	\$ 675,000	1,709,000
Accrued royalties	1,488,000	225,000
Accrued payroll and related expenses	2,033,000	977,000
Other	3,526,000	2,300,000
	<hr/>	<hr/>
	\$ 7,722,000	5,211,000
	<hr/>	<hr/>

(8) Shareholders' Equity

Common Stock

On September 6, 1995, the Company effected a 2-for-1 stock split. Concurrently, the par value of the common stock was decreased to \$.00025 from \$.0005. The accompanying consolidated financial statements and related notes have been retroactively adjusted to reflect this stock split and the change in par value.

In April 1995, the Board of Directors and the Company's shareholders approved an increase in the number of authorized shares of common stock from 60,000,000 to 100,000,000.

During 1995, the Company issued 423,076 shares and 223,476 shares in connection with its acquisitions of FUNNYBONE Interactive and Maverick Software, Inc., respectively. Since both acquisitions were accounted for as poolings of interests, the accompanying consolidated financial statements and related notes have been retroactively adjusted for such shares issued in connection with the acquisitions.

At the time of the mergers, both FUNNYBONE Interactive and Maverick Software, Inc. (the Acquirees) were "S corporations." During 1995, the Acquirees' undistributed earnings under S corporation status have been reclassified to additional paid-in capital in the consolidated financial statements. Distributions to the Acquirees' shareholders, amounting to \$1,084,000, \$1,610,000 and \$210,000 for the years ended December 31, 1995, 1994 and 1993, respectively, have been charged to retained earnings.

During 1994, the Company issued 626,980 shares and 358,648 shares in connection with its acquisition of Chaos Studios, Inc. (Chaos) and Learningways, Inc., respectively. Since the acquisition of Chaos was accounted for as a pooling of interests, the accompanying consolidated financial statements and related notes have been retroactively adjusted for such shares issued in connection with the acquisition.

On March 31, 1993, the Company issued 4,380,000 shares of common stock, at \$6.50 a share in an initial public offering. The proceeds to the Company aggregated \$25,581,000, net of underwriting discount and direct expenses.

Preferred Stock

The Company is authorized to issue up to 1,000,000 shares of a series of no par value preferred stock. As of December 31, 1995, no shares of preferred stock had been issued by the Company.

Stock Option Plans

The Company has the following stock option plans: (i) Davidson & Associates, Inc. 1992 Incentive Stock Option Plan, (ii) Davidson & Associates, Inc. 1992 Nonstatutory Stock Option Plan and (iii) Davidson & Associates, Inc. 1992 Stock Purchase Plan (collectively, the Plans).

The Plans provide for the grant of options to purchase the Company's common stock to officers, directors and consultants or independent contractors of the Company, or of any subsidiary of the Company. Only employees may be granted options under the Davidson & Associates, Inc. 1992 Incentive Stock Option Plan. The exercise price of the incentive stock options shall not be less than the fair market value of the Company's stock on the date of grant. The exercise price of the options under other plans are at the discretion of the Board of Directors. The Plans provide that the options are exercisable upon vesting schedules, as determined by the Board of Directors and are exercisable no later than ten years from the date of grant. Options issued under the Plans generally vest ratably over a five-year period. The Plans expire December 31, 2002.

The Board of Directors has set aside 3,000,000 shares of the Company's common stock for issuance under the plans.

The stock option activity for the Plans follows:

	Number of shares	Price per share
Balance at December 31, 1992	518,000	\$ 4.75
Options granted	70,000	5.50
Options terminated	(39,000)	4.75
Options exercised	--	--

Balance at December 31, 1993	549,000	\$ 4.75-5.50
Options granted	720,000	7.5-11.75
Options terminated	(29,200)	4.75-10.75
Options exercised	(34,750)	4.75

Balance at December 31, 1994	1,205,050	\$ 4.75-11.75
Options granted	905,000	10.88-27.25
Options terminated	(97,200)	4.75-10.75
Options exercised	(97,400)	4.75-10.88

Balance at December 31, 1995	1,915,450	\$ 4.75-27.25

At December 31, 1995, 420,360 of the above options were exercisable at \$4.75 to \$13.88 per share, and 952,400 options were available for grant.

(9) License, Royalty and Development Revenues

The Company has certain license and royalty agreements with manufacturers of personal computers, multimedia components, integrated circuits, telecommunications products, hand-held electronic products and certain software publishers to license its First Byte "text-to-speech" technology.

Certain agreements provide for an up-front non-refundable license fee upon signing of the agreement. Revenue under such arrangements is recognized upon the delivery of the related software and documentation. Additionally, the agreements typically provide for continuing royalties on unit sales by the licensee which may be partially prepaid by the licensee. The royalty fees under these agreements are either based on unit sales or a fixed annual fee and are recognized as unit sales are reported by the licensee. Royalties received in advance are deferred until shipments are reported by licensees.

License fees and royalty revenues earned for 1995, 1994 and 1993 were \$1,530,000, \$2,475,000 and \$2,032,000, respectively.

Additionally, the Company develops software for others under contracts calling for payment of development fees and ongoing royalties in certain circumstances. Development revenues aggregated \$7,716,000 and \$3,344,000 in 1995 and 1994, respectively, and were nominal in 1993. Costs incurred under development contracts are included in research and development in the accompanying consolidated financial statements.

(10) Income Taxes

The provisions for income taxes consist of the following for each respective year:

	1995	1994	1993

Income taxes			
Federal:			
Current	\$ 8,503,000	4,755,000	4,117,000
Deferred	(2,438,000)	(352,000)	(841,000)
Total Federal	6,065,000	4,403,000	3,276,000

State:			
Current	2,806,000	1,301,000	1,116,000

Deferred	(646,000)	(92,000)	(174,000)
Total state	2,160,000	1,209,000	942,000
Total income taxes	8,225,000	5,612,000	4,218,000
Incremental pro forma tax expense related to pooled "S corporations"	300,000	533,000	188,000
Pro forma tax expense	\$ 8,525,000	6,145,000	4,406,000

Income tax expense differs from the statutory tax rate of 35% (34% for 1993) as applied to earnings before income taxes as follows:

	1995	1994	1993
Expected income tax expense	\$ 7,670,000	4,231,000	3,797,000
Technology under development at Learningways. Recorded as an expense for financial reporting purposes not deductible for tax purposes.	--	1,381,000	--
State income taxes, net of Federal benefit	1,404,000	785,000	622,000
Federal environmental taxes	--	16,000	--
Earnings of pooled companies under S corporation status not subject to corporate tax	(262,000)	(466,000)	(160,000)
Tax-exempt interest	(279,000)	(233,000)	(175,000)
Research and experimentation credits	(594,000)	(219,000)	(194,000)
Other, principally non-deductible amortization of goodwill	286,000	117,000	328,000
	\$ 8,225,000	5,612,000	4,218,000

Prior to their acquisition during 1995, Maverick Software, Inc. and FUNNYBONE Interactive elected to be taxed as S corporations whereby the income tax effects of their activities accrued directly to their shareholders. Maverick and FUNNYBONE Interactive terminated their S corporation election on their respective dates of acquisition. The consolidated statements of operations include a pro forma presentation for income taxes which would have been recorded if Maverick and FUNNYBONE Interactive had been C corporations for all periods presented.

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 1995 and 1994 are presented below:

	1995	1994
Allowance for doubtful accounts and reserve for returns	\$ 4,290,000	1,510,000
Inventories	556,000	120,000
Accrued expenses	337,000	480,000
Deferred revenues	249,000	323,000
Deferred tax assets	5,432,000	2,433,000
Deferred tax liability - accelerated depreciation and amortization	(108,000)	(193,000)
Net deferred tax assets	\$ 5,324,000	2,240,000

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based on the level of historical taxable income and projections of future taxable income over the periods in which the deferred tax assets are deductible, as of December 31, 1995 management believes it is more likely than not the Company will realize the benefits of these deductible differences. Accordingly, no valuation allowance has been provided against deferred tax assets for any period presented.

The Company's corporate offices are leased from the Company's principal shareholders. The corporate offices lease is renewable at a rental amount mutually agreed upon by the Company and the shareholders. The minimum rental commitments under all leases are as follows:

Year ending December 31:	Related Parties	Other
-----	-----	-----
1996	\$ 649,000	1,153,000
1997	536,000	973,000
1998	424,000	580,000
1999	424,000	418,000
2000	424,000	175,000
Thereafter	566,000	--
	-----	-----
	\$ 3,032,000	3,299,000
	-----	-----

Total rent expense aggregated \$1,648,000, \$1,157,000, and \$937,000 in 1995, 1994 and 1993, respectively. Total rent expense paid to related parties aggregated \$649,000, \$713,000, and \$756,000 in 1995, 1994 and 1993, respectively.

(12) 401(k) Plan

The Company's 401(k) plan covers eligible employees who elect to participate and the Company has the discretion to make contributions to the plan. Company contributions vest based on length of service and were \$372,000, \$264,000 and \$168,000 in 1995, 1994 and 1993, respectively.

(13) Significant Customers

The Company has a significant customer that comprised 7% and 18% of total trade accounts receivable at December 31, 1995 and 1994, respectively.

Two other customers comprised 24% of total trade accounts receivable at December 31, 1995 and had immaterial balances at December 31, 1994. These two customers constituted over 15% of net revenues during 1995. There were no customers constituting over 10% of net revenues during 1994 and 1993.

(14) Supplemental Disclosure of Non-Cash Financing and Investing Activities

On June 1, 1994, the Company acquired Learningways, Inc. (Learningways) by exchanging 358,648 shares of its common stock and \$664,000 cash for all of the common stock of Learningways. In connection with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired	\$ 622,000
In-process research and development,	
written off as non-recurring expense	3,950,000
Value of common stock issued	(3,561,000)
Cash paid	(664,000)

Liabilities assumed	\$ 347,000

(15) Contingencies

The Company is involved from time to time in litigation incidental to its business. The management of the Company believes that none of its litigation individually or in the aggregate will have a material adverse effect on the Company's financial position.

(16) Subsequent Events

On February 20, 1996, the Company entered into an agreement to merge with CUC International, Inc. Under the terms of the agreement, Company shareholders receive .85 shares of CUC stock for each share of Company stock. The merger will be structured as a tax-free reorganization and accounted for as a pooling of interests. The merger is subject to regulatory approval.

On February 26, 1996, the Company acquired Condor, Inc., a developer of entertainment software. The acquisition was financed through the issuance of

225,409 shares of common stock for all of the outstanding shares of Condor, Inc. The acquisition will be accounted under the pooling-of-interests method. Pro forma results of operations for 1995 are not presented, as the impact of this pooling of interests is not material.

(17) Quarterly Financial Data (Unaudited)

The following selected quarterly financial data for the years ended December 31, 1995 and 1994 has been restated to reflect the poolings of Blizzard Entertainment (formerly Chaos Studios, Inc.), FUNNYBONE Interactive and Maverick Software, Inc.:

	First quarter	Second quarter	Third quarter	Fourth quarter

1995:				
Net revenues	\$ 25,552,000	37,388,000	37,349,000	46,937,000
Gross profit	13,568,000	15,955,000	20,133,000	25,043,000
Net earnings	1,237,000	1,758,000	4,547,000	6,035,000
Net earnings per share	.03	.05	.13	.17
Pro forma net earnings	1,162,000	1,683,000	4,472,000	5,960,000
Pro forma net earnings per share	.03	.05	.12	.17

	First quarter	Second quarter	Third quarter	Fourth quarter
1994:				
Net revenues	\$ 14,684,000	18,934,000	23,517,000	36,036,000
Gross profit	8,021,000	9,228,000	13,298,000	18,362,000
Net earnings (loss)	1,082,000	(2,410,000)	3,747,000	4,059,000
Net earnings (loss) per share	.03	(.07)	.11	.11
Pro forma net earnings	949,000	(2,543,000)	3,614,000	3,925,000
Pro forma net earnings per share	.03	(.07)	.10	.11

(a) 3.

Ideon Group, Inc.
Consolidated Financial Statements
December 31, 1995 and 1994
With Independent Auditors' Report

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and
Stockholders of Ideon Group, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Ideon Group, Inc. (formerly known as SafeCard Services, Incorporated), and its subsidiaries at December 31, 1995 and 1994, and the results of their operations and their cash flows for the year ended December 31, 1995, the two months ended December 31, 1994, and each of the two years in the period ended October 31, 1994, in conformity with generally accepted accounting principles. 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 of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 1, the Company changed the amortization periods for deferred subscriber acquisition costs effective December 31, 1994.

PRICE WATERHOUSE LLP
Tampa, Florida
February 2, 1996

Ideon Group, Inc.
Consolidated Balance Sheet
(in thousands, except share data)

	December 31,	
	1995	1994
	-----	-----
Assets		
Current assets:		
Cash and cash equivalents	\$ 25,071	\$ 9,315
Securities available for sale maturing within one year	33,741	43,532
Receivables, net	71,953	58,337
Income taxes receivable	16,153	11,441
Deferred subscriber acquisition costs and related commissions amortizing within one year	91,150	85,435
Deferred income tax asset	3,370	995
Other current assets	3,228	3,262
	-----	-----
Total current assets	244,666	212,317
Securities available for sale maturing after one year	13,328	116,134
Deferred subscriber acquisition costs and related commissions amortizing after one year	40,403	46,482
Property and equipment, net	32,389	23,381
Excess of cost over fair value of net assets acquired	45,002	28,451
Deferred income tax asset, noncurrent	5,223	
Other assets	4,899	1,949
	-----	-----
Total assets	\$ 385,910	\$ 428,714
	=====	=====
Liabilities		
Current liabilities:		
Notes payable to bank	\$ 15,414	\$ 12,083
Accounts payable	32,523	33,037
Accrued expenses	35,165	30,535
Product abandonment and related liabilities	20,796	
Subscribers' advance payments amortizing within one year	119,805	117,203
Allowance for cancellations	9,548	9,197
	-----	-----
Total current liabilities	233,251	202,055
Subscriber advance payments amortizing after one year	49,799	54,862
Deferred income tax liability		4,991
	-----	-----
Total liabilities	283,050	261,908
	-----	-----
Commitments and Contingencies (Note 16)		
Stockholders' Equity		
Preferred stock--authorized 10,000,000 shares (\$.01 par value); no shares issued or outstanding		
Common stock--authorized 90,000,000 shares (\$.01 par value); 34,946,000 shares issued (34,946,000 at December 31, 1994); 27,981,831 shares outstanding (28,933,599 at December 31, 1994)	349	349
Additional paid-in capital	41,230	41,058
Retained earnings	118,999	174,066
Unrealized gain on securities available for sale	345	
	-----	-----
	160,923	215,473
Less cost of 6,964,169 common shares in treasury (6,012,401 shares at December 31, 1994)	(58,063)	(48,667)
	-----	-----
Total stockholders' equity	102,860	166,806
	-----	-----
Total liabilities and stockholders' equity	\$ 385,910	\$ 428,714
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

Ideon Group, Inc.
Consolidated Statement of Operations
(in thousands, except per share data)

	Year Ended December 31, 1995 ----	Two Months Ended December 31, 1994 ----	Year Ended October 31, 1994 ----	1993 ----
Revenues				
Membership and subscription revenue, net	\$ 176,951	\$ 28,579	\$ 162,591	\$ 146,173
Card acquisition and services revenue	23,332	2,915	2,107	
Consumer marketing revenue	26,337	1,796	10,843	10,427
Interest income	5,690	1,394	8,421	8,736
Other income	1,658	14	5,124	1,790
	-----	-----	-----	-----
	233,968	34,698	189,086	167,126
	-----	-----	-----	-----
Costs and expenses				
Subscriber acquisition costs and related commissions	112,632	14,967	98,150	87,852
Other costs of revenue	22,837	4,475	8,353	7,396
Research and product development costs	7,043	8,163	7,682	
Service costs and other operating expenses	38,351	10,063	26,351	16,891
General and administrative expenses	33,318	5,606	16,451	12,542
Costs related to products abandoned and restructuring	97,029		7,900	
Unrealized loss on securities available for sale		1,943		
Effect of change in amortization periods for deferred subscriber acquisition costs		65,500		
	311,210	110,717	164,887	124,681
	-----	-----	-----	-----
Income (loss) before income taxes	(77,242)	(76,019)	24,199	42,445
Provision for (benefit from) income taxes	(27,801)	(26,075)	6,178	10,968
	-----	-----	-----	-----
Income (loss) before cumulative effect of change in accounting for income taxes	(49,441)	(49,944)	18,021	31,477
Cumulative effect of change in accounting for income taxes			2,000	
Net income (loss)	\$ (49,441)	\$ (49,944)	\$ 20,021	\$ 31,477
	=====	=====	=====	=====
Earnings per share:				
Income (loss) before cumulative effect of accounting change	\$ (1.73)	\$ (1.70)	\$.63	\$ 1.10
Cumulative effect of accounting change			.07	
	-----	-----	-----	-----
Net income (loss)	\$ (1.73)	\$ (1.70)	\$.70	\$ 1.10
	=====	=====	=====	=====
Weighted average number of common and common equivalent shares	28,500	29,297	28,411	28,572

The accompanying notes are an integral part of
these consolidated financial statements.

Ideon Group, Inc.
Consolidated Statement of Changes In Stockholders' Equity
(in thousands, except share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Unrealized Gain (Loss) on Securities Available for Sale	Common Stock in Treasury		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance at October 31, 1992	33,426,048	\$ 334	\$ 9,625	\$ 194,534		(6,780,015)	\$ (38,995)	\$ 165,498
Net earnings				31,477				31,477
Cash dividends paid, \$.20 per share				(5,113)				(5,113)
Exercise of employee stock options	769,952	8	4,213			172,059	1,159	5,380
Tax benefit from exercise of employee stock options			2,152					2,152
Purchase of treasury stock						(3,469,860)	(41,699)	(41,699)
	-----	-----	-----	-----	-----	-----	-----	-----
Balance at October 31, 1993	34,196,000	342	15,990	220,898		(10,077,816)	(79,535)	157,695
Net earnings				20,021				20,021
Cash dividends paid, \$.20 per share				(5,320)				(5,320)

Exercise of employee stock options	750,000	7	3,440	(10,140)		4,090,165	31,351	24,658
Tax benefit from exercise of employee stock options			21,628					21,628
Issuance of restricted common stock						11,950		
Change in unrealized gain (loss) on securities available for sale					\$ (607)			(607)
Purchase of treasury stock						(36,700)	(483)	(483)
Balance at October 31, 1994	34,946,000	349	41,058	225,459	(607)	(6,012,401)	(48,667)	217,592
Net loss				(49,944)				(49,944)
Cash dividends paid, \$.05 per share				(1,449)				(1,449)
Change in unrealized gain (loss) on securities available for sale					607			607
Balance at December 31, 1994	34,946,000	349	41,058	174,066		(6,012,401)	(48,667)	166,806
Net loss				(49,441)				(49,441)
Cash dividends paid, \$.20 per share				(5,626)				(5,626)
Exercise of employee stock options			51			49,832	405	456
Tax benefit from exercise of employee stock options			121					121
Issuance of restricted common stock						3,500		
Change in unrealized gain (loss) on securities available for sale					345			345
Purchase of treasury stock						(1,005,100)	(9,801)	(9,801)
Balance at December 31, 1995	34,946,000	\$ 349	\$ 41,230	\$ 118,999	\$ 345	(6,964,169)	\$ (58,063)	\$ 102,860

The accompanying notes are an integral part of these consolidated financial statements.

Ideon Group, Inc.
Consolidated Statement of Cash Flows
(in thousands)

	Year Ended December 31, 1995 ----	Two Months Ended December 31, 1994 ----	Year Ended October 31, 1994 ----	Year Ended October 31, 1993 ----
Cash Flows From Operating Activities				
Net cash received from subscribers/customers	\$ 238,835	\$ 31,070	\$ 194,584	\$ 175,596
Cash paid to suppliers and employees	(311,971)	(38,763)	(168,831)	(139,290)
Interest received	7,857	3,094	13,922	13,952
Interest paid	(1,287)	(146)		
Income tax refunds (payments), net	11,047	(7)	3,114	(21,413)
Gain from litigation settlements			4,257	
Net cash (used in) provided by operating activities	(55,519)	(4,752)	47,046	28,845
Cash Flows From Investing Activities				
Purchases of investment securities	(52,961)	(12,752)	(96,986)	(63,174)
Proceeds from sales of investment securities	135,111	17,463	73,748	64,539
Proceeds from maturing investment securities	30,185		18,035	7,068
Cost of acquisitions, net of cash acquired	(12,977)		(35,276)	
Acquisition of property and equipment, net	(16,443)	(7,406)	(8,044)	(719)
Net cash provided by (used in) investing activities	82,915	(2,695)	(48,523)	7,714
Cash Flows From Financing Activities				
Net borrowings (repayments) on notes payable to bank	3,331	290	(2,792)	
Proceeds from exercise of stock options	456		24,658	5,380
Dividends paid	(5,626)	(1,449)	(5,320)	(5,113)
Payments for purchase of treasury shares	(9,801)		(483)	(41,699)
Net cash (used in) provided by financing activities	(11,640)	(1,159)	16,063	(41,432)
Net increase (decrease) in cash and cash equivalents	15,756	(8,606)	14,586	(4,873)
Cash and cash equivalents at beginning of period	9,315	17,921	3,335	8,208

Cash and cash equivalents at end of period	\$ 25,071	\$ 9,315	\$ 17,921	\$ 3,335
	=====	=====	=====	=====

The accompanying notes are an integral part of
these consolidated financial statements.

Ideon Group, Inc.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

On April 27, 1995, the stockholders of SafeCard Services, Incorporated ("SafeCard") approved a plan of reorganization whereby SafeCard became a wholly-owned subsidiary of Ideon Group, Inc. ("Ideon" or the "Company"), a newly formed Delaware corporation. All shares of SafeCard common stock were converted into shares of Ideon common stock. Ideon is a holding company with current business units as follows: SafeCard, Wright Express Corporation, National Leisure Group, Inc. and Ideon Marketing and Services Company. The operations of an additional business unit, Family Protection Network, Inc., have been discontinued as described in Note 10 Costs Related to Products Abandoned and Restructuring.

SafeCard, the Company's principal operating subsidiary, is a credit card enhancement marketing company. Subscriptions for continuity services are primarily marketed through credit card issuers by mail or telephone. SafeCard's principal service is credit card registration and loss notification ("Hot-Line"), whereby SafeCard gives prompt notice to credit card issuers upon being informed that a subscriber's credit cards have been lost or stolen. Subscriptions for continuity services typically continue annually or periodically unless canceled by the subscriber. SafeCard also markets other continuity services including those related to fee-based credit cards ("Fee Card"), date reminder services, a personal credit information service ("CreditLine"). SafeCard is also developing new lines of business including travel and shopping related products.

Wright Express Corporation ("Wright Express"), acquired in September 1994, provides transaction and information processing services to oil companies and commercial transportation fleets primarily through a national credit card network program, the Wright Express Universal Fleet card (the "WEX card") and through private label processing arrangements for retail fuel marketers.

National Leisure Group, Inc. ("National Leisure Group"), acquired in January 1995, provides vacation travel packages and cruises directly to the public in partnership with established retailers and warehouse clubs throughout New England and with credit card issuers and membership clubs nationwide.

Ideon Marketing and Services Company ("IMS") manages an initiative between the Company, the PGA TOUR and SunTrust BankCard, N.A. to develop and market an expanded PGA TOUR Partners program, including a co-branded credit card. The activities of IMS have been significantly curtailed due to lower than expected response rates to the expanded PGA TOUR Partners program and related credit card offering during 1995 (see Note 10 - Costs Related to Products Abandoned and Restructuring).

On February 14, 1995, the Company filed a Transition Period Form 10-Q for the two months ended December 31, 1994 in order to effect a change in its year end from October 31 to December 31. References herein to the year 1995 refer to the Company's calendar year ended December 31, 1995. References herein to the Transition Period refer to the two months ended December 31, 1994. References herein to the years 1994 and 1993 refer to the Company's previous fiscal years ended October 31.

Principles of Consolidation

The consolidated financial statements include the accounts of Ideon and its subsidiaries, after elimination of intercompany accounts and transactions. On September 14, 1994, the Company acquired 100% of the outstanding common stock of Wright Express. Effective January 1, 1995, the Company acquired substantially

all of the assets and assumed substantially all of the liabilities of National Leisure Group. These transactions were accounted for under the purchase method and accordingly the consolidated financial statements include the results of operations of Wright Express and National Leisure Group from the respective dates of purchase (see Note 3 Acquisitions).

Cash and Cash Equivalents

Cash and cash equivalents include cash-on-hand, demand deposits and short-term investments with original maturities of three months or less.

Securities Available for Sale

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 115, ("FAS 115") "Accounting for Certain Investments in Debt and Equity Securities." FAS 115 requires that all investments in debt and equity securities that fall within its scope be classified as either held to maturity, trading or available for sale. Management elected early adoption of FAS 115 as of October 31, 1994 and classified its entire securities portfolio as "available for sale" at that time. Securities classified as available for sale are stated at market value with any unrealized gains or losses included as a separate component of stockholders' equity.

Approximately \$11,600,000 of securities available for sale at December 31, 1995 were held in escrow as required contractually by certain credit card issuers (see "Revenue Recognition/Cost Amortization").

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Maintenance and repairs are charged to expense while betterments are capitalized. Depreciation is computed using the straight-line method over the assets' estimated useful lives. Estimated useful lives range from 3 to 7 years for equipment, furniture and fixtures to 30 years for buildings. Capitalized leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the lease term.

Excess of Cost Over Fair Value of Net Assets Acquired

Excess of cost over fair value of net assets acquired ("goodwill") represents the difference between the purchase price of Wright Express and National Leisure Group and the value of the net assets acquired in each of the acquisitions (see Note 3 Acquisitions). Such goodwill is being amortized on a straight-line basis over 25 years. Accumulated amortization was \$2,216,000 and \$440,000 as of December 31, 1995 and 1994, respectively. Periodically, the Company reviews its intangible assets for events or changes in circumstances that may indicate that the carrying amounts of the assets are not recoverable. Based upon this review, the Company believes that the unamortized balance of goodwill at December 31, 1995 is fully recoverable.

Revenue Recognition/Cost Amortization

Subscription Revenue and Commission Expense

The Company generally receives advance payments from subscribers for its products and services. The subscription period and advance payments are generally for periods of 12 or 36 months. These advance payments, less an appropriate allowance for cancellations, are deferred and amortized to revenue ratably over the subscription period. Credit card issuers earn commissions based on percentages of subscription billings or other profit sharing arrangements. Such commissions, less an appropriate allowance for cancellations, are also deferred and amortized to expense ratably over the subscription period.

The allowance for cancellations, net of related commissions, relates to amounts which may be refunded at a future time to subscribers who may cancel their subscriptions prior to the completion of the subscription period. Previously paid commissions related to canceled subscriptions are reimbursed to the Company by the credit card issuer.

The Company places funds in escrow as required contractually by certain credit card issuer clients. The contractual requirement as of December 31, 1995 was approximately \$11,600,000. Restricted funds are released ratably over the subscription period (which coincides with the period of revenue recognition) and are invested primarily in tax-exempt municipal securities and United States

Treasury securities.

Card Acquisition and Services Revenue

Card acquisition and services revenue is principally in the form of transaction fees deducted from amounts remitted to retail fueling merchants and monthly fees charged to fleet customers of Wright Express.

Consumer Marketing Revenue

Revenue from the sale of vacation packages by National Leisure Group, which is included in the "Consumer marketing revenue" caption in the consolidated statement of operations, is recognized at the date when substantially all obligations to the customer have been performed and at least 90 percent of the total booking price has been received (see Note 3 - Acquisitions). Consumer marketing revenue also includes revenues from SafeCard's date reminder service which is amortized over each calendar year.

Subscriber Acquisition Costs

Subscriber acquisition expenditures directly relate to the acquisition of new subscribers through "direct-response" type marketing campaigns and primarily include payments for telemarketing, printing, postage, mailing services, certain direct salaries and other direct costs incurred to acquire new subscribers. Prior to December 31, 1994, these expenditures were deferred and amortized to expense in proportion to expected revenues over the expected subscription periods, including renewal periods (life of subscriber). These amortization periods ranged from 10 to 12 years for single year and multi-year subscriptions, respectively.

After a general review of the Company's business plans and related accounting practices during the Transition Period, the Company's Board of Directors approved a change in the amortization periods for deferred subscriber acquisition costs. The change was made in response to the Company's plans to incur additional marketing expenditures to enhance renewal rates. Under generally accepted accounting principles, if additional expenditures are incurred to maintain or enhance the renewal stream, the Company is required to amortize such subscriber acquisition costs over periods greater than the initial subscription period. Accordingly, based on efforts to enhance renewal rates, the Company changed its amortization periods. Effective December 31, 1994, the amortization periods were shortened to one year and three years for single year and multi-year subscriptions, respectively (initial subscription period without regard for anticipated renewals). The effect of reducing the amortization periods resulted in a one-time, non-cash, pre-tax charge to earnings of \$65,500,000 during the two months ended December 31, 1994.

The change in the amortization periods for deferred subscriber acquisition costs does not affect the amortization of commissions which continue to be amortized over the one to three year subscription period, as appropriate.

Income Taxes

Effective November 1, 1993, the Company prospectively adopted Statement of Financial Accounting Standards No. 109 ("FAS 109"), "Accounting for Income Taxes." Adoption of FAS 109 required a change from the deferred method to the liability method of accounting for income taxes. One of the principal differences of the liability method from the deferred method used in previous financial statements is that changes in tax laws and rates are reflected in income from continuing operations in the period such changes are enacted. The impact of the adoption of FAS 109 had a cumulative positive effect on the Company's reported earnings in 1994 of \$2,000,000.

Income (Loss) Per Share

Income per share is calculated by dividing net income by the weighted average number of shares of common stock and common stock equivalents (common stock issuable upon exercise of stock options) outstanding. Loss per share is calculated by dividing net loss by the weighted average number of shares of common stock outstanding.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made in prior period financial statements to conform to the 1995 presentation.

2. Change in Fiscal Year End

On February 14, 1995, SafeCard filed a Transition Period Form 10-Q for the two months ended December 31, 1994 in order to effect a change in its year end from October 31 to December 31. As a result, the consolidated audited financial statements contain information as of and for the two months ended December 31, 1994. The following supplemental unaudited consolidated statement of operations and unaudited consolidated statement of cash flows for the two months ended December 31, 1993 is presented for comparative purposes only and was presented in the Transition Period Form 10-Q filed in February 1995.

Consolidated Statement of Operations

	Two Months Ended December 31, 1993 (unaudited)

Revenues	
Membership and subscription revenue, net	\$ 25,775,000
Card acquisition and services revenue	
Consumer marketing revenue	1,743,000
Interest income	1,334,000
Other income	280,000

	29,132,000
Costs and expenses	
Subscriber acquisition costs and related commissions	15,652,000
Other costs of revenue	1,239,000
Service costs and other operating expenses	3,282,000
General and administrative expenses	2,480,000

	22,653,000
Income before income taxes	6,479,000
Provision for income taxes	1,652,000
Income before cumulative effect of change in accounting for income taxes	4,827,000
Cumulative effect of change in accounting for income taxes	2,000,000

Net Income	\$ 6,827,000
	=====
Earnings per share	
Income before cumulative effect of accounting change	\$.18
Cumulative effect of accounting change	.07
Net income	\$.25
	=====
Weighted average number of common and common equivalent shares	27,325,000
	=====

Consolidated Statement of Cash Flows

	Two Months Ended December 31, 1993 (unaudited)
Cash Flows From Operating Activities	
Net cash received from subscribers/customers	\$ 33,523,000
Net cash paid to suppliers and employees	(31,601,000)
Interest received	3,627,000
Income tax refunds (payments), net	515,000

Net cash provided by operating activities	6,064,000

Cash Flows From Investing Activities	
Purchases of investment securities	(18,350,000)
Proceeds from sale of investment securities	15,438,000
Proceeds from maturing investment securities	710,000
Acquisition of property and equipment, net	(410,000)

Net cash used in investing activities	(2,612,000)

Cash Flows From Financing Activities	
Proceeds from exercise of stock options	36,000
Dividends paid	(1,207,000)
Payments for purchase of treasury shares	(483,000)

Net cash used in financing activities	(1,654,000)

Net increase in cash and cash equivalents	1,798,000
Cash and cash equivalents at beginning of period	3,335,000

Cash and cash equivalents at end of period	\$ 5,133,000
	=====

3. Acquisitions

National Leisure Group

On February 10, 1995, the Company completed its acquisition of substantially all of the assets and liabilities of National Leisure Group, a provider of vacation travel packages to credit card companies, retailers and wholesale clubs in the United States. The Company paid cash of \$15,048,000 and agreed to issue \$1,400,000 of common stock on the third anniversary of the acquisition. Also, up to \$2,800,000 of additional common stock is issuable based on the attainment of certain earnings hurdles. The acquisition was effective as of January 1, 1995 and was accounted for under the purchase method. Accordingly, the consolidated results of operations of the Company include the results of operations of National Leisure Group for the year ended December 31, 1995.

As part of the transaction, the Company acquired \$5,631,000 of assets, which included \$2,395,000 of cash, and assumed liabilities of \$7,153,000. The Company recorded \$18,327,000 of goodwill which is being amortized on a straight-line basis over 25 years. Amortization expense through December 31, 1995 related to this acquisition was approximately \$725,000.

The following presents the unaudited pro forma results of operations of the Company and National Leisure Group as if combined throughout the two months ended December 31, 1994 and the year ended October 31, 1994:

Two Months Ended December 31, 1994 (unaudited)	Year Ended October 31, 1994 (unaudited)
---	--

	-----	-----
Revenues, net	\$ 36,933,000	\$ 201,940,000
Costs and expenses	112,708,000	176,570,000
	-----	-----
Income (loss) before provision for income taxes and cumulative effect of accounting change	\$ (75,775,000)	\$ 25,370,000
	=====	=====
Net (loss) income	\$ (49,769,000)	\$ 20,980,000
	=====	=====
(Loss) earnings per share	\$ (1.70)	\$.74
	=====	=====

The pro forma results are not necessarily indicative of what actually would have occurred if the acquisition had been in effect for the entire periods presented, nor are they intended to be a projection of future results.

Wright Express Corporation

On September 14, 1994, the Company acquired 100% of the outstanding common stock of Wright Express, a provider of transaction and information processing services to oil companies and commercial transportation fleets in the United States, for \$35,500,000 in cash. The acquisition was accounted for under the purchase method and, accordingly, the results of operations of Wright Express are included in the Company's consolidated financial statements from the date of acquisition. In connection with the acquisition, the Company recorded \$28,891,000 of goodwill which is being amortized on a straight-line basis over 25 years.

The following presents the unaudited pro forma results of operations of the Company and Wright Express as if combined throughout the year ended October 31, 1994:

	Year Ended October 31, 1994 (unaudited)

Revenues, net	\$ 200,955,000
Costs and expenses	176,060,000

Income before provision for income taxes and cumulative effect of accounting change	\$ 24,895,000
	=====
Net income	\$ 20,149,000
	=====
Earnings per share	\$.71
	=====

The pro forma results are not necessarily indicative of what actually would have occurred if the acquisition had been in effect for the entire periods presented, nor are they intended to be a projection of future results.

4. Investments

The Company's investment portfolio is invested primarily in tax-exempt municipal bonds. Because there is not a regularly published source of accurate current market values for tax-exempt municipal bonds, the Company's investment adviser estimates market values for the Company's securities available for sale using a pricing matrix commonly used in the municipal bond industry, or in certain cases, by soliciting quotations from municipal bond dealers.

The financial statement carrying amount, gross unrealized gains, gross unrealized losses and estimated market value of the Company's securities available for sale were as follows:

December 31, 1995			
Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value

	-----	-----	-----	-----
Tax-exempt municipal bonds	\$ 39,054,000	\$ 366,000	\$ (21,000)	\$ 39,399,000
U.S. Treasury bills	7,415,000			7,415,000
Other	255,000			255,000
	-----	-----	-----	-----
	\$ 46,724,000	\$ 366,000	\$ (21,000)	\$ 47,069,000
	=====	=====	=====	=====

December 31, 1994				
	Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
	-----	-----	-----	-----
Tax-exempt municipal bonds	\$ 159,473,000			\$ 159,473,000
Other	193,000			193,000
	-----	-----	-----	-----
	\$ 159,666,000			\$ 159,666,000
	=====	=====	=====	=====

Maturities of the Company's investment portfolio at December 31, 1995 were as follows:

	Carrying Value	Market Value
	-----	-----
Within one year	\$ 33,499,000	\$ 33,741,000
One to five years	9,187,000	9,282,000
More than five years	4,038,000	4,046,000
	-----	-----
	\$ 46,724,000	\$ 47,069,000
	=====	=====

Gross realized gains on sales of securities available for sale totaled \$1,237,000, \$620,000 and \$1,290,000 for the years ended December 31, 1995 and October 31, 1994 and 1993, respectively. Gross realized losses on sales of securities available for sale totaled \$143,000, \$97,000, \$27,000 and \$12,000 for the years ended December 31, 1995, the two months ended December 31, 1994 and the years ended October 31, 1994 and 1993, respectively. Gains and losses on sales of securities are computed on the specific identification basis and are included as a component of other income.

On October 31, 1994 the Company adopted Statement of Financial Accounting Standards No. 115 ("FAS 115"), "Accounting for Investments in Certain Debt and Equity Securities." Upon adoption of FAS 115, the Company classified its securities portfolio, principally consisting of municipal bonds, as available for sale and disclosed the unrealized loss of \$607,000 as a separate component of stockholders' equity. During the two months ended December 31, 1994, the Company experienced further market value declines in its investment portfolio as a result of the increasing interest rate environment. Given the Company's strategy to redeploy its investment resources into operating assets and in view of the then current interest rate environment, management elected to reposition the portfolio. This repositioning helped to minimize additional market risk and complete the Company's effort to shorten the overall maturity of the portfolio. Due to the decision to sell a significant portion of the Company's investment portfolio, management determined that there was an other than temporary decline in the market value of its available for sale portfolio, and consequently the net unrealized losses of \$1,943,000 were charged against earnings for the two months ended December 31, 1994.

5. Receivables, net

Receivables and the related allowance for doubtful accounts were as follows at December 31:

	1995 ----	1994 ----
Receivables for transportation fleet services	\$ 47,041,000	\$ 31,402,000
Receivables for continuity services	24,086,000	25,391,000
Other receivables	1,700,000	
Accrued interest receivable	1,121,000	3,288,000
	-----	-----
	73,948,000	60,081,000
Allowance for doubtful accounts	(1,995,000)	(1,744,000)
	-----	-----
	\$ 71,953,000	\$ 58,337,000
	=====	=====

The receivables for transportation fleet services primarily relate to amounts due from customers of Wright Express for fleet fueling and other transportation services.

6. Property and Equipment

Property and equipment consisted of the following at December 31:

	1995 ----	1994 ----
Equipment	\$ 19,747,000	\$ 13,457,000
Building	16,204,000	5,582,000
Furniture and fixtures	7,053,000	1,481,000
Construction in progress		6,877,000
Land	447,000	447,000
	-----	-----
	43,451,000	27,844,000
Less: accumulated depreciation	(11,062,000)	(4,463,000)
	-----	-----
	\$ 32,389,000	\$ 23,381,000
	=====	=====

Construction in progress related to improvements and additions made to SafeCard's operations center in Cheyenne, Wyoming. All costs associated with this project were capitalized as construction in progress and began to be depreciated when the improvements and additions were placed in service during 1995.

7. Accrued Expenses

Included within "Accrued expenses" as of December 31, 1995 and 1994 is a disputed liability recorded in 1992 of approximately \$10,500,000 relating to the Company's estimated net obligation under a contested lease (the "Ft. Lauderdale Lease") of its former Ft. Lauderdale headquarters. The Company no longer occupies these premises and is no longer making payments on the Ft. Lauderdale Lease, which is now the subject of litigation (see Note 16 - Commitments and Contingencies).

8. Notes Payable to Bank

Notes payable to bank represents a revolving loan agreement assumed in connection with the acquisition of Wright Express in 1994. The agreement, as originally structured, provided for maximum borrowings equal to the lesser of \$17,500,000 or an amount based on a percentage of eligible accounts receivable as defined therein. In November 1994, the revolving credit agreement was amended increasing the available line to \$27,500,000 and the Company was added as a guarantor under the amended agreement.

Interest on the outstanding borrowings was, at Wright Express' option, either the bank's prime rate minus 0.5% or the London Interbank Offering Rate ("LIBOR") plus 0.625%. Wright Express paid a fee of 0.25% per annum on the average daily unused portion of the line of credit. Borrowings are secured by substantially all assets of Wright Express.

At December 31, 1995, the Company had \$15,414,000 outstanding under the revolving line of credit with interest rates ranging from 6.31% to 7.25%.

In February 1996, Wright Express entered into a new revolving credit facility agreement replacing the previous revolving line of credit. The new credit facility has an available line of \$75,000,000 of which \$50,000,000 may be used to finance working capital requirements and for general corporate purposes and \$25,000,000 may be used for acquisition financing. The new credit facility expires December 1, 1998. Interest on the outstanding borrowings is computed, at the option of Wright Express, under various methods including the bank's prime rate or LIBOR plus 0.75%. Wright Express pays a quarterly fee of 0.25% on the average daily unused portion of the line of credit and an annual agent's fee of \$25,000. Borrowings are secured by substantially all assets of Wright Express. In February 1996, Wright Express also entered into a \$5,000,000 capital expenditure line of credit arrangement with a bank.

9. Subscriber Acquisition Costs and Commissions

Deferred subscriber acquisition costs and related commissions were as follows at December 31:

	1995 ----	1994 ----
Hot-Line	\$ 65,232,000	\$ 61,006,000
Fee Card	5,597,000	4,540,000
Other services	15,905,000	19,500,000
	-----	-----
Total deferred subscriber acquisition costs	86,734,000	85,046,000
Commissions	44,819,000	46,871,000
	-----	-----
Total deferred subscriber acquisition costs and commissions	\$ 131,553,000 =====	\$ 131,917,000 =====

10. Costs Related to Products Abandoned and Restructuring

Included in costs related to products abandoned and restructuring in the Consolidated Statement of Operations for the year ended December 31, 1995 are special charges totaling \$43,817,000, net of recoveries, related to the abandonment of certain new product developmental efforts and the related impairment of certain assets and the restructuring of SafeCard and the corporate infrastructure as discussed below. The original charge of \$45,017,000 was composed of accrued liabilities of \$36,248,000 and asset impairments of \$8,769,000. As discussed below, in December 1995 the Company recovered \$1,200,000 of a \$3,900,000 deposit included in the above charges.

The components of the product abandonment and related liabilities as of December 31, 1995 are as follows:

	1995 Provisions -----	Activity -----	Balance at 12/31/95 -----
Severance and other employee costs	\$ 14,960,000	\$ 8,950,000	\$ 6,010,000
Costs to terminate equipment and facilities leases	9,593,000	2,656,000	6,937,000
Liability for contract impairments	8,400,000	1,000,000	7,400,000
Other costs	3,295,000	2,846,000	449,000
	-----	-----	-----
	\$ 36,248,000 =====	\$ 15,452,000 =====	\$ 20,796,000 =====

The \$20,796,000 balance of the product abandonment and related liabilities at December 31, 1995 represents the Company's best estimate of the amounts expected to be incurred with respect to its product abandonment and restructuring efforts. The amounts that will ultimately be paid could differ from the amounts included in the product abandonment and related liabilities estimate. The Company anticipates completion of the majority of the actions related to the product abandonment and restructuring during 1996.

PGA TOUR Partners

In late March and early April 1995, the Company launched an expanded PGA TOUR Partners program through its IMS subsidiary. The program provided various benefits to members including access to PGA TOUR events and a co-branded credit card. Consumer response rates after the launch were significantly less than management's expectations and it was determined that the product as configured was not economically viable. The Company discontinued marketing the product and recorded a special charge of \$17,993,000 at June 30, 1995 for costs associated with the abandonment of the product marketing including employee severance payments (approximately 130 employees), costs to terminate equipment and facilities leases, costs for contract impairments and write-downs taken for asset impairments.

On September 14, 1995, after a period of product redesign and test marketing, the Company announced that it would discontinue its credit card servicing role in connection with the PGA TOUR Partners credit card program. In connection with this decision, the Company recorded a special charge of \$3,612,000 for costs associated with the abandonment of this role, including employee severance payments (approximately 60 employees), costs to terminate equipment and facilities leases and the recognition of certain commitments. The Company continues to provide membership (non-credit card) servicing for the PGA TOUR Partners program.

Family Protection Network

In April 1995, Family Protection Network launched a nationwide child registration and missing child search program. Consumer response rates from the initial product launch were significantly lower than anticipated and the Company closed this business unit. As a result, the Company recorded an \$8,987,000 charge in the second quarter 1995 to cover severance payments (approximately 100 employees), costs to terminate equipment and facilities leases and write-downs taken for asset impairments. As of December 31, 1995, all employees of Family Protection Network have been terminated.

Corporate and SafeCard Restructurings

As a result of the discontinuance of these products, the Company undertook an overall restructuring of its operations, including a significant reduction of its workforce at its corporate headquarters and at SafeCard. The decision to abandon these products and restructure the Company resulted in the recording of a charge of \$7,176,000 in the second quarter 1995 to cover costs to terminate certain operating leases and write-down certain assets to their estimated net realizable value. The Company recorded additional charges of \$3,010,000 in the third quarter 1995 for costs associated with the restructuring of SafeCard and \$4,239,000 for a restructuring of the corporate infrastructure. Restructuring costs include severance payments and costs to terminate equipment and facilities leases.

In May 1995, the Company signed a definitive purchase agreement to acquire a 350,000 square foot building and related property for approximately \$39,000,000. As part of the agreement, the Company paid \$3,900,000 into an escrow account as a nonrefundable deposit pending the completion of the purchase in early 1996. Included in the \$7,176,000 corporate charge recorded in the second quarter was a provision for the full impairment of this deposit. Management worked with the building owner to facilitate a sale of the building to a third party. As a result, the building owner and a third party entered into a purchase agreement and the Company recovered \$1,200,000 of its deposit in the fourth quarter of 1995.

In April 1994, the Company announced a reorganization of its operations and named a new senior management team. As a part of the reorganization, nine senior executives left the Company and the Ft. Lauderdale sales office was closed. As a result of this reorganization, the Company recorded a restructuring charge of \$3,500,000 to cover severance agreements and a lease termination. In addition, the Company recorded an additional charge of \$4,400,000 paid to Steven J. Halmos, the Company's co-founder (see Note 14 Transactions with Related Parties). At December 31, 1995 the remaining balance of these reserves of \$285,000 was included in "Accrued expenses."

11. Segment Information

The operations of the Company are managed along business unit lines and,

accordingly, the Company considers each operating subsidiary a separate business segment for financial reporting purposes. Due to their nature and stage of development, the operations of IMS and Family Protection Network have been combined and presented as Developmental Operations in the segment information table below.

	Year Ended December 31, 1995	Two Months Ended December 31, 1994	Year Ended October 31, ----- 1994 1993 -----	
SafeCard				
Operating revenue	\$ 187,875,000	\$ 30,375,000	\$ 173,663,000	\$ 157,112,000
Operating income (loss)	32,446,000	(59,450,000)	41,961,000	44,682,000
Identifiable assets	195,769,000	217,679,000	270,636,000	206,331,000
Depreciation and amortization	2,549,000	236,000	1,094,000	864,000
Capital expenditures, net	9,881,000	7,241,000	7,913,000	719,000
Wright Express				
Operating revenue	23,332,000	2,915,000	2,107,000	
Operating income	3,434,000	512,000	250,000	
Identifiable assets	77,309,000	32,737,000	32,471,000	
Depreciation and amortization	1,721,000	421,000	255,000	
Capital expenditures, net	1,663,000	165,000	131,000	
National Leisure Group				
Operating revenue	16,018,000			
Operating income	1,973,000			
Identifiable assets	27,237,000			
Depreciation and amortization	1,066,000			
Capital expenditures, net	1,969,000			
Developmental Operations				
Operating revenue				
Operating loss	(83,803,000)	(6,565,000)	(5,006,000)	
Identifiable assets	521,000	4,218,000		
Depreciation and amortization	384,000			
Capital expenditures, net	664,000			
Corporate and Other				
Operating revenue	6,743,000	1,408,000	13,316,000	10,014,000
Operating income (loss)	(31,292,000)	(10,516,000)	(13,006,000)	(2,237,000)
Identifiable assets	85,074,000	174,080,000	177,266,000	171,956,000
Depreciation and amortization	437,000	66,000		
Capital expenditures, net	2,266,000			
Consolidated Totals				
Operating revenue	233,968,000	34,698,000	189,086,000	167,126,000
Operating income (loss)	(77,242,000)	(76,019,000)	24,199,000	42,445,000
Identifiable assets	385,910,000	428,714,000	480,373,000	378,287,000
Depreciation and amortization	6,157,000	723,000	1,349,000	864,000
Capital expenditures, net	16,443,000	7,406,000	8,044,000	719,000

Identifiable assets are those assets of the Company that are identified with the operations of each of the individual business units. Corporate assets are principally cash, securities available for sale and property and equipment. National Leisure Group's identifiable assets include \$17,607,000 of unamortized goodwill as of December 31, 1995. Wright Express' identifiable assets included unamortized goodwill of \$27,395,000, \$28,451,000 and \$28,739,000 as of December 31, 1995 and 1994 and October 31, 1994, respectively. Operating income for SafeCard for the two months ended December 31, 1994 includes a pre-tax charge of \$65,500,000 for a change in amortization periods for deferred subscriber acquisition costs. Operating revenue for the year ended October 31, 1994 for Corporate and Other includes a gain on litigation settlements of \$4,257,000.

The Company does not earn material amounts of revenue from sources outside the United States.

12. Income Taxes

As discussed in Note 1, the Company changed its method of accounting for income taxes as of November 1, 1993. The components of the provision for (benefit from) income taxes for the year ended December 31, 1995, the two months ended December 31, 1994 and the years ended October 31, 1994 and 1993 were as follows:

Year Ended December 31, 1995	Two Months Ended December 31, 1994	Year Ended October 31, ----- 1994 1993 -----	
------------------------------------	---	---	--

	2019	2018	2017	2016
Current				
Federal	\$ (15,636,000)	\$ (1,887,000)	\$ 13,032,000	\$ 15,608,000
State	(93,000)	(54,000)	272,000	101,000
	-----	-----	-----	-----
Total current	(15,729,000)	(1,941,000)	13,304,000	15,709,000
	-----	-----	-----	-----
Deferred				
Federal	(11,530,000)	(23,815,000)	(7,640,000)	(3,588,000)
State	(542,000)	(319,000)	514,000	(1,153,000)
	-----	-----	-----	-----
Total deferred	(12,072,000)	(24,134,000)	(7,126,000)	(4,741,000)
	-----	-----	-----	-----
Total	\$ (27,801,000)	\$ (26,075,000)	\$ 6,178,000	\$ 10,968,000
	=====	=====	=====	=====

	Year Ended December 31, 1995 ----	Two Months Ended December 31, 1994 ----	Year Ended October 31, 1994 ----	1993 ----
Statutory federal income tax rate	35.0%	35.0%	35.0%	34.8%
Increase (reduction) in tax rates resulting from:				
State income tax, net of federal benefit			2.1	1.2
Tax-exempt interest income	(1.7)	(.6)	(10.8)	(6.8)
Amortization of non-deductible goodwill	.5	.1		
Reversal of prior years' deferred taxes at the rates in effect at that time				(2.9)
Other	2.2	(.2)	(.8)	(.5)
	----	----	----	----
Effective tax rate	36.0%	34.3%	25.5%	25.8%
	=====	=====	=====	=====

	December 31, 1995 ----	December 31, 1994 ----	October 31, 1994 ----	November 1, 1993 ----
Deferred tax liabilities:				
Subscriber acquisition costs	\$ 47,255,000	\$ 45,915,000	\$ 71,585,000	\$ 68,391,000
Depreciation	1,312,000	432,000	549,000	382,000
	-----	-----	-----	-----
	48,567,000	46,347,000	72,134,000	68,773,000
	-----	-----	-----	-----
Deferred tax assets:				
Multi-year subscription revenues	41,928,000	36,968,000	36,226,000	29,051,000
Relocation expenses	3,439,000	3,606,000	3,749,000	3,736,000
Product abandonment and related liabilities	8,005,000			
Net operating loss carryforwards	1,347,000	1,474,000	8,217,000	
Reminder/reference subscription revenue	(2,709,000)	(3,643,000)	1,195,000	(1,945,000)
Other	5,150,000	3,946,000	1,996,000	1,829,000
	-----	-----	-----	-----
	57,160,000	42,351,000	51,383,000	32,671,000
	-----	-----	-----	-----
Net deferred tax (asset) liability	\$ (8,593,000)	\$ 3,996,000	\$ 20,751,000	\$ 36,102,000

Subscriber costs, net	\$	450,000
-----------------------	----	---------

Multi-year subscription revenues	(7,310,000)
Reminder/reference subscription revenue	1,952,000
Relocation expenses	698,000
Other	(531,000)

	\$ (4,741,000)
	=====

At December 31, 1995, the Company had \$4,298,000 of net operating loss carryforwards for tax purposes which, if unused, will expire in 2001.

13. Common Stock And Stock Options

The following table presents information for the year ended December 31, 1995, the two months ended December 31, 1994 and the years ended October 31, 1994 and 1993 with respect to options granted and outstanding as follows:

		Shares Under Option				
	Option Price Range	Outstanding at beginning of period	Granted	Canceled	Exercised	Outstanding at end of period
<hr/>						
Year ended October 31, 1993						
1979 Plan	\$ 5.875	141,040			(141,040)	
Outside Directors' Options	\$ 6.375-13.00	200,000	200,000		(100,000)	300,000
1987 Plan	\$ 5.875	348,100			(348,100)	
1989 Executive Options	\$ 5.125	980,000			(230,000)	750,000
1989 Employee Stock Option Plan	\$ 6.00	361,004		(5,333)	(102,671)	253,000
Peter & Steven J. Halmos	\$ 5.125-5.50	5,850,000		(1,950,000)		3,900,000
1991 Employee Stock Option Plan	\$ 9.00	138,000		(24,333)	(38,334)	75,333
1992 Employee Stock Option Plan	\$ 8.875		75,000	(12,500)		62,500
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		8,018,144	275,000	(1,992,166)	(960,145)	5,340,833
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<hr/>						
Year ended October 31, 1994						
Outside Directors' Options	\$ 9.00 - 13.00	300,000				300,000
1989 Executive Options	\$ 5.125	750,000			(750,000)	
1989 Employee Stock Option Plan	\$ 6.00	253,000			(234,000)	19,000
Steven J. Halmos	\$ 5.125-5.50	3,900,000			(3,900,000)	
1991 Employee Stock Option Plan	\$ 9.00	75,333		(11,667)	(36,333)	27,333
1992 Employee Stock Option Plan	\$ 8.875	62,500		(13,335)	(14,164)	35,001
1994 Long-Term Stock-Based Incentive Plan	\$ 12.625-18.375		2,315,000	(3,000)		2,312,000
Employee Stock Option Plan	\$ 16.50		42,700	(2,700)		40,000
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		5,340,833	2,357,700	(30,702)	(4,934,497)	2,733,334
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<hr/>						
<hr/>						
Two months ended December 31, 1994						
Outside Directors' Options	\$ 9.00 - 13.00	300,000				300,000
1989 Employee Stock Option Plan	\$ 6.00	19,000				19,000
1991 Employee Stock Option Plan	\$ 9.00	27,333				27,333
1992 Employee Stock Option Plan	\$ 8.875	35,001				35,001
1994 Long-Term Stock-Based Incentive Plan	\$ 12.625-18.938	2,312,000	193,500			2,505,500
Employee Stock Option Plan	\$16.50-17.50	40,000	21,500			61,500
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		2,733,334	215,000			2,948,334
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<hr/>						
Year ended December 31, 1995						
Outside Directors' Options	\$ 9.00 - 13.00	300,000				300,000
1989 Employee Stock Option Plan	\$ 6.00	19,000			(19,000)	
1991 Employee Stock Option Plan	\$ 9.00	27,333		(1,667)	(17,333)	8,333
1992 Employee Stock Option Plan	\$ 8.875	35,001		(12,501)	(12,500)	10,000
1994 Long-Term Stock-Based Incentive Plan	\$ 7.625 - 20.75	2,505,500	1,049,200	(936,000)	(1,000)	2,617,700
Employee Stock Option Plan	\$ 9.875 - 19.125	61,500	74,300	(27,500)		108,300
Directors Stock Plan	\$15.875		30,000			30,000
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		2,948,334	1,153,500	(977,668)	(49,833)	3,074,333
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

All options to purchase common shares are exercisable and no additional shares are available for granting options under each plan except as noted below.

Of the options to purchase 2,617,700 shares outstanding under the 1994 Long-Term Stock-Based Incentive Plan (as amended, the "1994 Plan"), options to purchase

655,583 shares were exercisable at December 31, 1995. A portion of the stock options outstanding under the 1994 Plan vest over time (becoming fully vested in two or four years) beginning one year from the date of grant and a portion vests based on certain stock price hurdles. Of the options to purchase 108,300 shares outstanding under the Employee Stock Option Plan, options to purchase 48,600 shares were exercisable at December 31, 1995. The options under the Employee Stock Option Plan vest one year from the date of grant.

Of the options to purchase 30,000 shares outstanding under the Directors Stock Plan, none of the options were exercisable at December 31, 1995. Sixty percent of the options, which are granted automatically upon a director's election to the Board, vest over four years beginning one year after the date of grant and forty percent of the options vest in three equal installments based on achievement of certain stock price hurdles.

In addition to the options granted under the 1994 Plan as discussed above, 15,450 shares of restricted stock have been awarded under the 1994 Plan through December 31, 1995. Of the 15,450 shares of restricted stock issued through December 31, 1995, 12,450 shares are vested and 1,000 shares of restricted stock were forfeited upon the grantee's termination of employment.

In connection with the exercise of options to purchase common stock, certain employees exchanged 94,332 and 18,134 shares of common stock in lieu of cash in 1994 and 1993, respectively. The exchanged shares are deducted from the number of shares issued upon the exercise of employee stock options for purposes of presentation in the consolidated statement of changes in stockholders' equity.

The 1994 Plan was approved by the stockholders at the 1994 Annual Meeting of Stockholders held on March 7, 1994 and amended at the 1995 Annual Meeting of Stockholders held on April 27, 1995. The 1994 Plan, as amended, provides for the award of stock options, stock appreciation rights and restricted stock covering a maximum of 3,740,000 shares. The Directors Stock Plan was approved by the stockholders at the 1995 Annual Meeting of Stockholders and provides for the automatic grant of an option to purchase 15,000 shares of the Company's common stock upon a director's initial election or appointment to the Board. Up to 105,000 shares may be issued pursuant to the Directors Stock Plan.

All stock options granted in 1995 and in prior years, except for the grants under the Employee Stock Option Plan, were administered by the Board of Directors or a committee thereof and had an exercise price based on the market price of the Company's common stock on the date of grant. The Employee Stock Option Plan is administered by a committee of Company officers who are not eligible to participate in this plan. As of December 31, 1995, 3,074,333 of the shares held in treasury were reserved for the issuance of shares under the above described stock options.

14. Transactions with Related Parties

Until his resignation as Chief Executive Officer and a director on December 19, 1992, Steven J. Halmos, SafeCard's co-founder, provided his services to SafeCard through High Plains Capital Corporation ("HPCC"), a company owned by himself and his brother, Peter Halmos, SafeCard's other co-founder. After that date, Steven J. Halmos, acting in the capacity of an Advisor on Marketing and Operational Strategy, provided services directly to SafeCard pursuant to a written agreement (as amended and restated as of April 1, 1993, the "Steven J. Halmos Agreement"). On May 26, 1994, SafeCard reached a settlement with Steven J. Halmos to terminate the Steven J. Halmos Agreement and various other agreements between SafeCard and Mr. Halmos that provided for payments to Mr. Halmos of \$2,000,000 a year through March 31, 1998. The settlement, which arose in connection with the Company's management restructuring in April 1994 and a resulting decision to cease using Mr. Halmos' services, resulted in a \$4,400,000 cash payment to Mr. Halmos and charge to 1994 earnings. Subsequent to his termination Mr. Halmos exercised options to purchase 3,900,000 shares of the Company's common stock. Stockholders' equity increased \$37,800,000 resulting from the exercise of such options and the related tax benefit (see Note 13 - Common Stock and Stock Options). In 1993, SafeCard paid Steven J. Halmos (or HPCC for Steven J. Halmos' services) a total of approximately \$2,100,000.

In 1993, SafeCard also entered into an agreement that called for Steven J. Halmos to sell the 1,645,760 shares of Company stock he owned at that time (this representing approximately 6.2% of total outstanding shares at April 1, 1993) to the Company as part of the Company's stock repurchase program. The shares were acquired by the Company on April 21, 1993 for a price of \$11.50 per share, a price equal to the average trading price of the Company's common stock over a

specific period of days following public disclosure of the repurchase.

SafeCard markets its CreditLine product pursuant to an agreement (as amended, the "CreditLine Agreement") with CreditLine Corporation ("CLC"), a corporation owned by Steven J. Halmos and Peter Halmos, SafeCard's co-founders, and their families. The CreditLine Agreement grants SafeCard an exclusive license to market CreditLine through certain credit card issuers (including all issuers with which SafeCard has contractual relationships) and provides that profits and losses, if any, are shared equally between CLC and SafeCard. Net CreditLine billings to subscribers totaled approximately \$30,710,000, \$7,000,000, \$22,900,000 and \$15,800,000 while marketing and other expenditures totaled \$23,488,000, \$3,060,000, \$17,400,000 and \$13,400,000 for the year ended December 31, 1995, the two months ended December 31, 1994 and the years ended October 31, 1994 and 1993, respectively. In June 1993, SafeCard was notified by CLC that the CreditLine Agreement would not be renewed effective November 1, 1993.

Notwithstanding its termination, the CreditLine Agreement gives SafeCard the perpetual right to continue to service existing CreditLine subscribers and to participate in the resulting income. In addition, an amendment to the CreditLine Agreement provides that SafeCard has the perpetual right to market CreditLine, and participate in the resulting income, through all of its existing card issuer clients with which it either had a CreditLine marketing agreement on November 1, 1993 or entered into such a marketing agreement within the following three years. The CreditLine Agreement is the subject of litigation as described in Note 16 Commitments and Contingencies.

In 1995, CreditLine and certain services marketed in conjunction with CreditLine accounted for approximately \$14,506,000 or 7.7% of the Company's subscription revenue and generated approximately \$4,728,000 of pre-tax income. During the Transition Period, CreditLine and related services accounted for approximately \$1,913,000 or 6.3% of the Company's subscription revenue and generated approximately \$702,000 of pre-tax income. In 1994, such services accounted for approximately \$9,100,000 or 5.3% of the Company's subscription revenue and approximately \$2,800,000 or 11.6% of the Company's pre-tax income. In 1993, such services accounted for approximately \$6,500,000 or 4.2% and \$1,900,000 or 4.5% of the Company's subscription revenue and pre-tax income, respectively.

The CreditLine Agreement provides for the creation of an escrow in the case of certain disputes between the parties. Effective September 1993, SafeCard began depositing CLC's share of CreditLine profits into escrow. Through December 31, 1995, SafeCard has also deposited approximately \$4,265,000 of its share of the CreditLine profits in an escrow account. The Company's cash and cash equivalents include only SafeCard's share of the escrowed amounts.

SafeCard made payments under the Ft. Lauderdale Lease to a partnership consisting of Peter Halmos and Steven J. Halmos (the "Halmos Partnership"). Payments made to the Halmos Partnership for the year ended October 31, 1993 for the land and building, were approximately \$700,000. No payments were made to the Halmos Partnership in 1994 or 1995. SafeCard no longer occupies the operations center and is no longer making payments on the Ft. Lauderdale Lease which is now the subject of litigation (see Note 16 Commitments and Contingencies).

In October 1993, the Company renewed a consulting agreement with the Dilenschneider Group, Inc. ("DGI") to provide public relations counsel and advice to the Company in 1994 for an annual retainer of \$180,000. A director of the Company is the majority owner and chief executive officer of DGI. In October 1994, the Company entered into an agreement with DGI for public affairs and public relations assistance during 1995 for an annual retainer of \$100,000. These consulting arrangements have not been renewed for 1996.

During 1994, DGI consulted on and assisted with investor relations for a monthly fee of \$12,500. In addition, another director of the Company provided investor relations consulting services to the Company during 1994 for a monthly retainer of \$4,167. These consulting arrangements were terminated effective October 31, 1994.

In September 1994, the Company acquired Wright Express. The Company's former Chairman and Chief Executive Officer, Paul G. Kahn, was a director of Wright Express prior to the acquisition. During negotiations between the Company and Wright Express, Mr. Kahn did not attend any meetings or participate in any discussions of the Board of Directors of Wright Express and abstained from voting on the acquisition by the Company's Board of Directors.

15. Employee Benefit Plans

In June 1993, the Company implemented a 401(k) and Profit-Sharing Plan for its employees who are at least 20 years of age, have worked at least 1,000 hours in the past year and have completed one year of service. The Company matches 50% of each employee's contribution, up to a maximum of 6% of each employee's salary. Company contributions vest at a rate of 20% per year after one year of service while participating in the plan. Continuation of, and contributions to, the 401(k) and Profit-Sharing Plan are voluntary, at the discretion of the Company and are paid to each eligible employee's account. The total expense recorded under the plan in 1995, the Transition Period, 1994 and 1993 was approximately \$686,000, \$16,000, \$385,000 and \$240,000, respectively.

Wright Express maintains a separate 401(k) and Profit-Sharing Plan that has been modified to mirror the benefits and conditions of the Company's plan. The total expense recorded under the plan in 1995 and the Transition Period was approximately \$5,000 and \$1,000, respectively.

National Leisure Group maintains a separate 401(k) and Profit-Sharing Plan for its employees who are considered full-time and have completed six months of service. National Leisure Group matches 25% of the each employee's contribution, up to a maximum of 4% of each employee's salary. Continuation of, and contributions to, the plan are voluntary, at the discretion of management and are paid to each eligible employee's account. The total expense recorded under the plan in 1995 was approximately \$30,000.

16. Commitments and Contingencies

Contracts

The Company has written agreements with certain large credit card issuers which account for a large percentage of its subscription revenue. Termination of any of these contracts would adversely affect the Company. Contracts with Citibank (South Dakota), N.A. and related entities contributed 22%, 24%, 26% and 30% of the Company's consolidated revenue in 1995, the Transition Period, 1994 and 1993, respectively. Citibank contributed 30%, 30%, 32% and 36% of the Company's consolidated membership and subscription revenue during the same periods. The principal Citibank contract, as amended, expires December 31, 2000. Citibank has a right to terminate the contract in the event of the sale of a majority of the shares of the Company to specified credit card issuers, to banks and their corporate affiliates and to entities that do not have equity of at least \$25,000,000.

Contracts with Sears, Roebuck and Co. contributed approximately 10% to the Company's consolidated revenue in 1995, the Transition Period, 1994 and 1993. Sears contributed 13%, 12%, 13% and 12% of the Company's consolidated membership and subscription revenue during the same periods. SafeCard has signed a letter of intent for a new five-year cooperative business relationship with Sears. The new contract will be effective on January 1, 1996 and is expected to be executed shortly.

Leases

The Company has entered into several operating leases for certain computer and telephone equipment and facilities in the normal course of business. Rent expense for 1995, the Transition Period and 1994 was \$5,535,000, \$452,000 and \$283,000, respectively. There was no material rental expense for 1993. The following is a schedule of future minimum rental payments required under operating leases having initial or remaining non-cancelable lease terms in excess of one year at December 31, 1995:

1996	\$ 4,523,000
1997	4,329,000
1998	2,848,000
1999	1,448,000
2000	784,000
Thereafter	2,241,000

	\$ 16,173,000
	=====

Legal Matters

The Company is defending or prosecuting claims in thirteen complex lawsuits, twelve of which involve Peter Halmos, former Chairman of the Board and Executive Management Consultant to SafeCard, and various parties related to him as adversaries. Peter Halmos is also a plaintiff in three other lawsuits, one against a former officer, one against a director of the Company and one against SafeCard's outside counsel, in which neither SafeCard nor the Company have been named as defendant. The thirteen cases in which the Company or its subsidiaries is a party are as follows:

A suit initiated by Peter Halmos, related entities, and Myron Cherry (a former lawyer for SafeCard) in April 1993 in Cook County Circuit Court in Illinois against SafeCard and one of the Company's directors, purporting to state claims aggregating in excess of \$100 million, principally relating to alleged rights to "incentive compensation," stock options or their equivalent, indemnification, wrongful termination and defamation. SafeCard and the director moved to dismiss this lawsuit. In November 1993, the court granted the motions to dismiss all parts of the complaint, but gave the plaintiffs leave to replead, which they did. Again in March 1994, the court granted the motions to dismiss all of the complaints but permitted the plaintiffs to replead which they did in June 1994. On February 7, 1995, the court dismissed with prejudice Peter Halmos' claims regarding alleged rights to "incentive compensation," stock options or their equivalent, wrongful termination and defamation. Mr. Halmos has appealed this ruling; the initial brief, the answer brief and the reply brief have been filed. No date for oral argument has been set. SafeCard has filed an answer to the remaining indemnification claims. Its obligation to file an answer to the claims of Myron Cherry have been stayed pending settlement discussions.

A suit by Peter Halmos, purportedly in the name of Halmos Trading & Investment Company, seeking monetary damages and specific performance against SafeCard, one of its former officers and one of the Company's directors in Circuit Court in Broward County, Florida, making a variety of claims related to the contested lease of SafeCard's former Ft. Lauderdale headquarters. SafeCard has vacated the building, ceased making payments related to the Ft. Lauderdale lease and has filed counterclaims. In May 1994, the court dismissed Peter Halmos' amended counterclaim for breach of contract for indemnity and intentional infliction of emotional distress but gave leave to amend. In June 1994, Peter Halmos filed a second amended counterclaim purporting to state claims for intentional infliction of emotional distress, fraud and negligent misrepresentation and declaratory judgment based on alleged breach of contract for indemnity or, in the alternative, promissory estoppel, related to indemnification of legal expenses in this lawsuit. In January 1995, Peter Halmos filed a third amended counterclaim which was identical in all material respects to the second amended counterclaim. On January 17, 1995, SafeCard filed its answer to the third amended counterclaim. On October 30, 1995, the court dismissed Peter Halmos' claims against the Company for fraudulent misrepresentation and specific performance and dismissed all claims against the Company's director. Halmos also dismissed without prejudice his emotional distress claim, severed his indemnification claims and dismissed with prejudice his claim against the former officer. Trial of the lawsuit began February 26, 1996.

A suit which seeks monetary damages and certain equitable relief filed by SafeCard in August 1993 in Laramie County Circuit Court in Wyoming against Peter Halmos and related entities alleging that Peter Halmos dominated and controlled SafeCard, breached his fiduciary duties to SafeCard, and misappropriated material non-public information to make \$48 million in profits on sales of SafeCard stock. In March 1994, Mr. Halmos and related entities filed a counterclaim in which claims were made of conspiracy in restraint of trade, monopolization and attempted monopolization, unfair competition and restraint of trade, breach of contract for indemnity and intentional infliction of emotional distress. SafeCard's motion to sever the conspiracy, monopolization and restraint of trade claims was granted in May 1994. The claims for the conspiracy, monopolization, restraint of trade and unfair competition were dismissed without prejudice in June 1994. On April 12, 1995, the trial court granted the motion of Mr. Halmos and certain related entities to amend their counterclaims. The amended counterclaims include claims for indemnification for legal expenses incurred in the action and a claim that SafeCard's contract with CreditLine should be rescinded. On April 19, 1995, the trial court granted Mr. Halmos' motion for summary judgment that certain of SafeCard's claims against him were barred by the statute of limitations. On March 14, 1996, the Wyoming Supreme Court reversed the trial court's ruling that certain of SafeCard's

claims were barred by the statute of limitations.

A suit seeking monetary damages by Peter Halmos, purportedly in his name and in the name of CreditLine Corporation and Continuity Marketing Corporation against SafeCard, one of its officers and three of the Company's directors in United States District Court in the Southern District of Florida, in September 1994 purporting to state various tort claims, state and federal antitrust claims and claims of copyright infringement. The claims principally relate to the allegation by Peter Halmos and his companies that SafeCard has taken action to prevent him from being a successful competitor. On December 9, 1994, SafeCard, its officer and the Company's directors moved to dismiss the lawsuit. On March 8, 1995, the court granted Mr. Halmos' motion to file a second amended complaint. On March 28, 1995, SafeCard, its officer and the Company's directors again moved to dismiss the lawsuit. All discovery in the case has been stayed pending a ruling on the motion to dismiss. On August 16, 1995, the United States Magistrate Judge filed a Report and Recommendation that the case be dismissed. The parties have filed various briefs and memoranda in response to this Report. On January 4, 1996, the Magistrate recommended ruling that the statute of limitations was tolled during pendency of the case in federal court and the plaintiffs' state law claims were thus not time-barred. Defendants have filed an objection to this recommendation.

A suit seeking monetary damages by Peter Halmos, as trustee for the Peter A. Halmos revocable trust dated January 24, 1990 and the Halmos Foundation, Inc., individually and James L. Binder as custodian for Elizabeth Binder; Edward Dubois; Sheila Ann Dubois, as personal representative of the Estate of Winifred Dubois; G. Neal Goolsby, John E. Masters, individually and as custodian for Gregory Halmos and Nicholas Halmos; and J.B. McKinney on behalf of themselves and all others similarly situated against SafeCard, one of its officers, one of its former officers and three of the Company's directors in the United States District Court for the Southern District of Florida in December 1994. This litigation involves claims by a putative class of sellers of SafeCard stock for the period January 11, 1993 through December 8, 1994 for alleged violations of the federal and states securities laws in connection with alleged improprieties in SafeCard's investor relations program. The complaint also includes individual claims made by Peter Halmos in connection with the sale of stock by the two trusts controlled by him. The Complaint was amended on September 13, 1995 to join James L. Binder individually and as custodian for the James L. Binder, D.D.S., P.C. Profit Sharing Trust II. SafeCard and the individual defendants have filed a motion to dismiss. There has been limited discovery on class certification and identification of "John Doe" defendant issues. The Company filed its opposition to the pending motion for class certification on December 11, 1995. Plaintiffs' reply is due March 19, 1996.

A suit seeking monetary damages and injunctive relief by LifeFax, Inc. and Continuity Marketing Corporation, companies affiliated with Peter Halmos, in the State Circuit Court in Palm Beach County, Florida in April 1995 against the Company, Family Protection Network, Inc., SafeCard, one of the Company's directors and the Company's Chief Executive Officer purporting to state various statutory and tort claims. The claims principally relate to the allegation by these companies that SafeCard's Early Warning Service and Family Protection Network were conceived and commercialized by, among others, Peter Halmos and have been improperly copied. An amended complaint filed on June 14, 1995 seeking monetary damages adds to the prior claims certain claims by Nicholas Rubino that principally relate to the allegation that SafeCard's Pet Registration Product was conceived by Mr. Rubino and has been improperly copied. The Company and the individual defendants filed a motion to dismiss the amended complaint. A hearing was held on the motion to dismiss on October 13, 1995. On November 27, 1995, the Court entered an Order denying the Company's motion to dismiss. On December 12, 1995 the defendants filed their Answer and Affirmative Defenses to the Amended Complaint. Preliminary discovery is proceeding.

A suit seeking monetary damages and declaratory relief by Peter Halmos, individually and as trustee for the Peter A. Halmos Revocable Trust dated January 24, 1990 and by James B. Chambers, individually and on behalf of himself and all others similarly situated against the Company, SafeCard, each of the members of the Company's Board of Directors, three non-board member officers of the Company, the Company's outside auditor and one of the Company's outside counsel in the United States District Court for the

Southern District of Florida in June 1995. The litigation involves claims by a putative class of purchasers of the Company stock between December 14, 1994 and May 25, 1995 and on behalf of a separate class of all record holders of SafeCard stock as of April 27, 1995. The putative class claims are for alleged violations of the federal securities laws, for alleged breach of fiduciary duty and alleged negligence in connection with certain matters voted on at the Annual Meeting of SafeCard stockholders held on April 27, 1995. The Company and the individual defendants have filed a motion to dismiss these claims. There has been limited discovery on class certification issues. The Company filed its opposition to the pending motion for class certification on December 11, 1995. Plaintiffs' reply is due March 19, 1996.

A purported shareholder derivative action initiated by Michael P. Pisano, on behalf of himself and other stockholders of SafeCard and Ideon Group, Inc. against SafeCard, Ideon Group Inc., two of their officers, and the Company's directors in United States District Court, Southern District of Florida. This litigation involves claims that the officers and directors of SafeCard have improperly refused to accede Peter Halmos' litigation and indemnification demands against the Company. The Company and the individual defendants have filed motions to dismiss the first amended complaint. On September 29, 1995, Pisano filed a second amended complaint which made additional allegations of waste and mismanagement against the Company's officers and directors in connection with the Family Protection Network and PGA Tour Partners products. On December 26, 1995, the Company filed motions to dismiss the Second Amended Complaint for: (i) failure to join an indispensable party (Halmos) and failure to allege demand on the Board of Directors with particularity; and (ii) the failure of Pisano to comply with the fairness and adequacy requirements of Federal Rule of Civil Procedure 23.1. On January 25, 1996, the plaintiff filed a memorandum in opposition to motion to dismiss. The Company filed its reply to the memorandum in opposition on February 23, 1996.

A suit seeking monetary damages filed by Peter Halmos against SafeCard, one of its directors, its former general counsel, and its legal counsel in the Circuit Court, Fifteenth Judicial Circuit, in and for Palm Beach County, Florida on August 10, 1995. This litigation involves claims by Peter Halmos for breach of fiduciary duty and constructive fraud, fraud, and negligent misrepresentation and is based on allegations arising out of the resolution of a shareholder class action lawsuit in 1991 and SafeCard's subsequent filing of an action against Halmos and his related companies in Wyoming in 1993. Safe-Card has filed a motion to dismiss which has been set for hearing on March 29, 1996.

A suit by Lois Hekker on behalf of herself and all others similarly situated seeking monetary damages against the Company and its former Chief Executive Officer in the United States District Court for the Middle District of Florida on July 28, 1995. The litigation involves claims by a putative class of purchasers of the Company's stock for the period April 25, 1995 through May 25, 1995 for alleged violation of the federal securities laws in connection with statements made about the Company's business and financial performance. Defendants filed a motion to dismiss on October 2, 1995. On January 3, 1996, the court stayed all merits discovery pending rulings on the motion to dismiss and on the plaintiff's motion for class certification.

A declaratory judgment action by the Company and its directors against Peter Halmos in Delaware Chancery Court, New Castle County. This action seeks a declaration regarding the Company's advance indemnification obligations, if any, to Peter Halmos who has made numerous advance indemnification demands on the Company in connection with his many lawsuits. Halmos filed a motion to dismiss on jurisdictional grounds on November 17, 1995. The Company filed a brief in opposition and an amended complaint on February 14, 1996. Defendant's response is due March 21, 1996.

A suit by High Plains Capital Corporation against the Company, SafeCard, two of its directors and The Dilenschneider Group, Inc. in Circuit Court in Palm Beach County, Florida. This litigation involves claims by High Plains Capital Corporation, a corporation with which Peter Halmos is affiliated, for certain incentive compensation arising out of Halmos' affiliation with SafeCard. The Complaint includes claims for breach of written agreements regarding additional services and expenses, an alternative claim for quantum meruit based on written agreement and a count for tortious interference with advantageous business relationship. The Complaint appears

to attempt to revive the incentive compensation claims which have been dismissed with prejudice in Illinois. On November 30, 1995, the Company filed a motion to strike, motion to dismiss and motion to transfer. Hearings have been set on the motion to dismiss on March 29, 1996, and on the motion to strike on April 4, 1996.

A suit filed by High Plains Capital Corporation against the Company and SafeCard in Circuit Court in Broward County, Florida. This litigation involves claims by High Plains Capital Corporation, a corporation with which Peter Halmos is affiliated, for alleged breach of oral contract, alleged violation of Florida's Uniform Trade Secrets Act, alleged misappropriation of trade secrets and for declaration that certain alleged trade secrets are the property of High Plains Capital Corporation. The Company filed motions to dismiss and to transfer on December 15, 1995.

The Company is involved in certain other claims and litigation, including various employment related claims, arising from the ordinary course of business and which are not considered material to the operations of the Company.

The Company believes that it has proper and meritorious claims and defenses in these lawsuits which it intends to vigorously pursue. Resolution of any or all of these litigation matters could have a material impact (either favorable or unfavorable depending on the outcome) upon the Company's operations, liquidity and financial condition.

17. Statement Of Cash Flows

The following is a reconciliation of net income (loss) to net cash provided by (used in) operating activities:

	Year Ended December 31, 1995 ----	Two Months Ended December 31, 1994 ----	Year Ended October 31, 1994 ----	1993 ----
Net (loss) income	\$ (49,441,000)	\$ (49,944,000)	\$ 20,021,000	\$ 31,477,000
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:				
Depreciation and amortization	6,157,000	723,000	1,349,000	864,000
Cumulative effect of change in accounting for income taxes			(2,000,000)	
Amortization of investment premiums/discounts, net	1,701,000	802,000	5,281,000	5,233,000
Realized (gain) loss on sales of securities available for sale	(1,094,000)	97,000	(593,000)	(1,277,000)
Unrealized loss on marketable securities		1,943,000		
Loss on impairment of assets	7,569,000			
Income tax (benefit) provision	(27,801,000)	(26,075,000)	6,178,000	10,968,000
Income tax (refunds) payments, net	11,047,000	(7,000)	3,237,000	(16,161,000)
Billings to subscribers, net	185,297,000	43,886,000	189,925,000	173,769,000
Amortization of subscribers' advance payments to revenue	(187,758,000)	(30,375,000)	(173,434,000)	(156,600,000)
Effect of change in amortization periods for deferred subscriber acquisition costs		65,500,000		
Expenditures for subscriber acquisition costs	(68,948,000)	(8,792,000)	(68,029,000)	(63,717,000)
Payment of commissions, net	(51,566,000)	(11,794,000)	(52,412,000)	(49,511,000)
Amortization of subscriber acquisition costs	67,799,000	10,001,000	56,236,000	51,075,000
Amortization of commissions	53,079,000	8,565,000	49,745,000	44,173,000
Increase (decrease) in allowance for cancellations	351,000	1,541,000	(1,237,000)	1,306,000
Changes in assets and liabilities, net of effects of business acquisitions:				
Receivables, net	(12,321,000)	(15,888,000)	4,070,000	(877,000)
Other current assets	117,000			
Other assets	(6,076,000)	(3,020,000)	(1,137,000)	582,000
Accounts payable and accrued expenses	(4,427,000)	8,085,000	9,846,000	(2,459,000)
Product abandonment and related liabilities	20,796,000			
Net cash (used in) provided by operating activities	\$ (55,519,000)	\$ (4,752,000)	\$ 47,046,000	\$ 28,845,000

18. Unaudited Quarterly Financial Data

1995 -----	Quarters Ended			
	March 31 -----	June 30 -----	September 30 -----	December 31 -----
Operating revenue	\$ 59,728,000	\$ 57,732,000	\$ 57,543,000	\$ 58,965,000
Operating income (loss)	429,000	(72,881,000)	(12,152,000)	7,362,000
Net income (loss) (A)	301,000	(46,670,000)	(7,778,000)	4,706,000
Net income (loss) per share (A)	\$.01	\$ (1.62)	\$ (.28)	\$.17
Weighted average number of common and common equivalent shares	29,870,000	28,860,000	28,222,000	27,986,000
Subscribers at period end	13,024,000	13,139,000	13,174,000	13,172,000

Transition Period - 1994 -----	Two Months Ended December 31 -----	
Operating revenue	\$ 34,698,000	
Operating income (loss)	(76,019,000)	
Net income (loss) (B)	(49,944,000)	
Net income (loss) per share (B)	\$ (1.70)	
Weighted average number of common and common equivalent shares	29,297,000	
Subscribers at period end	13,046,000	

1994 -----	Quarters Ended			
	January 31 -----	April 30 -----	July 31 -----	October 31 -----
Operating revenue	\$ 43,694,000	\$ 49,313,000	\$ 46,415,000	\$ 49,664,000
Operating income (loss)	9,153,000	5,260,000	8,278,000	1,508,000
Net income (loss) (C)	8,444,000	3,804,000	6,635,000	1,138,000
Income (loss) per share before cumulative effect of change in accounting for income taxes	\$.24	\$.14	\$.23	\$.04
Net income (loss) per share (C)	\$.31	\$.14	\$.23	\$.04
Weighted average number of common and common equivalent shares	27,608,000	27,761,000	28,768,000	29,229,000
Subscribers at period end	12,229,000	12,635,000	12,876,000	13,105,000

- (A) During the second and third quarters of 1995, the Company recorded pre-tax product abandonment and restructuring charges of \$34,156,000 and \$10,861,000, respectively, related to the abandonment of certain new product developmental efforts and the related impairment of certain assets and the restructuring of SafeCard and the corporate infrastructure. During the fourth quarter of 1995, the Company recovered \$1,200,000 relating to a deposit previously written off in connection with the second quarter product abandonment.
- (B) During the Transition Period, the Company recorded a pre-tax charge of \$65,500,000 related to the change in the amortization periods for subscriber acquisition costs.
- (C) The first quarter of 1994 includes a \$2,000,000 (\$.07 per share) positive effect on net earnings from a change in the Company's method of accounting for income taxes.

SIGNATURE

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

CUC INTERNATIONAL INC.
(Company)

Date: September 16, 1996

By: /s/ Cosmo Corigliano

Name: Cosmo Corigliano

Title: Senior Vice President
and Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description	Page
23.1	Consent of Ernst & Young LLP.	
23.2	Consent of Deloitte & Touche LLP.	
23.3	Consent of Deloitte & Touche LLP.	
23.4	Consent of Price Waterhouse LLP.	
23.5	Consent of KPMG Peat Marwick LLP.	
27	Financial Data Schedule.	
99.1	Supplemental Consolidated Financial Statements of CUC International Inc. for the fiscal year ended January 31, 1996 (as restated to reflect the acquisitions of Sierra On-Line, Inc. on July 24, 1996, Davidson & Associates Inc. on July 24, 1996 and Ideon Group, Inc. on August 7, 1996).	
99.2	Supplemental Interim Consolidated Financial Statements of CUC International Inc. for the three month period ended April 30, 1996 and for the six month period ended July 31, 1996 (as restated to reflect the acquisitions of Sierra On-Line, Inc. on July 24, 1996, Davidson & Associates, Inc. on July 24, 1996 and Ideon Group Inc. on August 7, 1996).	
99.3	Selected Supplemental Consolidated Financial Data of CUC International Inc. (as restated to reflect the acquisitions of Sierra On-Line Inc. on July 24, 1996, Davidson & Associates, Inc. on July 24, 1996 and Ideon Group, Inc. on August 7, 1996).	
99.4	Supplemental Management's Discussion and Analysis of Financial Condition and Results of Operations of CUC International Inc. (as restated to reflect the acquisitions of Sierra On-Line, Inc. on July 24, 1996, Davidson & Associates, Inc. on July 24, 1996 and Ideon Group, Inc. on August 7,	

1996) .

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8s: Numbers 33-17247, 33-17248, 33-17249, 33-26875, 33-75682, 33-93322, 33-41823, 33-48175, 33-58896, 33-91656, 333-03241, 33-74068, 33-74066, 33-91658, 333-00475, 333-03237, 33-75684, 33-80834, 33-93372, 333-09633, 333-09637, and 333-09655) 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 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. 1994 Employee Stock Purchase Plan as amended, the CUC International Inc. Savings Incentive Plan, the CUC International Inc. 1994 Directors Stock Option Plan, the Sierra On-Line, Inc. 1987 Stock Option Plan, the Sierra On-Line, Inc. 1995 Stock Option and Award Plan, and the Papyrus Design Group Inc. 1992 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 Statements (Form S-4s: Numbers 33-64801, 333-06627, 333-06559 and 333-07171) and in the related Prospectuses of our report dated September 12, 1996, with respect to the supplemental consolidated financial statements of CUC International Inc. included in its Current Report on Form 8-K dated July 24, 1996 filed with the Securities and Exchange Commission.

ERNST & YOUNG LLP

Stamford, Connecticut
September 12, 1996

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements Nos. 33-17247, 33-17248, 33-17249, 33-26875, 33-75682, 33-93322, 33-41823, 33-48175, 33-58896, 33-91656, 333-03241, 33-74068, 33-74066, 33-91658, 333-00475, 333-03237, 33-75684, 33-80834, 33-93372, 333-09633, 333-09637, and 333-09655 of CUC International Inc. on Forms S-8 and in Registration Statements Nos. 33-30306, 33-47271, 33-58598, 33-63237, and 33-95126 of CUC International Inc. of Forms S-3 and in Registration Statements Nos. 33-64801, 333-06627, 333-06559, and 333-07171 of CUC International Inc. on Forms S-4 of our report dated June 24, 1996 on the consolidated financial statements of Sierra On-Line, Inc. and subsidiaries for the year ended March 31, 1996 appearing in this Current Report on Form 8-K of CUC International Inc. (filed with the Securities and Exchange Commission on or about September 12, 1996).

DELOITTE & TOUCHE LLP
Seattle, Washington

September 12, 1996

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements Nos. 33-17247, 33-17248, 33-17249, 33-26875, 33-75682, 33-93322, 33-41823, 33-48175, 33-58896, 33-91656, 333-03241, 33-74068, 33-74066, 33-91658, 333-00475, 333-03237, 33-75684, 33-80834, 33-93372, 333-09633, 333-09637, and 333-09655 of CUC International Inc. on Form S-8 and in Registration Statements Nos. 33-30306, 33-47271, 33-58598, 33-63237, 33-95126 of CUC International Inc. on Form S-3 of CUC International Inc. and in Registration Statements Nos. 33-64801, 333-06627, 333-06559, and 333-07171 of CUC International Inc. on Form S-4 of our report dated March 13, 1995 (relating to the financial statements of Advance Ross Corporation as of December 31, 1994 and for the years ended December 31, 1994 and 1993, not presented separately herein) appearing in this Current Report on Form 8-K of CUC International Inc. (filed with the Securities and Exchange Commission on or about September 12, 1996).

DELOITTE & TOUCHE LLP

Chicago, Illinois

September 11, 1996

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We hereby 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, 333-03241, 33-74068, 33-74066, 33-91658, 333-00475, 333-03237, 33-75684, 33-80834, 33-93372, 333-09633, 333-09637, and 333-09655) 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 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. Employee Stock Purchase Plan as amended, the CUC International Inc. Savings Incentive Plan, the CUC International Inc. 1994 Directors Stock Option Plan, the Sierra On-Line, Inc. 1987 Stock Option Plan, the Sierra On-Line, Inc. 1995 Stock Option and Award Plan and the Papyrus Design Group Inc. 1992 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 Statements (Form S-4s: Numbers 33-64801, 333-06627, 333-06559, and 333-07171) of our reports dated February 2, 1996 and December 5, 1994 related to the consolidated financial statements of Ideon Group, Inc. which appears in the Current Report on Form 8-K of CUC International Inc. filed with the Securities and Exchange Commission on or about September 12, 1996.

PRICE WATERHOUSE LLP
Tampa, Florida

September 12, 1996

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8s: Numbers 33-17247, 33-17248, 33-17249, 33-26875, 33-75682, 33-93322, 33-41823, 33-48175, 33-58896, 33-91656, 33-03241, 33-74068, 33-74066, 33-91658, 333-00475, 333-03237, 33-75684, 33-80834, 33-93372, 333-09633, 333-09637, and 333-09655) pertaining to the CUC International Inc. Employee Stock Purchase Plan, 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. 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 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. Employee Stock Purchase Plan as amended, the CUC International Inc. Savings Incentive Plan, the CUC International Inc. 1994 Directors Stock Option Plan, the Sierra On-Line, Inc. 1987 Stock Option Plan, the Sierra On-Line, Inc. 1995 Stock Option and Award Plan and the Papyrus Design Group, Inc. 1992 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 Statements (Form S-4s: Numbers 33-64801, 333-06627, 333-06559 and 333-07171) and in the related Prospectuses of our report dated February 21, 1996, with respect to the consolidated balance sheets of Davidson & Associates, Inc., and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1995, which report appears in the Form 8-K of CUC International Inc. dated July 24, 1996 filed with the Securities and Exchange Commission.

KPMG PEAT MARWICK LLP

Long Beach, California
September 12, 1996

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CUC International Inc. and Subsidiaries

Exhibit 99.1--Supplemental Consolidated Financial Statements

January 31, 1996 and 1995

Report of Independent Auditors

Board of Directors and Shareholders
CUC International Inc.

We have audited the accompanying supplemental consolidated balance sheets of CUC International Inc. ("CUC") as of January 31, 1996 and 1995, and the related supplemental consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended January 31, 1996. The supplemental consolidated financial statements give retroactive effect to the mergers of CUC and Davidson & Associates, Inc. ("Davidson") on July 24, 1996, CUC and Sierra On-Line, Inc. ("Sierra") on July 24, 1996 and CUC and Ideon Group, Inc. ("Ideon") on August 7, 1996, which have been accounted for using the pooling of interests method as described in the notes to the supplemental consolidated financial statements. These supplemental financial statements are the responsibility of the management of CUC. Our responsibility is to express an opinion on these supplemental financial statements based on our audits. We did not audit the financial statements of Advance Ross Corporation ("Advance Ross"), a wholly-owned subsidiary, as of December 31, 1994 and for the years ended December 31, 1994 and 1993, Davidson as of December 31, 1995 and 1994 and for each of the three years in the period ended in December 31, 1995, Sierra as of March 31, 1996 and 1995 and for each of the three years in the period ended March 31, 1996 and Ideon as of December 31, 1995 and October 31, 1994, and for the year ended December 31, 1995 and for the years ended October 31, 1994 and 1993. Effective January 1, 1995, Ideon changed its fiscal year end from October 31 to December 31 (the "Ideon Transition Period"). We also did not audit the statement of operations for the Ideon Transition Period which includes a loss of \$49.9 million included as a charge to retained earnings in 1996 supplemental consolidated financial statements. These financial statements reflect total assets constituting 31.5% for 1996 and 41.9% for 1995 of the related supplemental consolidated financial statements totals and reflect total revenues constituting 27.6%, 28.2% and 26.9% of the related supplemental consolidated financial statements totals for the years ended January 31, 1996, 1995 and 1994, respectively, and were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to Advance Ross, Davidson, Sierra and Ideon for the periods indicated above, is based solely on the reports of 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 reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the reports of other auditors referred to above, the supplemental financial statements referred to above present fairly, in all material respects, the consolidated financial position of CUC 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 after giving retroactive effect to the mergers of Davidson, Sierra, and Ideon, as described in the notes to the supplemental consolidated financial statements, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Stamford, Connecticut

September 12, 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

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders
of SafeCard Services, Inc.

In our opinion, the consolidated balance sheet (not included herein) presents fairly, in all material respects, the financial position of SafeCard Services, Inc. and its subsidiaries at October 31, 1994, in conformity with generally accepted accounting principles. 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 of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 14 to the consolidated financial statements, the Company's former Executive Management Consultant has asserted certain claims against the Company. The ultimate outcome of these claims cannot presently be determined.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" in November 1993.

PRICE WATERHOUSE LLP
Tampa, Florida
December 5, 1994

CUC International Inc. and Subsidiaries
Supplemental Consolidated Balance Sheets
(Dollar amounts in thousands)

	January 31	
	1996	1995
Assets		
Current assets:		
Cash and cash equivalents	\$ 333,036	\$ 281,019
Marketable securities	97,164	101,108
Receivables, less allowances of \$39,051 and \$23,964	463,492	306,908
Prepaid membership materials	39,061	33,268
Prepaid expenses, deferred income taxes, and other	158,523	94,716
Total current assets	1,091,276	817,019
Marketable securities	13,328	127,363
Membership solicitations in process	60,713	45,636
Deferred membership acquisition costs	404,655	411,113
Contract renewal rights, net	38,845	45,207
Excess of cost over net assets acquired, net	293,961	204,484
Properties, net	113,353	75,364
Deferred income taxes and other	52,065	45,936
Total assets	\$2,068,196	\$1,772,122
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable, accrued expenses and other current liabilities	\$ 296,048	\$ 244,809
Federal and state income taxes	35,957	48,214
Total current liabilities	332,005	293,023
Deferred membership income	682,823	584,155
Convertible debt (net of unamortized original issue discount of \$586 and \$1,066)	23,389	34,634
Zero coupon convertible notes (net of unamortized original issue discount of \$588 and \$2,507)	14,410	15,046
Other	13,046	19,181
Commitments and contingencies (Note I)		
Shareholders' equity:		
Common stock--par value \$.01 per share; authorized 400 million shares; issued 257,207,225 shares and 249,348,821 shares	2,572	2,493
Additional paid-in capital	429,934	318,764
Retained earnings	602,678	520,934
Treasury stock, at cost, 3,410,631 shares and 2,757,894 shares	(30,998)	(10,505)
Unearned ESOP	-	(1,758)
Unrealized gain (loss) on marketable securities	593	(748)
Foreign currency translation adjustment	(2,256)	(3,097)
Total shareholders' equity	1,002,523	826,083
Total liabilities and shareholders' equity	\$2,068,196	\$1,772,122

See accompanying notes.

CUC International Inc. and Subsidiaries
Supplemental Consolidated Statements of Income
(Dollar amounts in thousands, except per common share amounts)

	Year ended January 31,		
	1996	1995	1994
Revenues			
Membership, service fees and other	\$1,629,829	\$1,363,561	\$1,143,191
Software	305,403	191,050	135,473
Total revenue	1,935,232	1,554,611	1,278,664

Expenses			
Operating	593,508	474,126	368,825
Marketing	737,440	618,330	514,634
General and administrative	281,628	223,010	195,041
Costs related to products abandoned and restructuring	97,029	7,900	-
Gain on sale of ImagiNation Network	-	(19,739)	-
Equity in loss from ImagiNation Network	-	1,990	5,066
Interest income, net	(9,685)	(7,937)	(3,221)
Total expenses	1,699,920	1,297,680	1,080,345
Income before income taxes	235,312	256,931	198,319
Provision for income taxes	90,337	94,874	73,614
Income before cumulative effect of accounting change for income taxes	144,975	162,057	124,705
Cumulative effect of change in accounting for income taxes	-	2,000	-
Net income	\$ 144,975	\$ 164,057	\$ 124,705
Income before cumulative effect of accounting change	\$.55	\$.64	\$.51
Cumulative effect of accounting change		.01	
Net income per common share	\$.55	\$.65	\$.51

See accompanying notes.

CUC International Inc. and Subsidiaries

Supplemental Consolidated Statements of Shareholders' Equity

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

	Common Stock		Additional			
	Shares Issued	Par Value	Paid-in Capital	Retained Earnings	Treasury Stock	Unearned ESOP
Balance at January 31, 1993	154,939,880	\$1,549	\$152,893	\$260,316	\$ (9,745)	\$ (11,667)
Three-for-two stock split	77,469,448	775		(775)		
As restated	232,409,328	2,324	152,893	259,541	(9,745)	(11,667)
Exercise of stock options (\$.36 to \$32.96)	2,911,124	29	14,976			
Issuance of stock under stock purchase plan (\$12.67 to \$17.92)	71,031	1	1,363			
Cancellation of stock under restricted stock plan	(113,063)	(1)	(240)			
Stock issued in conversion of notes	3,897,290	39	18,316			
Tax benefit arising from exercise of stock options and vesting of restricted stock			23,342			
Amortization of restricted stock			871			
Amortization of ESOP obligation						4,507
Equity distributions				1,943		
Cash dividends				(7,586)		
ImagiNation Network liquidation preference			3,977			
Proceeds from issuance of common stock	3,723,000	37	25,545			
Purchase of treasury stock	(1,368,513)	(14)	(41,685)			
Foreign currency translation adjustment				124,705		
Net income						
Balance at January 31, 1994	241,530,197	2,415	199,358	378,603	(9,745)	(7,160)
Exercise of stock options (\$.36 to \$32.96)	4,222,946	42	47,352	(10,140)		
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)	
Issuance of stock under stock purchase plan (\$17.40 to \$21.07)	48,984		1,011			
Stock issued in conversion of notes	2,989,104	30	22,665			
Tax benefit arising from exercise of stock options and vesting of restricted stock			42,216			
Stock issued in connection with acquisition	379,851	4	5,134			
Amortization of restricted stock			303			
Amortization of ESOP obligation						2,331
Cash dividends				(7,519)		
Charge to reflect change in Getko and NAOG fiscal years				(4,067)		3,071
Net unrealized loss on marketable securities						
Purchase of treasury stock	(9,761)		(440)			
Foreign currency translation adjustment						

Net income	164,057					
Balance at January 31, 1995	249,348,821	2,493	318,764	520,934	(10,505)	(1,758)
Exercise of stock options (\$0.01 to \$52.61)	4,630,254	46	34,486			
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)	
Payment of withholding taxes on options by payment of common stock (206,838 shares)					(7,403)	
Issuance of stock under stock purchase plan (\$23.31 to \$32.63)	63,647	1	1,789			
Stock issued in conversion of notes	1,413,817	14	13,648			
Stock issued for bonuses and incentives	223,299	2	4,105			
Tax benefit arising from exercise of stock options			51,357			
Stock issued in connection with acquisition	264,084	3	1,089			
Amortization of ESOP obligation			1,242			1,758
Equity distributions			175	(5,033)		
Cash dividends				(8,159)		
Charge to reflect change in Advance Ross and Ideon fiscal years				(50,039)		
Net unrealized gain on marketable securities						
Purchase of treasury stock	(395,031)	(4)	(9,797)			
Foreign currency translation adjustment						
Net income	144,975					
Balance at January 31, 1996	257,207,225	\$2,572	\$429,934	\$602,678	\$ (30,998)	\$ 0

	Net Unrealized Gain (Loss) on Marketable Securities	Foreign Currency Translation Adjustment	Total Shareholders' Equity
Balance at January 31, 1993		\$ (3,885)	\$ 389,461
Three-for-two stock split			
As restated		(3,885)	389,461
Exercise of stock options (\$.36 to \$32.96)			15,005
Issuance of stock under stock purchase plan (\$12.67 to \$17.92)			1,364
Cancellation of stock under restricted stock plan			(241)
Stock issued in conversion of notes			18,355
Tax benefit arising from exercise of stock options and vesting of restricted stock			23,342
Amortization of restricted stock plan			871
Amortization of ESOP obligation			4,507
Equity distributions			1,943
Cash dividends			(7,586)
ImagiNation Network liquidation preference			3,977
Proceeds from issuance of common stock			25,582
Purchase of treasury stock			(41,699)
Foreign currency translation adjustment		(1,405)	(1,405)
Net income			124,705
Balance at January 31, 1994		(5,290)	558,181
Exercise of stock options (\$.36 to \$32.96)			37,254
Exercise of stock options (\$1.52 to \$8.11) by payment of cash and common stock (37,500 shares)			407
Issuance of stock under stock purchase plan (\$17.40 to \$21.07)			1,011
Stock issued in conversion of notes			22,695
Tax benefit arising from exercise of stock options and vesting of			

restricted stock			42,216
Stock issued in connection with acquisition			5,138
Amortization of restricted stock plan			303
Amortization of ESOP obligation			2,331
Cash dividends			(7,519)
Charge to reflect change in Getko and NAOG fiscal years			(996)
Net unrealized loss on marketable securities	\$ (748)		(748)
Purchase of treasury stock			(440)
Foreign currency translation adjustment		2,193	2,193
Net income			164,057

Balance at January 31, 1995	(748)	(3,097)	826,083
Exercise of stock options (\$0.01 to \$52.61)			34,532
Exercise of stock options (\$1.52 to \$18.00) by payment of cash and common stock (445,899 shares)			3
Payment of withholding taxes on options by payment of common stock (206,838 shares)			(7,403)
Issuance of stock under stock purchase plan (\$23.31 to \$32.63)			1,790
Stock issued in conversion of notes			13,662
Stock issued for bonuses and incentives			4,107
Tax benefit arising from exercise of stock options			51,357
Stock issued in connection with acquisition			1,092
Amortization of ESOP obligation			3,000
Equity distributions			(4,858)
Cash dividends			(8,159)
Charge to reflect change in Advance Ross and Ideon fiscal years			(50,039)
Net unrealized gain on marketable securities	1,341		1,341
Purchase of treasury stock			(9,801)
Foreign currency translation adjustment		841	841
Net income			144,975

Balance at January 31, 1996	\$ 593	\$ (2,256)	\$1,002,523
	=====		

See accompanying notes.

CUC International Inc. and Subsidiaries
Supplemental Consolidated Statements of Cash Flows
(Dollar amounts in thousands)

	Year ended January 31,		
	1996	1995	1994

Operating activities			
Net income	\$ 144,975	\$ 164,057	\$ 124,705
Adjustments to reconcile net income to net cash provided by operating activities:			
Membership acquisition costs	(605,058)	(508,807)	(457,252)
Amortization of membership acquisition costs	556,548	467,019	409,455
Deferred membership income	76,285	61,941	71,242
Membership solicitations in process	(15,077)	(2,693)	(2,889)
Amortization of prepaid commissions	-	-	472
Amortization of contract renewal rights and excess cost	24,349	27,058	25,354
Gain on sale of The ImagiNation Network	-	(19,739)	-
Equity loss from The ImagiNation Network	-	1,990	5,066
Write-off of purchased in-process research and development	-	3,587	-
Cumulative effect of change in accounting for income taxes	-	(2,000)	-
Deferred income taxes	(32,068)	12,487	(9,337)
Amortization of original issue discount on convertible notes and restricted stock	1,646	1,965	3,854
Loss on impairment of assets	7,569	-	-
Depreciation	25,387	16,405	14,957

Effect of change in amortization periods for Ideon membership acquisition costs	65,500	-	-
Net loss during change in Ideon fiscal year-end	(49,944)	-	-
Change in working capital items, net of acquisitions:			
Increase in receivables	(152,392)	(51,638)	(35,560)
Increase in prepaid membership materials	(5,562)	(5,844)	(6,350)
Increase in prepaid expenses and other current assets	(36,130)	(20,755)	(13,595)
Net increase in accounts payable and accrued expenses and federal and state income taxes payable	57,891	40,245	43,296
Increase in product abandonment and related liabilities	20,796	-	-
Other, net	(30,499)	(8,512)	(8,644)
Net cash provided by operating activities	54,216	176,766	164,774
Investing activities			
Proceeds from sale of The ImagiNation Network	-	19,739	-
(Loan to) repayments from The ImagiNation Network, net	-	(2,895)	1,646
Proceeds from sales of marketable securities	255,916	136,977	138,195
Purchases of marketable securities	(138,198)	(161,585)	(140,487)
Acquisitions, net of cash acquired	(75,142)	(63,437)	(17,526)
Acquisitions of properties	(63,148)	(39,561)	(14,329)
Net cash used in investing activities	(20,572)	(110,762)	(32,501)
Financing activities			
Issuance of common stock	35,269	40,321	41,467
Proceeds from convertible debt offering, net	-	48,250	-
Payments for purchase of treasury shares	(9,801)	(483)	(41,699)
Payment of dividend notes to shareholders	-	-	(10,458)
Borrowings (repayments) of long-term obligations, net	1,064	(16,416)	(25,766)
Dividends paid	(8,159)	(7,519)	(7,586)
Net cash provided by (used in) financing activities	18,373	64,153	(44,042)
Net increase in cash and cash equivalents	52,017	130,157	88,231
Cash and cash equivalents at beginning of period	281,019	150,862	62,631
Cash and cash equivalents at end of period	\$ 333,036	\$ 281,019	\$ 150,862

See accompanying notes.

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements

Note A--Summary of Significant Accounting Policies

Principles of Consolidation

The supplemental consolidated financial statements include the accounts of CUC International Inc., its wholly-owned subsidiaries and its joint ventures (collectively, the "Company"). The Company operates in two business segments: membership services and software. Membership services are distributed to consumers through various channels which include financial institutions, credit unions, charities, other cardholder based organizations and retail establishments. The software segment develops, publishes and distributes educational and entertainment software for home and school use. These supplemental consolidated financial statements give retroactive effect to the mergers of Davidson & Associates, Inc. ("Davidson") (on July 24, 1996), Sierra On-Line, Inc. ("Sierra") (on July 24, 1996) and Ideon Group, Inc. ("Ideon") (on August 7, 1996) with wholly-owned subsidiaries of the Company, which have been accounted for using the pooling-of-interests method. These supplemental consolidated financial statements will become the Company's primary historical financial statements upon issuance of financial statements that include the date of consummation of all of the above-described mergers. All significant intercompany transactions have been eliminated in consolidation. All periods presented reflect the Company's reclassifications of deferred membership acquisition costs (previously classified as an offset to deferred membership income) and membership solicitations in process (previously classified as a current asset) to noncurrent assets.

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 supplemental financial statements and accompanying notes. Actual results could differ from those estimates.

The software segment of the Company is subject to certain business risks which could effect future operations and financial performance. The risks include

changing computer environments, rapid technological change, development of new products, concentrations in manufacturing facilities, competitive pricing and reliance on distribution channels.

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.

Marketable Securities

Marketable securities consist principally of corporate bonds, tax-free municipal obligations, U.S. Treasury notes and commercial paper. All securities are classified as available-for-sale and are reported at fair value with net unrealized holding gains and losses, net of tax effect, reported in stockholders' equity until realized. Marketable securities (see Note C) are valued based upon quoted market prices or investment adviser estimates and those securities not maturing within one year are classified as non-current assets. Declines in the market value of available-for-sale securities deemed to be other than temporary result in charges to current earnings and establishment of a new cost basis.

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note A--Summary of Significant Accounting Policies (continued)

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 (with the exception of marketable securities) and current liabilities are carried at cost, which approximates fair value, because of their short-term nature. The fair values of the convertible debt and zero coupon convertible notes at January 31, 1996 were \$42.6 million and \$84 million, respectively, based on the quoted market prices.

Financial instruments which potentially subject the Company to concentration of credit risk consist primarily of accounts receivable. This risk is limited in the membership services segment 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. Software accounts receivable include amounts principally from geographically dispersed dealers, distributors, retail chains and superstores in the software industry, as well as schools and school districts. The Company performs periodic credit evaluations of its software customers and maintains reserves which estimate the potential for future product returns. Such reserves have been included in allowances for accounts receivable.

Software Research and Development Costs and Costs of Software Revenue

Under the criteria set forth in SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," capitalization of software development costs begins upon the establishment of technological feasibility of the product. Costs meeting this criteria are insignificant and, therefore, research and development costs related to designing, developing and testing new software products are charged to operating expenses as incurred. Purchased in-process research and development costs are charged to expense on the date acquired if it has no alternative future use and technological feasibility is not established. Software research and development costs aggregated \$55.6 million, \$36.3 million and \$22.3 million for the years ended January 31, 1996, 1995 and 1994, respectively. Costs of software revenue include material costs, manufacturing labor and overhead and royalties paid to developers and affiliated label publishers. Costs of software revenue are included in operating expenses and aggregated \$117.1 million, \$73.3 million and \$53.4 million for the years ended January 31, 1996, 1995 and 1994, respectively.

Membership Acquisition Costs and Deferred Membership Income

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 average membership period. 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.

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

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 \$556.5 million, \$467 million and \$409.5 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 \$172.3 million, \$133.8 million and \$92 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 is classified as non-current in the supplemental consolidated balance sheet items since working capital will not be required as the deferred income is recognized over future periods.

Provisions for membership cancellations were \$37 million and \$36.6 million at January 31, 1996 and 1995, respectively. Such amounts are included in accrued expenses. In addition, accrued expenses include commissions payable of \$21.6 million and \$23.2 million at January 31, 1996 and 1995, respectively.

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.

Software Revenue Recognition

The Company recognizes revenue in accordance with the provisions of Statement of Position No. 91-1, "Software Revenue Recognition." Revenue from software sales is recognized upon shipment, provided no significant vendor obligations remain and collection of the resulting receivable is deemed probable. Other insignificant vendor obligations consisting primarily of costs associated with telephone support to customers after delivery of software are accrued. The Company's agreements with certain distributors and retailers permit them to exchange products or provide price protection under certain circumstances. The Company provides an allowance for estimated exchanges and price protection.

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 \$51.5 million and \$45.9 million, respectively.

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note A--Summary of Significant Accounting Policies (continued)

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 \$49.1 million and \$33.2 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.

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, Inc. ("NAOG"), Advance Ross Corporation ("Advance Ross"), Davidson, Sierra and Ideon (see Note B)). The weighted average number of common and dilutive common equivalent shares was 261.5 million, 252.8 million and 243.9 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.

Impairment of Long-Lived Assets

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.

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

Pooling-of-Interests Business Combinations

During July 1996 the Company acquired all of the outstanding capital stock of Davidson for a purchase price of approximately \$1 billion, which was satisfied by the issuance of approximately 30.1 million shares of Common Stock. Also during July 1996 the Company acquired all of the outstanding capital stock of Sierra for a purchase price of approximately \$858 million, which was satisfied by the issuance of approximately 25.6 million shares of Common Stock. Davidson and Sierra develop, publish and distribute educational and entertainment software for home and school use. During August 1996 the Company acquired all of the outstanding capital stock of Ideon, principally a provider of credit card enhancement services, for a purchase price of approximately \$393 million, which was satisfied by the issuance of approximately 11 million shares of Common Stock.

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note B--Mergers and Acquisitions (continued)

The mergers with Davidson, Sierra, and Ideon (the "Fiscal 1997 Pooled Entities") have been accounted for in accordance with the pooling-of-interests method of accounting and, accordingly, the accompanying supplemental consolidated financial statements have been retroactively adjusted as if the Fiscal 1997 Pooled Entities and the Company had operated as one since inception. These supplemental consolidated financial statements will become the primary historical consolidated financial statements upon issuance of financial

statements that include the dates of consummation of all of the mergers with the Fiscal 1997 Pooled Entities.

The following represents revenues and net income of the Company and the Fiscal 1997 Pooled Entities prior to restatement.

	Year ended January 31,		
	1996	1995	1994
Revenues:			
The Company	\$1,401,551	\$1,182,896	\$ 984,801
Fiscal 1997 Pooled Entities	533,681	371,715	293,863
	\$1,935,232	\$1,554,611	\$1,278,664
Net Income (Loss):			
The Company	\$ 164,669	\$ 124,566	\$ 94,151
Fiscal 1997 Pooled Entities	(19,694)	39,491	30,554
	\$ 144,975	\$ 164,057	\$ 124,705

Davidson, Sierra and Ideon previously used the fiscal years ended December 31, March 31 and December 31, respectively for their financial reporting. The Fiscal 1997 Pooled Entities will be conformed to the Company's January 31 fiscal year-end in fiscal 1997. Effective January 1, 1995, Ideon changed its fiscal year end from October 31 to December 31 (the "Ideon Transition Period"). The Ideon Transition Period has been excluded from the accompanying supplemental consolidated statements of income. Ideon's revenues and net loss for the Ideon Transition Period were \$34.7 million and \$(49.9) million, respectively. This excluded period has been adjusted by a \$49.9 million charge to retained earnings at January 31, 1996. The net loss for the Ideon Transition Period was principally the result of a \$65.5 million one-time, non-cash, pretax charge recorded in connection with a change in accounting for deferred membership acquisition costs. Prior to the change, membership acquisition costs were generally amortized up to ten years for single year membership periods and up to twelve years for multi-year membership periods. These amortization periods represented the estimated life of the member. At December 31, 1994, the amortization periods were shortened to one year and three years for single and multi-year membership periods, respectively (initial membership period without regard for anticipated renewals).

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note B--Mergers and Acquisitions (continued)

All costs related to the mergers with the Fiscal 1997 Pooled Entities have not been reflected in the Company's financial statements but will be reflected in the consolidated statements of income during the periods the respective mergers are completed. Such costs are non-recurring and those associated with the Company's mergers with Davidson and Sierra are comprised primarily of merger and integration costs and are expected to approximate \$28.6 million (\$25.1 million or \$.10 per common share after-tax effect) in the aggregate. Such costs associated with the Company's merger with Ideon (the "Ideon Merger") include integration and transaction costs as well as costs relating to certain outstanding litigation matters (see Note I) giving consideration to the Company's intended approach to these matters, which are estimated by the Company's management to approximate \$125.0 million (\$80.0 million after tax effect). Most of the reserve is related to these outstanding litigation matters. In determining such portion, the Company estimated the cost of settling these litigation matters. In estimating such cost, the Company considered potential liabilities related to these matters and the estimated cost of prosecuting and defending them (including out-of-pocket costs, such as attorneys' fees, and the cost to the Company of having its management involved in numerous complex litigation matters). The Company is unable at this time to determine the estimated timing of the future cash outflows with respect to this liability. Although the Company has attempted to estimate the amounts that will be required to settle these litigation matters, there can be no assurance that the actual aggregate amount of such settlements will not exceed the amount of the reserve to be accrued. The reserve for these matters will be expensed in the consolidated statement of income subsequent to the closing of the Ideon Merger,

and any subsequent payments related to these matters will reduce the amount of the reserve. The Company considered litigation-related costs and liabilities, as well as integration and transaction costs, in determining the agreed upon exchange ratio in respect of the Ideon Merger.

In determining the amount of the reserve related to the Company's proposed integration and consolidation efforts, the Company estimated the significant severance costs to be accrued upon the consummation of the Ideon Merger and costs relating to the expected obligations for certain third-party contracts (e.g., existing leases and vendor agreements) to which Ideon is a party and which are neither terminable at will nor automatically terminated upon a change-in-control of Ideon. The Company expects to incur significant integration costs because Ideon's credit card registration and enhancement services are substantially similar to the Company's credit card registration and enhancement services. All of the business activities related to the operations performed by Ideon's Jacksonville, Florida office were transferred to the Company's Comp-U-Card Division in Stamford, Connecticut upon the consummation of the Ideon Merger. The Company also expects that there will be additional consolidation affecting other parts of Ideon's business that are substantially the same as the Company's existing businesses. The Company does not expect any loss in revenue as a result of these integration and consolidation efforts.

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.

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note B--Mergers and Acquisitions (continued)

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.

The acquisitions of Getko, NAOG and Advance Ross (collectively, the "Fiscal 1996 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 Fiscal 1996 Pooled Entities for the two years and the last complete interim periods preceding the mergers, not giving effect to the Fiscal 1997 Pooled Entities.

	Nine Months Ended October 31, 1995	Year ended January 31, 1995 1994	
	-----	-----	-----
	(Unaudited)		
Revenues:			
The Company	\$ 949,886	\$1,044,669	\$879,324
Fiscal 1996 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
Fiscal 1996 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 are 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.

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note B--Mergers and Acquisitions (continued)

During fiscal 1996, Davidson acquired all of the outstanding capital stock of Maverick Software, Inc. ("Maverick") and The Cute Company, which subsequently changed its name to FUNNYBONE Interactive ("FUNNYBONE"), by issuing an aggregate of .6 million shares of Davidson's common stock (.5 million equivalent shares of Common Stock). During fiscal 1995, Davidson acquired all of the outstanding shares of Chaos Studios, Inc., which subsequently changed its name to Blizzard Entertainment ("Blizzard"), by issuing .6 million shares of Davidson's common stock (.5 million equivalent shares of Common Stock).

During fiscal 1996, Sierra acquired all of the outstanding capital stock of The Pixellite Group ("Pixellite"), Software Inspiration Limited ("Inspiration") and Papyrus Design Group, Inc. ("Papyrus") by issuing an aggregate of 2.1 million shares of Sierra's common stock (2.6 million equivalent shares of Common Stock).

The acquisitions of Maverick, FUNNYBONE, Blizzard, Pixellite, Inspiration and Payrus were accounted for in accordance with the pooling-of-interests method of accounting. Therefore, the Company's financial statements, including all common and per common share data, have been restated to include these entities.

During fiscal 1996, Sierra acquired all of the outstanding capital stock of Arion Software, Inc. ("Arion") and Green Thumb Software, Inc. ("Green Thumb") by issuing an aggregate of 147,958 shares of Sierra's common stock (181,249 equivalent shares of Common Stock). The acquisitions of Arion and Green Thumb were accounted for in accordance with the pooling-of-interests method of accounting. However, the Company's financial statements have not been restated for the Arion and Green Thumb mergers as these companies did not significantly impact the Company's operations.

Purchase Business Combinations

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 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.

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note B--Mergers and Acquisitions (continued)

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.

During fiscal 1996, Ideon acquired substantially all of the assets and liabilities of National Leisure Group, Inc., a provider of vacation travel packages to credit card companies, retailers and wholesale clubs in the United States, for \$15 million in cash and an agreement to issue shares of common stock with a value of \$1.4 million on the third anniversary of the acquisition. In connection with this acquisition, Ideon received assets of \$5.6 million and assumed liabilities of \$7.2 million. The excess of cost over the fair value of net assets acquired of \$18.3 million is included in the excess of cost over net assets acquired.

Also during fiscal 1995, Ideon acquired all of the outstanding capital stock of Wright Express Corporation ("Wright Express"), a provider of transaction and information processing services, for \$35.5 million in cash. The excess of cost over the fair value of net assets acquired of \$28.9 million is included in the excess of cost over net assets acquired.

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.

Notes to Supplemental Consolidated Financial Statements (Continued)

Note B--Mergers and Acquisitions (continued)

During fiscal 1995, Davidson acquired all of the outstanding capital stock of Learningways, Inc. ("Learningways") for \$4.2 million. The purchase price was satisfied by the payment of \$.7 million in cash and the issuance of 358,648 shares of Davidson's common stock (304,851 equivalent shares of Common Stock). In connection with the acquisition, certain in-process research and development costs for technology in process of approximately \$3.9 million were expensed in fiscal 1995. The excess of cost over the fair value of net assets acquired is 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.

During fiscal 1994, Sierra acquired all of the outstanding capital stock of Coktel Vision S.A. ("Coktel"), a French software company, for \$5.3 million in cash. In connection with this acquisition, \$1.1 million was attributed to in-process research and development and accordingly was charged to expense at the date of acquisition. Amounts allocated to software development costs and the excess of cost over net assets acquired were \$1.4 million and \$2.4 million, respectively. Former Coktel shareholders earned contingent purchase payments of \$1.6 million and \$1.3 million for the years ended January 31, 1995 and 1994, respectively. During fiscal 1996, Sierra amended the Coktel agreement whereby it issued 150,000 shares of Sierra's common stock (183,750 equivalent shares of Common Stock) in satisfaction of any further incentive payments. As a result of this amendment, an additional \$4.1 million has 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, 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.

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note C--Marketable Securities

The Company's marketable securities, including aggregate fair value and cost were as follows as of January 31 (in thousands):

	Fair Value	Cost

1996:		
U.S. Government obligations	\$ 22,886	\$ 22,896
Corporate debt securities	27,438	27,521
Tax-exempt municipal bonds	54,081	53,724
Commercial paper	5,832	5,832
Other	255	255
	-----	-----
	\$110,492	\$110,228
	=====	=====
1995:		
U.S. Government obligations	\$ 10,394	\$ 10,357
Corporate debt securities	23,050	22,996
Tax-exempt municipal bonds	177,898	178,747
Commercial paper	17,129	17,067
	-----	-----
	\$228,471	\$229,167
	=====	=====

Maturities of the Company's investment portfolio as of January 31, 1996 were as

follows:

	Fair Value	Cost
Within one year	\$ 97,164	\$ 97,003
One to five years	9,282	9,187
More than five years	4,046	4,038
	\$110,492	\$110,228

Note D--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	\$ 70,077	\$ 50,500
Telephone equipment	34,113	22,274
Furniture and other equipment	74,290	52,771
Buildings	23,309	11,197
Leasehold improvements	16,798	13,606
Less accumulated depreciation	(105,234)	(74,984)
Properties, net	\$ 113,353	\$ 75,364

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note E-- Credit Facilities and 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 which 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, the maturity date of such notes. Virtually all of the zero coupon convertible notes were converted into Common Stock by June 6, 1996.

Cash payments for interest made by the Company to all its obligations amounted to \$5.1 million, \$4.6 million and \$.3 million for the years ended January 31, 1996, 1995 and 1994, respectively.

Ideon

In 1994, Ideon assumed a revolving loan agreement in connection with its acquisition of Wright Express. The agreement, as originally structured, provided for maximum borrowings equal to the lesser of \$17.5 million or an amount based on a percentage of eligible accounts receivable as defined therein. In November 1994, the revolving credit agreement was amended increasing the available line to \$27.5 million and Ideon was added as a guarantor under the amended agreement. Interest on the outstanding borrowings was, at Wright Express' option, either the bank's prime rate minus 0.5% or LIBOR plus 0.625%. Borrowings are secured by substantially all assets of Wright Express. At January 31, 1996, Ideon had \$15.4 million outstanding under the revolving line of credit with interest rates ranging from 6.31% to 7.25%. Such amount is included in other current liabilities.

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note E--Revolving Credit Facilities and Convertible Notes (continued)

Sierra

In fiscal 1996, Sierra entered into an unsecured bank line of credit that provides for borrowing of up to \$10 million, expiring August 31, 1996. Any borrowings under this line of credit would be collateralized by substantially all of Sierra's assets and incur interest at either the bank's prime rate or IBOR plus 150 basis points, at Sierra's choice. The line contains covenants requiring Sierra to maintain certain financial ratios and minimum balances in cash and cash equivalents. Sierra is in compliance with all covenants under this line of credit as of January 31, 1996. There have been no borrowing by Sierra under this line of credit to date. This line of credit expired August 31, 1996.

On April 12, 1994, Sierra issued \$50 million in principal amount of 6 1/2% convertible subordinated notes due April 1, 2001 (the "Notes"). Interest on the Notes is payable semi-annually on April 1 and October 1 of each year. Each \$11.43 principal amount is convertible into one share of Common Stock, subject to adjustment under certain conditions. The Notes are redeemable after April 2, 1997, at the option of the Company, at specified redemption prices. The Notes will be subordinated to all existing and future Senior Indebtedness (as defined in the Indenture governing the Notes) of the Company. Issuance costs have been netted against the principal convertible debt balance are being amortized on a straight-line basis over seven years. During fiscal 1996 and 1995, Sierra paid \$0.9 million and \$1.0 million, included in interest expense, to induce conversion of \$11.7 million and \$14.3 million of Notes into 837,500 shares and 1,021,421 shares of Sierra common stock (1,025,938 equivalent shares and 1,251,241 equivalent shares of Common Stock), respectively.

Note F--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.

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.

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note F--Shareholders' Equity (continued)

During October 1987, the Board of Directors adopted a plan ("1987 Plan") which, as amended by votes of the Company's shareholders, authorizes the issuance of options for up to 23,718,750 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 the 1990 Directors Stock Option 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, which 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.

The Company had reserved an aggregate of 2,550,000 shares of Common Stock for issuance under three Davidson stock option plans: Davidson & Associates, Inc. 1992 Incentive Stock Option Plan, Davidson & Associates, Inc. 1992 Nonstatutory Stock Option Plan and Davidson & Associates, Inc. 1992 Stock Purchase Plan (collectively, the "Davidson Plans"). The Davidson Plans provided for the grant of options to purchase Common Stock to officers, directors and consultants or independent contractors of Davidson, or of any subsidiary of Davidson. Only Davidson employees may be granted options under the Davidson & Associates, Inc. 1992 Incentive Stock Option Plan. The exercise price of the Davidson incentive stock options was not less than the fair market value of Common Stock on the date of grant. The exercise price of the options under the other two Davidson plans were at the discretion of Davidson's Board of Directors. These plans provided that the options were exercisable based upon vesting schedules, as determined by Davidson's Board of Directors and were exercisable no later than nine years from the date of grant. Options issued under the plans generally vest ratably over a five-year period. The Davidson Plans were terminated in connection with the Davidson merger and the options outstanding under the Davidson Plans were assumed under existing plans of the Company.

The Company has reserved 7,558,250 shares of Common Stock for issuance under Sierra's 1995 Stock Option and Award Plan and Sierra's 1987 Stock Option Plan for officers, employees, directors, vendors, consultants and independent contractors of Sierra. Options granted under these plans may be either incentive stock options or nonqualified stock options and are granted at the fair market value of Common Stock at the date of grant. Options vest and expire under the terms established at the date of grant. The Company also has 267,731 shares of Common Stock reserved for issuance under an option plan acquired through Sierra's merger with Papyrus.

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note F--Shareholders' Equity (continued)

The Company had reserved 1,212,517 shares of Common Stock for issuance under

six Ideon stock option arrangements: Outside Directors' Options, 1991 Employee Stock Option Plan, 1992 Employee Stock Option Plan, 1994 Long-Term Stock-Based Incentive Plan, Employee Stock Option Plan and Directors Stock Plan (collectively, the "Ideon Plans") for officers, employees and directors of Ideon. The stock option exercise prices of the Ideon Plans were generally based on the fair market price of Common Stock on the date of grant. The Ideon Plans provided that the options were exercisable upon vesting schedules from one to four years and certain portions vest based on certain stock price hurdles. The Ideon Plans and the options outstanding thereunder were either terminated or assumed under existing plans of the Company.

As of January 31, 1996 and 1995, options to purchase 8,128,710 and 7,073,693 shares of Common Stock, respectively, were exercisable.

Changes in outstanding options were as follows:

Outstanding January 31, 1994	26,938,598
Options granted	10,101,612
Options exercised	(4,410,446)
Options cancelled	(670,319)

Outstanding January 31, 1995	31,959,445
Options granted	4,795,912
Options exercised	(6,288,588)
Options cancelled	(1,222,722)

Outstanding January 31, 1996	29,244,047
	=====

Outstanding options at January 31, 1996 have exercise prices ranging from \$.07 to \$52.61.

The Company has an employee stock purchase plan for which 750,000 shares of Common Stock are 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:

Convertible debt	2,097,813
Zero coupon convertible notes	2,278,088
Restricted stock plan	913,832
Stock options granted	29,244,047
Options not yet granted	15,848,835
Stock purchase plan	647,192

	51,029,807
	=====

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note F--Shareholders' Equity (continued)

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.

During each of the years ended January 31, 1996, 1995 and 1994, cash dividends per common share paid to Ideon's common stockholders were \$.02 per share of Common Stock.

The Company's authorized capital stock also includes one million shares of preferred stock, \$.01 par value. No shares of preferred stock have been issued.

Note G--Income Taxes

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

	1996	1995	1994
Domestic	\$210,211	\$238,219	\$187,413
Foreign	25,101	18,712	10,906
	\$235,312	\$256,931	\$198,319

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	\$18,421	\$ (3,156)
Other accrued liabilities	10,836	(532)
Recapitalization expenses	1,181	862
Compensatory stock options	972	2,456
Net operating loss carryforwards	1,347	7,883
Relocation expenses	3,439	3,749
Valuation allowance	-	3,230
All other	9,060	7,740
Total deferred tax assets	45,256	22,232
Deferred tax liabilities:		
Insurance retention refund	19,546	13,229
Depreciation	7,195	2,015
All other	6,569	5,093
Total deferred tax liabilities	33,310	20,337
Net deferred tax assets	\$11,946	\$ 1,895

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note G--Income Taxes (continued)

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

	1996	1995	1994
Current:			
Federal	\$72,665	\$83,333	\$72,408
State	9,820	10,351	7,399
Foreign	7,606	5,178	2,691
	90,091	98,862	82,498
Deferred:			
Federal	493	(5,544)	(6,888)
State	(447)	791	(1,980)
Foreign	200	765	(16)

	246	(3,988)	(8,884)
Total provision	\$90,337	\$94,874	\$73,614

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%)	\$81,778	\$89,926	\$69,215
State income taxes, net of Federal benefit	7,334	6,769	5,248
Foreign taxes differential	825	1,352	(363)
Tax exempt interest	-	(2,613)	(3,061)
Amortization of excess costs	4,627	2,237	2,327
Technology under development	-	1,381	-
Nonconsolidated losses	-	(849)	1,565
Change in valuation allowance	(1,215)	-	-
Other, net	(3,012)	(3,329)	(1,317)
	\$90,337	\$94,874	\$73,614

Income tax payments amounted to \$56.3 million, \$55.3 million and \$49.7 million for the years ended January 31, 1996, 1995 and 1994, respectively.

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note H--Transactions with Related Parties

Ideon

Until his resignation as Chief Executive Office and a director of SafeCard Services, Incorporated ("SafeCard"), a subsidiary of Ideon, on December 19, 1992, Steven J. Halmos, SafeCard's co-founder, provided his services to SafeCard through High Plains Capital Corporation ("HPCC"), a company owned by himself and his brother, Peter Halmos, SafeCard's other co-founder. After that date, Steven J. Halmos, acting in the capacity of an Advisor on Marketing and Operational Strategy, provided services directly to SafeCard pursuant to a written agreement (as amended and restated as of April 1, 1993, the "Steven J. Halmos Agreement"). On May 26, 1994, SafeCard reached a settlement with Steven J. Halmos to terminate the Steven J. Halmos Agreement and various other agreements between SafeCard and Mr. Halmos that provided for payments to Mr. Halmos of \$2 million a year through March 31, 1998. The settlement, which arose in connection with Ideon's management restructuring in April 1994 and a resulting decision to cease using Mr. Halmos' services, resulted in a \$4.4 million cash payment to Mr. Halmos and charge to fiscal 1995 earnings. Subsequent to his termination Mr. Halmos exercised options to purchase 3.9 million shares of Ideon's common stock (approximately 1.5 million equivalent shares of Common Stock). Shareholders' equity increased \$37.8 million resulting from the exercise of such options and the related tax benefit.

In September 1994, Ideon acquired Wright Express. Ideon's former Chairman and Chief Executive Officer, Paul G. Kahn, was a director of Wright Express prior to its acquisition by Ideon. During negotiations between Ideon and Wright Express, Mr. Kahn did not attend any meetings or participate in any discussions of the Board of Directors of Wright Express and abstained from voting on the acquisition by Ideon's Board of Directors.

SafeCard markets its CreditLine product pursuant to an agreement (as amended, the "CreditLine Agreement") with CreditLine Corporation ("CLC"), a corporation owned by Steven J. Halmos and Peter Halmos, and their families. The CreditLine Agreement grants SafeCard an exclusive license to market CreditLine through certain credit card issuers (including all issuers with which SafeCard has contractual relationships) and provides that profits and losses, if any, are shared equally between CLC and SafeCard. The CreditLine Agreement is the subject of litigation as described in Note I.

Sierra

In July 1996, the Company acquired Sierra. The Company's Chairman and Chief Executive Officer, Walter A. Forbes, was a director of Sierra prior to its acquisition by the Company (the "Sierra Merger"). During negotiations between the Company and Sierra, Mr. Forbes did not participate in any meetings or deliberations of Sierra's Board of Directors with respect to the Sierra Merger and abstained from the vote of the Board of Directors of the Company to approve the Sierra Merger agreement.

Note I--Commitments and Contingencies

Rental expense under operating leases amounted to \$37.6 million, \$27.7 million and \$24 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-cancelable operating leases with initial or remaining terms of more than one year aggregated \$153.8 million (\$33.9 million for 1997, \$29.7 million for 1998, \$24.1 million for 1999, \$19 million for 2000, \$15.2 million for 2001 and \$31.9 million thereafter).

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note I--Commitments and Contingencies (continued)

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. Davidson's 401(k) plan covers eligible employees who elect to participate and Davidson has the discretion to make contributions to this plan, which vest based on length of service. The Company's contributions to the Savings Plan and Davidson's contributions to its 401(k) plan for fiscal 1996, 1995 and 1994 aggregated \$4.1 million, \$3.2 million and \$2.2 million, respectively.

Ideon

At January 31, 1996, Ideon was defending or prosecuting claims in thirteen complex lawsuits, twelve of which involved Peter Halmos, former Chairman of the Board and Executive Management Consultant to SafeCard, and various parties related to him as adversaries. Peter Halmos is also a plaintiff in three other lawsuits, one against a former officer, one against a director of Ideon and one against SafeCard's outside counsel, in which neither SafeCard nor Ideon have been named as defendant. The thirteen cases in which Ideon or its subsidiaries is a party are as follows:

A suit initiated by Peter Halmos, related entities, and Myron Cherry (a former lawyer for SafeCard) in April 1993 in Cook County Circuit Court in Illinois against SafeCard and one of Ideon's directors, purporting to state claims aggregating in excess of \$100 million, principally relating to alleged rights to "incentive compensation," stock options or their equivalent, indemnification, wrongful termination and defamation. On February 7, 1995, the court dismissed with prejudice Peter Halmos' claims regarding alleged rights to "incentive compensation," stock options or their equivalent, wrongful termination and defamation. Mr. Halmos has appealed this ruling. SafeCard has filed an answer to the remaining indemnification claims. Its obligation to file an answer to the claims of Myron Cherry have been stayed pending settlement discussions. On December 28, 1995, the court stayed Halmos' indemnification claims pending resolution of a declaratory judgment action filed by Ideon in Delaware Chancery Court.

A suit which seeks monetary damages and certain equitable relief filed by SafeCard in August 1993 in Laramie County Circuit Court in Wyoming against Peter Halmos and related entities alleging that Peter Halmos dominated and controlled SafeCard, breached his fiduciary duties to SafeCard, and misappropriated material non-public information to make \$48 million in profits on sales of SafeCard stock. In March 1994, Mr. Halmos and related entities filed a counterclaim in which claims were made of conspiracy in restraint to trade, monopolization and attempted monopolization, unfair competition and restraint of trade, breach of contract for indemnity and intentional infliction of emotional

distress. SafeCard's motion to sever the conspiracy, monopolization and restraint of trade claims was granted in May 1994. The claims for the conspiracy, monopolization, restraint of trade and unfair competition were dismissed without prejudice in June 1994. On April 12, 1995, the trial court granted the motion of Mr. Halmos and certain related entities to amend their counterclaims. The amended counterclaims include claims for indemnification for legal expenses incurred in the action and a claim that SafeCard's contract with CreditLine should be rescinded. On April 19, 1995, the trial court granted Mr. Halmos' motion for summary judgment that certain of SafeCard's claims against him were barred by the statute of limitation. On March 14, 1996, the Wyoming Supreme Court reversed the trial court's ruling that certain of SafeCard's claims were barred by the statute of limitations. Pursuant to the Court's order of July 31, 1996, the action has been abated to permit the parties to engage in settlement negotiations.

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note I--Commitments and Contingencies (continued)

A suit seeking monetary damages by Peter Halmos, purportedly in his name and in the name of CreditLine Corporation and Continuity Marketing Corporation against SafeCard, one of its officers and three of Ideon's directors in United States District Court in the Southern District of Florida, in September 1994 purporting to state various tort claims, state and federal antitrust claims and claims of copyright infringement. The claims principally relate to the allegation by Peter Halmos and his companies that SafeCard has taken action to prevent him from being a successful competitor. All discovery in the case has been stayed pending a ruling on a motion to dismiss filed by SafeCard, its officer and Ideon's directors. On August 16, 1995, the United States Magistrate Judge filed a Report and Recommendation that the case be dismissed. The parties have filed various beliefs and memoranda in response to this Report. On January 4, 1996, the Magistrate recommended ruling that the statute of limitations was tolled during pendency of the case in federal court and the plaintiffs' state law claims were thus not time-barred. Defendants have filed an objection to this recommendation.

A suit seeking monetary damages by Peter Halmos, as trustee for the Peter A. Halmos revocable trust dated January 24, 1990 and the Halmos Foundation, Inc. individually and certain other named parties on behalf of themselves and all others similarly situated against SafeCard, one of its officers, one of its former officers and three of Ideon's directors in the United States District Court for the Southern District of Florida in December 1994. This litigation involves claims by a putative class of sellers of SafeCard Stock for the period January 11, 1993 through December 8, 1994 for alleged violations of the federal and states securities laws in connection with alleged improprieties in SafeCards' investor relations program. The complaint also includes individual claims made by Peter Halmos in connection with the sale of stock by two trusts controlled by him. SafeCard and the individual defendants have filed a motion to dismiss. There has been limited discovery on class certification and identification of "John Doe" defendant issues. Ideon filed its opposition to the pending motion for class certification on December 11, 1995. Plaintiffs' reply was filed March 19, 1996. On September 9, 1996, the Court entered an order abating the action until December 9, 1996 to permit the parties to engage in settlement negotiations.

A suit seeking monetary damages and injunctive relief by LifeFax, Inc. and Continuity Marketing Corporation, companies affiliated with Peter Halmos, in the State Circuit Court in Palm Beach County, Florida in April 1995 against Ideon, Family Protection Network, Inc., SafeCard, one of Ideon's directors and Ideon's Chief Executive Officer purporting to state various statutory and tort claims. The claims principally relate to the allegation by these companies that SafeCard's Early Warnings Service and Family Protection Network were conceived and commercialized by, among others, Peter Halmos and have been improperly copied. An amended complaint filed on June 14, 1995 seeking monetary damages adds to the prior claims certain claims by Nicholas Rubino that principally relate to the allegation that SafeCard's Pet Registration Product was conceived by Mr. Rubino and has been improperly copied. The Company has filed an appropriate answer.

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note I--Commitments and Contingencies (continued)

A suit seeking monetary damages and declaratory relief by Peter Halmos, individually and as trustee for the Peter A. Halmos revocable trust dated January 24, 1990 and by James B. Chambers, individually and on behalf of himself and all others similarly situated against Ideon, SafeCard, each of the members of Ideon's Board of Directors, three non-board member officers of Ideon, Ideon's previous outside auditor and one of Ideon's outside counsel in the United States District Court for the Southern District of Florida in June 1995. The litigation involves claims by a putative class of purchasers of Ideon stock between December 14, 1994 and May 25, 1995 and on behalf of a separate class of all record holders of SafeCard stock as of April 27, 1995. The putative class claims are for alleged violations of the federal securities laws, for alleged breach of fiduciary duty and alleged negligence in connection with certain matters voted on at the Annual Meeting of SafeCard stockholders held on April 27, 1995. Ideon and the individual defendants have filed a motion to dismiss these claims. There has been limited discovery on class certification issues. Ideon filed its opposition to the pending motion for class certification on December 11, 1995. Plaintiffs' reply was filed March 19, 1996. On September 9, 1996, the Court entered an order abating the action until December 9, 1996 to permit the parties to engage in settlement negotiations.

A purported shareholder derivative action initiated by Michael P. Pisano, on behalf of himself and other stockholders of SafeCard and Ideon against SafeCard, Ideon, two of their officers, and Ideon's directors in United States District Court, Southern District of Florida. This litigation involves claims that the officers and directors of SafeCard have improperly refused to accede Peter Halmos' litigation and indemnification demands against Ideon. Ideon and the individual defendants have filed motions to dismiss the first amended complaint. On September 29, 1995, Pisano filed a second amended complaint which made additional allegations of waste and mismanagement against Ideon's officers and directors in connection with the Family Protection Network and PGA Tour Partner products. On December 26, 1995, Ideon filed motions to dismiss the Second Amended Complaint. On June 4 and June 19, 1996, orders were entered dismissing plaintiff's claims with prejudice for failure to join an indispensable party, Peter Halmos. On June 27, 1996, plaintiff filed a notice of appeal.

A suit seeking monetary damages filed by Peter Halmos against SafeCard, one of its directors, its former general counsel, and its legal counsel in the Circuit Court, Fifteenth Judicial Circuit, in and for Palm Beach County, Florida on August 10, 1995. This litigation involves claims by Peter Halmos for breach of fiduciary duty and constructive fraud, fraud, and negligent misrepresentation and is based on allegations arising out of the resolution of a shareholder class action lawsuit in 1991 and SafeCard's subsequent filing of an action against Halmos and his related companies in Wyoming in 1993. Plaintiff filed an amended complaint on June 26, 1996 and on July 11, 1996 the Company moved to dismiss plaintiff's amended complaint or in the alternative to stay the action.

A declaratory judgment action by Ideon and its directors against Peter Halmos in Delaware Chancery Court, New Castle County. This action seeks a declaration regarding Ideon's advance indemnification obligations, if any, to Peter Halmos in connection with his many lawsuits. Halmos filed a motion to dismiss on jurisdictional grounds on November 17, 1995. Ideon filed a brief in opposition and an amended complaint on February 14, 1996. On April 22, 1996, Halmos filed an answer and amended counterclaims in which High Plains Capital Corporation ("High Plains") and Halmos Trading & Investment Company ("Halmos Trading") were added as additional parties. The amended counterclaims seek advancement and/or indemnification for Halmos, High Plains and Halmos Trading for certain litigations and an IRS investigation. The amended counterclaims also seek recovery against individual defendant directors based on allegations they willfully and unjustly denied Halmos indemnification and/or advancement.

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note I--Commitments and Contingencies (continued)

A suit by High Plains against Ideon, SafeCard, two of its directors and The

Dilenschneider Group, Inc. in Circuit Court in Palm Beach County, Florida. This litigation involves claims by High Plains for certain incentive compensation arising out of Halmos' affiliation with SafeCard. The complaint includes claims for breach of written agreements regarding additional services and expenses, an alternative claim for quantum meruit based on written agreement and a count for tortious interference with advantageous business relationship. Ideon filed a motion for final summary judgment. Discovery has been stayed pending a ruling on this motion.

A suit filed by High Plains against Ideon and SafeCard in Circuit Court in Broward County, Florida. This litigation involves claims by High Plains for alleged breach of oral contract, alleged violation of Florida's Uniform Trade Secrets Act, alleged misappropriation of trade secrets and for declaration that certain alleged trade secrets are property of High Plains. Ideon filed motions to dismiss and to transfer on December 15, 1995.

A suit by Peter Halmos, purportedly in the name of Halmos Trading, seeking monetary damages and specific performance against SafeCard, one of its former officers and one of Ideon's directors in Circuit Court in Broward County, Florida, making a variety of claims related to the contested lease of SafeCard's former Ft. Lauderdale headquarters. SafeCard had vacated the building, ceased making payments related to such lease and had filed counterclaims. On March 25, 1996, the parties entered into a Settlement Agreement under which Ideon made a payment of \$3.8 million to settle all claims currently pending or previously brought in this lawsuit.

A suit by Lois Hekker on behalf of herself and all others similarly situated seeking monetary damages against Ideon and its former Chief Executive Officer in the United States District Court for the Middle District of Florida on July 28, 1995. The litigation involves claims by a putative class of purchasers of Ideon stock for the period April 25, 1995 through May 25, 1995 for alleged violation of the federal securities laws in connection with statements made about Ideon's business and financial performance. Defendants filed a motion to dismiss on October 2, 1995. On January 3, 1996, the court stayed all merits discovery pending rulings on the motion to dismiss and on the plaintiff's motion for class certification. On August 19, 1996, the court denied the Company's motion to dismiss. The Company's answer is currently scheduled to be filed on September 23, 1996.

A suit by First Capital Partners, Thomas F. Frist III and Patricia F. Elcan against Ideon and two of its employees in the United States District Court for the Southern District of New York. The litigation involves claims against Ideon, its former CEO and its Vice President of Investor Relations for alleged material misrepresentations and omissions in connection with announcements relating to Ideon's expected earnings per share in 1995 and its new product sales, which included the PGA Tour Card Program, Family Protection Network and Collections of the Vatican Museums. On July 15, 1996, Ideon filed a motion to dismiss.

As noted in Note B, the Company will establish a reserve upon the Ideon merger related, in part, to these litigation matters. The Company is also involved in certain other claims and litigation arising from the ordinary course of business, which are not considered material to the operations of the Company.

Note J--Cost Related to Products Abandoned and Restructuring - Ideon

Included in costs related to products abandoned and restructuring in the Supplemental Consolidated Statement of Income for the year ended January 31, 1996, are special charges totaling \$43.8 million, net of recoveries, related to the abandonment of certain new product developmental efforts and the related impairment of certain assets and the restructuring of the SafeCard division of Ideon and the Ideon corporate infrastructure as discussed below. The original charge of \$45 million was composed of accrued liabilities of \$36.2 million and asset impairments of \$8.8 million. In December 1995 Ideon recovered \$1.2 million of a \$3.9 million deposit included in the above charges. Also included in costs related to products abandoned and restructuring are marketing and operational costs incurred for products abandoned of \$53.2 million.

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note J--Cost Related to Products Abandoned and Restructuring - Ideon

The components of the product abandonment and related liabilities as of January 31, 1996 are as follows (in thousands):

	Fiscal 1996 Provisions	Activity	Balance at 1/31/96
Severance and other employee costs	\$14,960	\$ 8,950	\$ 6,010
Costs to terminate equipment and facilities leases	9,593	2,656	6,937
Liability for contract impairments	8,400	1,000	7,400
Other costs	3,295	2,846	449
	\$36,248	\$15,452	\$20,796

The balance of the product abandonment and related liabilities at January 31, 1996 is included in accrued expenses and represents Ideon's best estimate of the amounts expected to be incurred with respect to its product abandonment and restructuring efforts. The amounts that will ultimately be paid could differ from the amounts included in the product abandonment and related liabilities estimate. Ideon anticipates completion of the majority of the actions related to the product abandonment and restructuring during fiscal 1997.

During fiscal 1996, the following costs related to products abandoned and restructuring were incurred. In early 1995, Ideon launched an expanded PGA TOUR Partners program that provided various benefits to members. Consumer response rates after the launch were significantly less than Ideon management's expectations, the product as configured was deemed not economically viable and a charge of \$18 million was incurred associated with the abandonment of the product marketing including employee severance payments (approximately 130 employees), costs to terminate equipment and facilities leases, costs for contract impairments and write-downs taken for asset impairments. In September 1995, after a period of product redesign and test marketing, Ideon discontinued its PGA TOUR Partners credit card servicing role and recorded a charge of \$3.6 million for costs associated with the abandonment of this role, including employee severance payments (approximately 60 employees), costs to terminate equipment and facilities leases and the recognition of certain commitments. In April 1995, Ideon launched a nationwide child registration and missing child search program. Consumer response rates after the launch were significantly less than Ideon management's expectations and a charge of \$9 million was incurred to cover severance payments (approximately 100 employees), costs to terminate equipment and facilities leases and write-down taken for asset impairments. As a result of the discontinuance of these products, Ideon undertook an overall restructuring of its operations and incurred charges of \$7.2 million to terminate operating leases and write-down assets to realizable value, \$3 million for restructuring its SafeCard division and \$4.2 million for restructuring its corporate infrastructure.

During fiscal 1995, costs related to products abandoned and restructuring were incurred when Ideon reorganized its operations and named a new senior management team, resulting in \$7.9 million of charges for various severance agreements and a lease termination.

Note K--Sale of The ImagiNation Network - Sierra

The operating activities of The ImagiNation Network, Inc. ("INN") were consolidated with those of Sierra through July 26, 1993. On July 27, 1993, Sierra sold 42% of INN's voting stock and reduced its ownership interest to 58% and reduced its voting control such that Sierra recorded its liquidation preference in excess of recorded book value as shareholders' equity.

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note K--Sale of The ImagiNation Network - Sierra (continued)

In December 1994, Sierra sold its remaining equity interest in INN to AT&T and recorded a gain of \$19.7 million. Sierra also entered into a multi-year publishing agreement with AT&T for Sierra to provide content for INN. The publishing agreement provides for AT&T to fund up to \$4 million of Sierra's development expenditures under an existing publishing agreement and up to \$23 million of Sierra's development expenditures, subject to certain

limitations, through non-refundable royalty advances. The non-refundable royalty advances are reflected net of research and development expense. Non-refundable royalty advances from AT&T for the years ended January 31, 1996 and 1995 were \$3.8 million and \$1.6 million, respectively.

Note L--Business Segments

Business segment data consists of the following at or for the years ended January 31 (in thousands):

	1996	1995	1994
Revenues:			
Membership services	\$1,629,829	\$1,363,561	\$1,143,191
Software	305,403	191,050	135,473
	\$1,935,232	\$1,554,611	\$1,278,664
Operating Profit:			
Membership services	\$ 184,699	\$ 218,145	\$ 194,002
Software	40,928	30,849	1,096
	\$ 225,627	\$ 248,994	\$ 195,098
Identifiable Assets:			
Membership services	\$1,803,577	\$1,566,186	\$1,274,693
Software	264,619	205,936	113,500
	\$2,068,196	\$1,772,122	\$1,388,193
Capital Expenditures:			
Membership services	\$ 53,048	\$ 29,809	\$ 9,631
Software	10,100	9,752	4,698
	\$ 63,148	\$ 39,561	\$ 14,329
Depreciation and Amortization:			
Membership services	\$ 40,358	\$ 27,683	\$ 26,901
Software	9,378	15,780	13,410
	\$ 49,736	\$ 43,463	\$ 40,311

Note M--Subsequent Events

During February 1996, Ideon acquired all of the outstanding capital stock of United Bank Services ("UBS") for \$18.3 million. UBS is a provider of value-added products and services through a diverse group of financial institutions. In connection with this acquisition, Ideon recorded \$14.7 million in the excess of cost over net assets acquired and \$4.4 million in contract renewal rights. The UBS purchase agreement provides that the former shareholders of UBS are eligible to receive additional payments over the next three years, not to exceed \$22 million in the aggregate, based on the achievement of certain objectives. This acquisition was accounted for in accordance with the purchase method of accounting and, accordingly, its results of operations will be included in the consolidated results of operations from the date of acquisition.

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note M--Subsequent Events (continued)

During March 1996, Davidson acquired all of the outstanding capital stock of Condor, Inc. (subsequently renamed "Blizzard North"), a developer of entertainment software. This acquisition was accounted for in accordance with the pooling-of-interests method of accounting. However, the Company's financial statements have not been restated for the Blizzard North merger as it did not impact the Company's operations significantly.

In February 1996, Wright Express entered into a new revolving credit facility agreement replacing its previous revolving line of credit. The new credit facility has an available line of \$75 million of which \$50 million may be used to finance working capital requirements and for general corporate purposes and

\$25 million may be used for acquisition financing. The new credit facility expires December 1, 1998. Interest on the outstanding borrowings is computed, at the option of Wright Express, under various methods including the bank's prime rate or LIBOR plus 0.75%. Borrowings are secured by substantially all assets of Wright Express.

The Company's fiscal 1990 recapitalization included establishment of a restricted stock plan designed to compensate and retain key employees of the Company. During July 1996, 910,000 restricted shares of Common Stock were granted with a fair value on the date of grant of \$30.5 million, which amount was deducted from shareholders' equity and is being amortized over the vesting period.

Note N--Quarterly Results of Operations (unaudited)

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

The quarterly results of operations have been restated to reflect the poolings-of-interests transactions with the Fiscal 1997 Pooled Entities discussed in Note B.

Restated:	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
Fiscal 1996				
Total revenues	\$430,659	\$466,048	\$492,556	\$545,969
Income (loss) before income taxes	62,270	(1,756)	71,989	102,809
Net income (loss)	38,304	(2,368)	43,399	65,640
Net income (loss) per common share	.15	(.01)	.16	.25
Fiscal 1995				
Total revenues	\$340,230	\$375,305	\$413,228	\$425,848
Income before income taxes	51,303	51,440	91,988	62,200
Net income	33,191	30,122	61,389	39,355
Net income per common share	.13	.12	.24	.15

CUC International Inc. and Subsidiaries

Notes to Supplemental Consolidated Financial Statements (Continued)

Note N--Quarterly Results of Operations (unaudited) (continued)

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. The first, second, third and fourth quarters of fiscal 1996 include \$8.1 million, \$73.1 million, \$16.4 million and (\$.6 million), respectively, of Ideon's costs related to products abandoned and restructuring.

Prior to restatement:	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

CUC INTERNATIONAL INC. AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	April 30, 1996	January 31, 1996
<hr/>		
	(Unaudited)	
Assets		
Current Assets		
Cash and cash equivalents	\$349,563	\$333,036
Marketable securities	77,022	97,164
Receivables	460,176	463,492
Prepaid membership materials	42,302	39,061
Prepaid expenses, deferred taxes and other	149,583	158,523
	<hr/>	<hr/>
Total Current Assets	1,078,646	1,091,276
Membership solicitations in process	61,663	60,713
Deferred membership acquisition costs	408,630	404,655
Contract renewal rights and intangible assets		
- net of accumulated amortization		
of \$106,262 and \$100,578	355,917	332,806
Properties, at cost, less accumulated		
depreciation of \$111,996 and \$105,235	122,378	113,353
Deferred income taxes and other	71,562	65,393
	<hr/>	<hr/>
	\$2,098,796	\$2,068,196
	=====	=====
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable, accrued expenses		
and other accrued liabilities	\$252,746	\$296,048
Federal and state income taxes payable	13,119	35,957
	<hr/>	<hr/>
Total Current Liabilities	265,865	332,005
Deferred membership income	696,240	682,823
Convertible debt - net of unamortized		
original issue discount of \$576 and \$586	23,399	23,389
Zero coupon convertible notes - net of		
unamortized original issue discount		
of \$178 and \$588	14,709	14,410
Other	11,372	13,046
Contingencies (Note 5)		
Shareholders' Equity		
Common stock-par value \$.01 per share;		
authorized 400 million shares; issued		
260,501,524 shares and 257,207,225 shares	2,605	2,572
Additional paid-in capital	484,277	429,934
Retained earnings	650,720	602,678
Treasury stock, at cost, 3,868,011		
shares and 3,410,631 shares	(48,161)	(30,998)
Unrealized gain on marketable securities		593
Foreign currency translation	(2,230)	(2,256)
	<hr/>	<hr/>
Total Shareholders' Equity	1,087,211	1,002,523
	<hr/>	<hr/>
	\$2,098,796	\$2,068,196
	=====	=====

See notes to supplemental condensed consolidated financial statements.

CUC INTERNATIONAL INC. AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(In thousands, except per share amounts)

Three Months Ended
April 30,

	1996	1995
REVENUES		
Membership and service fees	\$455,006	\$382,957
Software	60,473	47,702
Total Revenues	515,479	430,659
EXPENSES		
Operating	158,327	129,946
Marketing	205,202	171,148
General and administrative	70,066	62,276
Costs related to products abandoned and restructuring		8,061
Interest income, net	(2,240)	(3,042)
Total Expenses	431,355	368,389
INCOME BEFORE INCOME TAXES	84,124	62,270
Provision for income taxes	32,003	23,966
NET INCOME	\$52,121	\$38,304
Net Income Per Common Share	\$0.20	\$0.15
Weighted Average Number of Common and Dilutive Common Equivalent Shares Outstanding	264,443	258,084

See notes to supplemental condensed consolidated financial statements.

CUC INTERNATIONAL INC. AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	1996	1995
THREE MONTHS ENDED		
OPERATING ACTIVITIES:		
Net income	\$52,121	\$38,304
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Membership acquisition costs	(164,341)	(134,434)
Amortization of membership acquisition costs	160,366	144,678
Deferred membership income	13,179	2,869
Membership solicitations in process	(950)	(4,659)
Amortization of contract renewal rights and excess cost	5,684	4,913
Deferred income taxes	(2,508)	(20,670)
Amortization of original issue discount on convertible notes	739	426
Depreciation	6,925	5,946
Effect of change in amortization periods for Ideon membership acquisition costs		65,500
Net loss during change		

in fiscal year-ends	(4,268)	(49,944)
Changes in working capital items, net of acquisitions:		
Decrease (increase) in receivables	3,316	(17,685)
(Increase) decrease in prepaid membership materials	(3,241)	2,130
Decrease (increase) in prepaid expenses and other current assets	9,534	(9,557)
Net decrease in accounts payable, accrued expenses, other accrued liabilities and federal & state income taxes payable	(36,114)	(26,150)
Decrease in product abandonment and and related liabilities	(7,410)	
Other, net	(4,309)	(6,845)

Net cash provided by (used in) operating activities	28,723	(5,178)

INVESTING ACTIVITIES:		
Proceeds from matured marketable securities	46,922	108,862
Purchases of marketable securities	(28,832)	(44,113)
Acquisitions, net of cash acquired	(28,932)	(64,149)
Acquisitions of properties	(15,575)	(27,206)

Net cash used in investing activities	(26,417)	(26,606)

FINANCING ACTIVITIES:		
Issuance of Common Stock	12,984	10,567
Repayments of long-term obligations	1,237	2,624
Dividends paid		(2,956)

Net cash provided by financing activities	14,221	10,235

Net increase (decrease) in cash and cash equivalents	16,527	(21,549)
Cash and cash equivalents at beginning of period	333,036	281,019

Cash and cash equivalents at end of period	\$349,563	\$259,470
=====		

See notes to supplemental condensed consolidated financial statements.

CUC INTERNATIONAL INC. AND SUBSIDIARIES
NOTES TO SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 -- BASIS OF PRESENTATION

The supplemental consolidated financial statements include the accounts of CUC International Inc., its wholly-owned subsidiaries and its joint ventures (collectively, the "Company"). The Company operates in two business segments: membership services and software. Membership services are distributed to consumers through various channels which include financial institutions, credit unions, charities, other cardholder based organizations and retail establishments. The software segment develops, publishes and distributes educational and entertainment software for home and school use. These supplemental consolidated financial statements give retroactive effect to the mergers of Davidson & Associates, Inc. ("Davidson") (on July 24, 1996), Sierra On-Line, Inc. ("Sierra") (on July 24, 1996) and Ideon Group, Inc. ("Ideon") (on August 7, 1996) with wholly-owned subsidiaries of the Company, which have been accounted for using the pooling-of-interests method. These supplemental consolidated financial statements will become the Company's primary historical financial statements upon issuance of financial statements that include the date of consummation of all of the above-described mergers. All significant intercompany transactions have been eliminated in consolidation. All periods presented reflect the Company's reclassifications of deferred membership acquisition costs (previously classified as an offset to deferred membership income) and membership solicitations in process (previously

classified as a current asset) to noncurrent assets.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended April 30, 1996 are not necessarily indicative of the results that may be expected for the year ending January 31, 1997. For further information, refer to the supplemental financial statements and footnotes thereto included in this 8-K.

NOTE 2 -- MERGERS AND ACQUISITIONS

During July 1996 the Company acquired all of the outstanding capital stock of Davidson for a purchase price of approximately \$1 billion, which was satisfied by the issuance of approximately 30.1 million shares of Common Stock. Also during July 1996 the Company acquired all of the outstanding capital stock of Sierra for a purchase price of approximately \$858 million, which was satisfied by the issuance of approximately 25.6 million shares of Common Stock. Davidson and Sierra develop, publish and distribute educational and entertainment software for home and school use. During August 1996 the Company acquired all of the outstanding capital stock of Ideon, principally a provider of credit card enhancement services, for a purchase price of approximately \$393 million, which was satisfied by the issuance of approximately 11 million shares of Common Stock. The mergers with Davidson, Sierra and Ideon (the "Fiscal 1997 Pooled Entities") have been accounted for in accordance with the pooling-of-interests method of accounting and, accordingly, the accompanying supplemental interim consolidated financial statements have been retroactively adjusted as if the Fiscal 1997 Pooled Entities and the Company had operated as one since inception.

The following represents revenues and net income of the Company and the Fiscal 1997 Pooled Entities for the three months ended April 30, 1995 and the last complete interim period preceding the mergers (unaudited, in thousands).

	Three months ended April 30, 1996	Three months ended April 30, 1995

Revnues:		
The Company	\$390,026	\$325,114
Fiscal 1997 Pooled Entities	125,453	105,545
	-----	-----
	\$515,479	\$430,659
	=====	=====
Net Income:		
The Company	\$48,250	\$36,046
Fiscal 1997 Pooled Entities	3,871	2,258
	-----	-----
	\$52,121	\$38,304
	=====	=====

Davidson, Sierra and Ideon previously used the fiscal year-ends December 31, March 31 and December 31, respectively, for their financial reporting. To conform to the Company's January 31 fiscal year-end, Davidson's and Ideon's operating results for January 1996 have been excluded from the three months ended April 30, 1996 operating results in the accompanying supplemental financial statements. In addition, Sierra's operating results for February and March 1996 have been included in the operating results for the three months ended April 30, 1996 in the accompanying supplemental financial statements and for the year ended January 31, 1996. The above-mentioned excluded and duplicated periods have been adjusted by a \$4.3 million charge to retained earnings at April 30, 1996. Effective January 1, 1995, Ideon changed its fiscal year end from October 31 to December 31 (the "Ideon Transition Period"). The Ideon Transition Period has been excluded from the Company's historical consolidated statements of income. Ideon's revenues and net loss for the Ideon Transition Period were \$34.7 million and \$(49.9) million,

respectively. This excluded period has been adjusted by a \$49.9 million charge to retained earnings at January 31, 1996. The net loss for the Ideon Transition Period was principally the result of a \$65.5 million one-time, non-cash, pretax charge recorded in connection with a change in accounting for deferred membership acquisition costs.

All costs related to the mergers with the Fiscal 1997 Pooled Entities have not been reflected in the Company's supplemental financial statements but will be reflected in the consolidated statements of income during the periods the respective mergers are completed. Such costs are non-recurring and those associated with the Company's mergers with Davidson and Sierra are comprised primarily of merger and integration costs and are expected to approximate \$28.6 million (\$25.1 million or \$.10 per common share after-tax effect) in the aggregate. Such costs associated with the Company's merger with Ideon (the "Ideon Merger") include integration and transaction costs as well as costs relating to certain outstanding litigation matters (see Note 6) giving consideration to the Company's intended approach to these matters, which are estimated by the Company's management to approximate \$125.0 million (\$80.0 million after tax effect). Most of the reserve is related to these outstanding litigation matters. In determining such portion, the Company estimated the cost of settling these litigation matters. In estimating such cost, the Company considered potential liabilities related to these matters and the estimated cost of prosecuting and defending them (including out-of-pocket costs, such as attorneys' fees, and the cost to the Company of having its management involved in numerous complex litigation matters). The Company is unable at this time to determine the estimated timing of the future cash outflows with respect to this liability. Although the Company has attempted to estimate the amounts that will be required to settle these litigation matters, there can be no assurance that the actual aggregate amount of such settlements will not exceed the amount of the reserve to be accrued. The reserve for these matters will be expensed in the consolidated statement of income subsequent to the closing of the Ideon Merger, and any subsequent payments related to these matters will reduce the amount of the reserve. The Company considered all of these litigation-related costs and liabilities, as well as integration and transaction costs, in determining the agreed upon exchange ratio in respect of the Ideon Merger.

In determining the amount of the reserve related to the Company's proposed integration and consolidation efforts, the Company estimated the significant severance costs to be accrued upon the consummation of the Ideon Merger and costs relating to the expected obligations for certain third-party contracts (e.g., existing leases and vendor agreements) to which Ideon is a party and which are neither terminable at will nor automatically terminated upon a change-in-control of Ideon. The Company expects to incur significant integration costs because Ideon's credit card registration and enhancement services are substantially similar to the Company's credit card registration and enhancement services. All of the business activities related to the operations performed by Ideon's Jacksonville, Florida office were transferred to the Company's Comp-U-Card Division in Stamford, Connecticut upon the consummation of the Ideon Merger. The Company also expects that there will be additional consolidation affecting other parts of Ideon's business that are substantially the same as the Company's existing businesses. The Company does not expect any loss in revenue as a result of these integration and consolidation efforts.

CUC INTERNATIONAL INC. AND SUBSIDIARIES
NOTES TO SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(continued)

NOTE 3 -- SHAREHOLDERS' EQUITY

Net income per share, assuming the conversions of the zero coupon convertible notes during the three months ended April 30, 1996 occurred at the beginning of such period, would not differ significantly from the Company's actual earnings per share for such period.

NOTE 4 -- SOFTWARE RESEARCH AND DEVELOPMENT COSTS AND COSTS OF SOFTWARE REVENUE

Software research and development costs are included in operating expenses and aggregated \$14.9 million and \$10.8 million for the three months ended April 30, 1996 and 1995, respectively. Costs of software revenue are included in operating

expenses and aggregated \$24.8 million and \$19.6 million for the three months ended April 30, 1996 and 1995, respectively.

NOTE 5 -- INCOME TAXES

The Company's effective tax rate differs from the Federal statutory rate principally because of state income taxes and non-deductible amortization of the excess of cost over net assets acquired.

NOTE 6 -- CONTINGENCIES - IDEON

At April 30, 1996, Ideon was defending or prosecuting claims in thirteen complex lawsuits, twelve of which involved Peter Halmos, former Chairman of the Board and Executive Management Consultant to SafeCard, and various parties related to him as adversaries. Peter Halmos is also a plaintiff in three other lawsuits, one against a former officer, one against a director of Ideon and one against SafeCard's outside counsel, in which neither SafeCard nor Ideon have been named as defendant. The thirteen cases in which Ideon or its subsidiaries is a party are as follows:

A suit initiated by Peter Halmos, related entities, and Myron Cherry (a former lawyer for SafeCard) in April 1993 in Cook County Circuit Court in Illinois against SafeCard and one of Ideon's directors, purporting to state claims aggregating in excess of \$100 million, principally relating to alleged rights to "incentive compensation," stock options or their equivalent, indemnification, wrongful termination and defamation. On February 7, 1995, the court dismissed with prejudice Peter Halmos' claims regarding alleged rights to "incentive compensation," stock options or their equivalent, wrongful termination and defamation. Mr. Halmos has appealed this ruling. SafeCard has filed an answer to the remaining indemnification claims. Its obligation to file an answer to the claims of Myron Cherry have been stayed pending settlement discussions. On December 28, 1995, the court stayed Halmos' indemnification claims pending resolution of a decalatory judgment action filed by Ideon in Delaware Chancery Court.

A suit which seeks monetary damages and certain equitable relief filed by SafeCard in August 1993 in Laramie County Circuit Court in Wyoming against Peter Halmos and related entities alleging that Peter Halmos dominated and controlled SafeCard, breached his fiduciary duties to SafeCard, and misappropriated material non-public information to make \$48 million in profits on sales of SafeCard stock. In March 1994, Mr. Halmos and related entities filed a counterclaim in which claims were made of conspiracy in restraint to trade, monopolization and attempted monopolization, unfair competition and restraint of trade, breach of contract for indemnity and intentional infliction of emotional distress. SafeCard's motion to sever the conspiracy, monopolization and restraint of trade claims was granted in May 1994. The claims for the conspiracy, monopolization, restraint of trade and unfair competition were dismissed without prejudice in June 1994. On April 12, 1995, the trial court granted the motion of Mr. Halmos and certain related entities to amend their counterclaims. The amended counterclaims include claims for indemnification for legal expenses incurred in the action and a claim that SafeCard's contract with CreditLine should be rescinded. On April 19, 1995, the trial court granted Mr. Halmos' motion for summary judgment that certain of SafeCard's claims against him were barred by the statute of limitation. On March 14, 1996, the Wyoming Supreme Court reversed the trial court's ruling that certain of SafeCard's claims were barred by the statute of limitations. Pursuant to the Court's order of July 31, 1996, the action has been abated to permit the parties to engage in settlement negotiations.

CUC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

NOTE 6 -- CONTINGENCIES - IDEON (continued)

A suit seeking monetary damages by Peter Halmos, purportedly in his name and in the name of CreditLine Corporation and Continuity Marketing Corporation against SafeCard, one of its officers and three of Ideon's directors in United States District Court in the Southern District of Florida, in September 1994 purporting to state various tort claims, state and federal antitrust claims and claims of

copyright infringement. The claims principally relate to the allegation by Peter Halmos and his companies that SafeCard has taken action to prevent him from being a successful competitor. All discovery in the case has been stayed pending a ruling on a motion to dismiss filed by SafeCard, its officer and Ideon's directors. On August 16, 1995, the United States Magistrate Judge filed a Report and Recommendation that the case be dismissed. The parties have filed various beliefs and memoranda in response to this Report. On January 4, 1996, the Magistrate recommended ruling that the statute of limitations was tolled during pendency of the case in federal court and the plaintiffs' state law claims were thus not time-barred. Defendants have filed an objection to this recommendation.

A suit seeking monetary damages by Peter Halmos, as trustee for the Peter A. Halmos revocable trust dated January 24, 1990 and the Halmos Foundation, Inc. individually and certain other named parties on behalf of themselves and all others similarly situated against SafeCard, one of its officers, one of its former officers and three of Ideon's directors in the United States District Court for the Southern District of Florida in December 1994. This litigation involves claims by a putative class of sellers of SafeCard Stock for the period January 11, 1993 through December 8, 1994 for alleged violations of the federal and states securities laws in connection with alleged improprieties in SafeCards' investor relations program. The complaint also includes individual claims made by Peter Halmos in connection with the sale of stock by two trusts controlled by him. SafeCard and the individual defendants have filed a motion to dismiss. There has been limited discovery on class certification and identification of "John Doe" defendant issues. Ideon filed its opposition to the pending motion for class certification on December 11, 1995. Plaintiffs' reply was filed March 19, 1996. On September 9, 1996, the Court entered an order abating the action until December 9, 1996 to permit the parties to engage in settlement negotiations.

A suit seeking monetary damages and injunctive relief by LifeFax, Inc. and Continuity Marketing Corporation, companies affiliated with Peter Halmos, in the State Circuit Court in Palm Beach County, Florida in April 1995 against Ideon, Family Protection Network, Inc., SafeCard, one of Ideon's directors and Ideon's Chief Executive Officer purporting to state various statutory and tort claims. The claims principally relate to the allegation by these companies that SafeCard's Early Warnings Service and Family Protection Network were conceived and commercialized by, among others, Peter Halmos and have been improperly copied. An amendment complaint filed on June 14, 1995 seeking monetary damages adds to the prior claims certain claims by Nicholas Rubino that principally relate to the allegation that SafeCard's Pet Registration Product was conceived by Mr. Rubino and has been improperly copied. The Company has filed an appropriate answer.

CUC INTERNATIONAL INC. AND SUBSIDIARIES
NOTES TO SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(continued)

NOTE 6 -- CONTINGENCIES - IDEON (continued)

A suit seeking monetary damages and declaratory relief by Peter Halmos, individually and as trustee for the Peter A. Halmos revocable trust dated January 24, 1990 and by James B. Chambers, individually and on behalf of himself and all others similarly situated against Ideon, SafeCard, each of the members of Ideon's Board of Directors, three non-board member officers of Ideon, Ideon's previous outside auditor and one of Ideon's outside counsel in the United States District Court for the Southern District of Florida in June 1995. The litigation involves claims by a putative class of purchasers of Ideon stock between December 14, 1994 and May 25, 1995 and on behalf of a separate class of all record holders of SafeCard stock as of April 27, 1995. The putative class claims are for alleged violations of the federal securities laws, for alleged breach of fiduciary duty and alleged negligence in connection with certain matters voted on at the Annual Meeting of SafeCard stockholders held on April 27, 1995. Ideon and the individual defendants have filed a motion to dismiss these claims. There has been limited discovery on class certification issues. Ideon filed its opposition to the pending motion for class certification on December 11, 1995. Plaintiffs' reply was filed March 19, 1996. On September 9, 1996, the Court entered an order abating the action until December 9, 1996 to permit the parties to engage in settlement negotiations.

A purported shareholder derivative action initiated by Michael P. Pisano, on

behalf of himself and other stockholders of SafeCard and Ideon against SafeCard, Ideon, two of their officers, and Ideon's directors in United States District Court, Southern District of Florida. This litigation involves claims that the officers and directors of SafeCard have improperly refused to accede Peter Halmos' litigation and indemnification demands against Ideon. Ideon and the individual defendants have filed motions to dismiss the first amended complaint. On September 29, 1995, Pisano filed a second amended complaint which made additional allegations of waste and mismanagement against Ideon's officers and directors in connection with the Family Protection Network and PGA Tour Partner products. On December 26, 1995, Ideon filed motions to dismiss the Second Amended Complaint. On June 4 and June 19, 1996, orders were entered dismissing plaintiff's claims with prejudice for failure to join an indispensable party, Peter Halmos. On June 27, 1996, plaintiff filed a notice of appeal.

A suit seeking monetary damages filed by Peter Halmos against SafeCard, one of its directors, its former general counsel, and its legal counsel in the Circuit Court, Fifteenth Judicial Circuit, in and for Palm Beach County, Florida on August 10, 1995. This litigation involves claims by Peter Halmos for breach of fiduciary duty and constructive fraud, fraud, and negligent misrepresentation and is based on allegations arising out of the resolution of a shareholder class action lawsuit in 1991 and SafeCard's subsequent filing of an action against Halmos and his related companies in Wyoming in 1993. Plaintiff filed an amended complaint on June 26, 1996 and on July 11, 1996 Ideon moved to dismiss plaintiff's amended complaint or in the alternative to stay the action.

A declaratory judgment action by Ideon and its directors against Peter Halmos in Delaware Chancery Court, New Castle County. This action seeks a declaration regarding Ideon's advance indemnification obligations, if any, to Peter Halmos in connection with his many lawsuits. Halmos filed a motion to dismiss on jurisdictional grounds on November 17, 1995. Ideon filed a brief in opposition and an amended complaint on February 14, 1996. On April 22, 1996, Halmos filed an answer and amended counterclaims in which High Plains Capital Corporation ("High Plains") and Halmos Trading & Investment Company ("Halmos Trading") were added as additional parties. The amended counterclaims seek advancement and/or indemnification for Halmos, High Plains and Halmos Trading for certain litigations and an IRS investigation. The amended counterclaims also seek recovery against individual defendant directors based on allegations they willfully and unjustly denied Halmos indemnification and/or advancement.

CUC INTERNATIONAL INC. AND SUBSIDIARIES
NOTES TO SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Continued)

Note 6 -- CONTINGENCIES - IDEON (continued)

A suit by High Plains against Ideon, SafeCard, two of its directors and The Dilenschneider Group, Inc. in Circuit Court in Palm Beach County, Florida. This litigation involves claims by High Plains for certain incentive compensation arising out of Halmos' affiliation with SafeCard. The complaint includes claims for breach of written agreements regarding additional services and expenses, an alternative claim for quantum meruit based on written agreement and a count for tortious interference with advantageous business relationship. Ideon filed a motion for final summary judgment. Discovery has been stayed pending a ruling on this motion.

A suit filed by High Plains against Ideon and SafeCard in Circuit Court in Broward County, Florida. This litigation involves claims by High Plains for alleged breach of oral contract, alleged violation of Florida's Uniform Trade Secrets Act, alleged misappropriation of trade secrets and for declaration that certain alleged trade secrets are property of High Plains. Ideon filed motions to dismiss and to transfer on December 15, 1995.

A suit by Peter Halmos, purportedly in the name of Halmos Trading, seeking monetary damages and specific performance against SafeCard, one of its former officers and one of Ideon's directors in Circuit Court in Broward County, Florida, making a variety of claims related to the contested lease of SafeCard's former Ft. Lauderdale headquarters. SafeCard had vacated the building, ceased making payments related to such lease and had filed counterclaims. On March 25, 1996, the parties entered into a Settlement Agreement under which Ideon made a payment of \$3.8 million to settle all claims currently pending or previously

brought in this lawsuit.

A suit by Lois Hekker on behalf of herself and all others similarly situated seeking monetary damages against Ideon and its former Chief Executive Officer in the United States District Court for the Middle District of Florida on July 28, 1995. The litigation involves claims by a putative class of purchasers of Ideon stock for the period April 25, 1995 through May 25, 1995 for alleged violation of the federal securities laws in connection with statements made about Ideon's business and financial performance. Defendants filed a motion to dismiss on October 2, 1995. On January 3, 1996, the court stayed all merits discovery pending rulings on the motion to dismiss and on the plaintiff's motion for class certification. On August 19, 1996, the court denied the Company's motion to dismiss. The Company's answer is currently scheduled to be filed on September 23, 1996.

A suit by First Capital Partners, Thomas F. Frist III and Patricia F. Elcan against Ideon and two of its employees in the United States District Court for the Southern District of New York. The litigation involves claims against Ideon, its former CEO and its Vice President of Investor Relations for alleged material misrepresentations and omissions in connection with announcements relating to Ideon's expected earnings per share in 1995 and its new product sales, which included the PGA Tour Card Program, Family Protection Network and Collections of the Vatican Museums. On July 15, 1996, Ideon filed a motion to dismiss.

As noted in Note 2, the Company will establish a reserve upon the Ideon merger related, in part, to the litigation matters. The Company is also involved in certain other claims and litigation arising from the ordinary course of business, which are not considered material to the operations of the Company.

Note 7 -- SUBSEQUENT EVENT

The Company's fiscal 1990 recapitalization included establishment of a restricted stock plan designed to compensate and retain key employees of the Company. During July 1996, 910,000 restricted shares of Common Stock were granted with a fair value on the date of grant of \$30.5 million, which amount was deducted from shareholders' equity and is being amortized over the vesting period.

CUC INTERNATIONAL INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Three Months Ended April 30, 1996 vs.
Three Months Ended April 30, 1995

The Company's overall membership base continues to grow at a rapid rate (from 49.9 million members at April 30, 1995 to 60.9 million members at April 30, 1996), which is the largest contributing factor to the 19% increase in membership revenues (from \$383 million for the quarter ended April 30, 1995 to \$455 million for the quarter ended April 30, 1996). While the overall membership base increased by approximately 1.2 million members during the quarter, the average annual fee collected for the Company's membership services increased by 1%. 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 merchants 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.

Compared to the previous year's first quarter, individual, wholesale and discount program memberships grew by 9%, 20% and 61%, respectively, including members which came from acquisitions completed during fiscal 1996 (members resulting from acquisitions being "Acquired Members"). Discount program memberships have incurred the largest increase from Acquired Members, principally from Advance Ross Corporation, acquired in fiscal 1996, which

provides local discounts to consumers. For the quarter ended April 30, 1996, individual, wholesale and discount coupon program memberships represented 68%, 12% and 20% of membership 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.

Software revenues increased 27% from \$47.7 million for the quarter ended April 30, 1995 to \$60.5 million for the quarter ended April 30, 1996. Contributing to the strong software growth in fiscal 1997 is the availability of a larger number of titles as well as the significant increase in the installed base of CD-ROM personal computers.

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, costs related to products abandoned and restructuring and taxes ("EBIT") increased from \$67.3 million to \$81.9 million, and EBIT margins improved from 15.6% to 15.9%.

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. The Company records its deferred revenue net of estimated cancellations which are anticipated in the Company's marketing programs.

CUC INTERNATIONAL INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (continued)

Three Months Ended April 30, 1996 vs.
Three Months Ended April 30, 1995

Operating costs increased 22% (from \$129.9 million to \$158.3 million). The major components of the Company's membership operating costs continue to be personnel, telephone, computer processing and participant insurance premiums (the cost of obtaining insurance coverage for members). The major components of the Company's software operating costs are material costs, manufacturing labor and overhead, royalties paid to developers and affiliated label publishers and research and development costs related to designing, developing and testing new software products. 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 and software sales. Historically, the Company has seen a direct correlation between providing a high level of service to its members and improved retention.

Marketing costs remained constant as a percentage of revenue (40%). This is primarily due to maintained per member acquisition costs and an increase in renewing members. Membership acquisition costs incurred increased 22% (from \$134.4 million to \$164.3 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 11% (from \$144.7 million to \$160.4 million). Other marketing costs increased by 69% (from \$26.5 million to \$44.8 million). These increases resulted primarily from the costs of servicing a larger membership base and expenses incurred when selling and marketing a larger number of software titles. 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 (14%). This is the result of the Company's ongoing ability to control overhead. Interest income, net, decreased from \$3 million to \$2.2 million primarily due to cash used to fund acquisitions during fiscal 1996 and the first quarter of fiscal 1997.

Costs related to products abandoned and restructuring for the three months ended April 30, 1995 represent marketing and operational costs incurred for Ideon products abandoned.

CUC INTERNATIONAL INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (continued)

Membership Information

The following chart sets forth the approximate number of members and net additions for the respective periods.

Period	Number of Members	Net New Member Additions for the Period
Quarter Ended April 30, 1996	60,875,000	1,225,000
Year Ended January 31, 1996	59,650,000	12,750,000*
Quarter Ended April 30, 1995	49,875,000	2,975,000**
Year Ended January 31, 1995	46,900,000	3,820,000

*Includes approximately 8 million Acquired Members.

**Includes approximately 1.7 million Acquired Members.

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.

Membership cancellations processed by certain of the Company's clients 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 and acquisitions have been provided through cash flow from operations. The Company also has a credit agreement, dated March 26, 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 "Credit Agreement"). The Credit Agreement provides for a \$500 million revolving credit facility with a variety of different types of loans available thereunder. The Credit Agreement contains certain customary restrictive covenants including, without limitation, financial covenants and restrictions on certain corporate transactions, and also contains various event of default provisions including, without limitation, defaults arising from certain changes in control of the Company. The amount of borrowings available to the Company under the Credit Agreement was \$500 million at April 30, 1996, as there were no borrowings under the Credit Agreement at that date. The Credit Agreement is scheduled to expired March 26, 2001.

CUC INTERNATIONAL INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (continued)

Liquidity And Capital Resources; Inflation; Seasonality (continued)

In February 1996, Wright Express entered into a revolving credit facility agreement which has an available line of \$75 million of which \$50 million may be used to finance working capital requirements and for general corporate purposes and \$25 million may be used for acquisition financing. This facility expires December 1, 1998.

In fiscal 1996, Sierra entered into an unsecured bank line of credit that

provides for borrowing of up to \$10 million, expiring August 31, 1996. The line contains covenants requiring Sierra to maintain certain financial ratios and minimum balances in cash and cash equivalents. There have been no borrowings by Sierra under this line of credit to date. This line of credit expired August 31, 1996.

All costs related to the mergers with the Fiscal 1997 Pooled Entities have not been reflected in the Company's financial statements but will be reflected in the consolidated statements of income during the periods the respective mergers are completed. Such costs are non-recurring and those associated with the Company's mergers with Davidson and Sierra are comprised primarily of merger and integration costs and are expected to approximate \$28.6 million (\$25.1 million or \$.10 per common share after-tax effect) in the aggregate. Such costs associated with the Company's merger with Ideon (the "Ideon Merger") include integration and transaction costs as well as costs relating to certain outstanding litigation matters (see Note 6 to the Supplemental Condensed Consolidated Financial Statements) giving consideration to the Company's intended approach to these matters, which are estimated by the Company's management to approximate \$125.0 million (\$80.0 million after tax effect). Most of the reserve is related to these outstanding litigation matters. The Company is unable at this time to determine the estimated timing of the future cash outflows with respect to this liability. Although the Company has attempted to estimate the amounts that will be required to settle these litigation matters, there can be no assurance that the actual aggregate amount of such settlements will not exceed the amount of the reserve to be accrued.

The Company invested approximately \$29 million in acquisitions, net of cash acquired, during the three months ended April 30, 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. The Company anticipates that cash flow from operations and the Credit Agreement will be sufficient to achieve its current long-term objectives.

The Company does not anticipate any material capital expenditures for the next year. Total capital expenditures were \$16 million for the three months ended April 30, 1996.

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

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 membership 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. As is typical in the consumer software industry, the Company's software business is highly seasonal. Net revenues and operating income are highest during the third and fourth quarters and are lowest in the first and second quarters. This seasonal pattern is primarily due to the increased demand for the Company's software products during the year-end holiday season.

For the three months ended April 30, 1996, the Company's international businesses represented less than 5% 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.

CUC INTERNATIONAL INC. AND SUBSIDIARIES

SUPPLEMENTAL CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

July 31, January 31,

	1996	1996
-----	-----	-----
Assets	(Unaudited)	
Current Assets		
Cash and cash equivalents	\$336,842	\$333,036
Marketable securities	99,079	97,164
Receivables	505,774	463,492
Prepaid membership materials	47,021	39,061
Prepaid expenses, deferred taxes and other	143,929	158,523
	-----	-----
Total Current Assets	1,132,645	1,091,276
Membership solicitations in process	61,881	60,713
Deferred membership acquisition costs	406,794	404,655
Contract renewal rights and intangible assets		
- net of accumulated amortization		
of \$112,808 and \$100,578	352,861	332,806
Properties, at cost, less accumulated		
depreciation of \$116,402 and \$105,235	123,899	113,353
Deferred income taxes and other	59,372	65,393
	-----	-----
	\$2,137,452	\$2,068,196
	=====	=====
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable, accrued expenses		
and other accrued liabilities	\$250,224	\$296,048
Federal and state income taxes payable	14,054	35,957
	-----	-----
Total Current Liabilities	264,278	332,005
Deferred membership income	679,961	682,823
Convertible debt - net of unamortized		
original issue discount of \$576 and \$586	23,428	23,389
Zero coupon convertible notes - net of		
unamortized original issue discount		
of \$588		14,410
Other	11,287	13,046
Contingencies (Note 6)		
Shareholders' Equity		
Common stock-par value \$.01 per share;		
authorized 600 million shares; issued		
265,284,487 shares and 257,207,225 shares	2,653	2,572
Additional paid-in capital	552,956	429,934
Retained earnings	688,384	602,678
Treasury stock, at cost, 3,979,095		
shares and 3,410,631 shares	(52,291)	(30,998)
Deferred compensation	(30,485)	
Unrealized (loss) gain on marketable securities	(41)	593
Foreign currency translation	(2,678)	(2,256)
	-----	-----
Total Shareholders' Equity	1,158,498	1,002,523
	-----	-----
	\$2,137,452	\$2,068,196
	=====	=====

See notes to condensed consolidated financial statements.

CUC INTERNATIONAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(In thousands, except per share amounts)

-----	-----	-----
	Three Months Ended	
	July 31,	
-----	-----	-----
	1996	1995
-----	-----	-----
REVENUES		
Membership and service fees	\$487,164	\$403,788
Software	68,580	62,260

Total Revenues	555,744	466,048
EXPENSES		
Operating	168,014	147,700
Marketing	209,503	178,822
General and administrative	74,210	70,956
Costs related to products abandoned and restructuring		73,091
Merger costs	28,635	
Interest income, net	(1,835)	(2,765)

Total Expenses	478,527	467,804
INCOME (LOSS) BEFORE INCOME TAXES	77,217	(1,756)
Provision for income taxes	36,756	612

NET INCOME (LOSS)	\$40,461	\$ (2,368)
	=====	
Net Income (Loss) Per Common Share	\$0.15	\$ (0.01)
	=====	
Weighted Average Number of Common and Dilutive Common Equivalent Shares Outstanding	267,912	260,147
	=====	

See notes to supplemental condensed consolidated financial statements.

CUC INTERNATIONAL INC. AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(In thousands, except per share amounts)

	Six Months Ended July 31,	
	1996	1995
	-----	-----
REVENUES		
Membership and service fees	\$942,170	\$786,745
Software	129,053	109,962
	-----	-----
Total Revenues	1,071,223	896,707
EXPENSES		
Operating	326,341	277,646
Marketing	414,705	349,970
General and administrative	144,276	133,232
Costs related to products abandoned and restructuring		81,152
Merger costs	28,635	
Interest income, net	(4,075)	(5,807)
	-----	-----
Total Expenses	909,882	836,193
INCOME BEFORE INCOME TAXES	161,341	60,514
Provision for income taxes	68,759	24,578
	-----	-----
NET INCOME	\$92,582	\$35,936
	=====	=====
Net Income Per Common Share	\$0.35	\$0.14
	=====	=====

Weighted Average Number of
Common and Dilutive Common
Equivalent Shares Outstanding

266,178 259,116
=====

See notes to supplemental condensed consolidated financial statements.

CUC INTERNATIONAL INC. AND SUBSIDIARIES
SUPPLEMENTAL CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	JULY 31,	
SIX MONTHS ENDED	1996	1995
OPERATING ACTIVITIES:		
Net income	\$92,582	\$35,936
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Membership acquisition costs	(310,392)	(263,049)
Amortization of membership acquisition costs	319,514	272,386
Deferred membership income	(14,361)	(13,847)
Membership solicitations in process	(1,168)	(6,184)
Amortization of contract renewal rights and excess cost	12,780	11,452
Deferred income taxes	11,359	(38,181)
Loss on impairment of property and equipment		4,117
Amortization of original issue discount on convertible notes	1,291	832
Depreciation	13,367	11,275
Effect of change in amortization periods for Ideon membership acquisition costs		65,500
Net loss during change in fiscal year-ends	(4,268)	(49,944)
Changes in working capital items, net of acquisitions:		
Increase in receivables	(42,282)	(54,514)
Increase in prepaid membership materials	(7,960)	(7,938)
(Increase) decrease in prepaid expenses and other current assets	2,830	(9,204)
Net decrease in accounts payable, accrued expenses, other accrued liabilities and federal & state income taxes payable	(21,210)	(17,482)
(Decrease) increase in product abandonment and related liabilities	(10,700)	25,587
Other, net	(7,350)	(12,324)
Net cash provided by (used in) operating activities	34,032	(45,582)
INVESTING ACTIVITIES:		
Proceeds from matured marketable securities	75,460	169,916
Purchases of marketable securities	(66,947)	(71,209)
Acquisitions, net of cash acquired	(32,964)	(72,233)
Acquisitions of properties	(23,546)	(42,081)
Net cash used in investing activities	(47,997)	(15,607)
FINANCING ACTIVITIES:		
Issuance of Common Stock	18,582	15,233
Repayments of long-term obligations	1,987	4,859
Payments for purchase of treasury shares		(4,576)
Dividends paid	(2,798)	(4,404)
Net cash provided by financing activities	17,771	11,112
Net increase (decrease) in cash and cash equivalents	3,806	(50,077)
Cash and cash equivalents		

at beginning of period	333,036	281,019
	-----	-----
Cash and cash equivalents at end of period	\$336,842	\$230,942
	=====	=====

See notes to supplemental condensed consolidated financial statements.

CUC INTERNATIONAL INC. AND SUBSIDIARIES
NOTES TO SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 -- BASIS OF PRESENTATION

The supplemental consolidated financial statements include the accounts of CUC International Inc., its wholly-owned subsidiaries and its joint ventures (collectively, the "Company"). The Company operates in two business segments: membership services and software. Membership services are distributed to consumers through various channels which include financial institutions, credit unions, charities, other cardholder based organizations and retail establishments. The software segment develops, publishes and distributes educational and entertainment software for home and school use. These supplemental consolidated financial statements give retroactive effect to the mergers of Davidson & Associates, Inc. ("Davidson") (on July 24, 1996), Sierra On-Line, Inc. ("Sierra") (on July 24, 1996) and Ideon Group, Inc. ("Ideon") (on August 7, 1996) with wholly-owned subsidiaries of the Company, which have been accounted for using the pooling-of-interests method. These supplemental consolidated financial statements will become the Company's primary historical financial statements upon issuance of financial statements that include the date of consummation of all of the above-described mergers. All significant intercompany transactions have been eliminated in consolidation. All periods presented reflect the Company's reclassifications of deferred membership acquisition costs (previously classified as an offset to deferred membership income) and membership solicitations in process (previously classified as a current asset) to noncurrent assets.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended July 31, 1996 are not necessarily indicative of the results that may be expected for the year ending January 31, 1997. For further information, refer to the supplemental financial statements and footnotes thereto included in this Form 8-K.

NOTE 2 -- MERGERS AND ACQUISITIONS

During July 1996 the Company acquired all of the outstanding capital stock of Davidson for a purchase price of approximately \$1 billion, which was satisfied by the issuance of approximately 30.1 million shares of Common Stock. Also during July 1996 the Company acquired all of the outstanding capital stock of Sierra for a purchase price of approximately \$858 million, which was satisfied by the issuance of approximately 25.6 million shares of Common Stock. Davidson and Sierra develop, publish and distribute educational and entertainment software for home and school use. During August 1996 the Company acquired all of the outstanding capital stock of Ideon, principally a provider of credit card enhancement services, for a purchase price of approximately \$393 million, which was satisfied by the issuance of approximately 11 million shares of Common Stock. The mergers with Davidson, Sierra and Ideon (the "Fiscal 1997 Pooled Entities") have been accounted for in accordance with the pooling-of-interests method of accounting and, accordingly, the accompanying supplemental interim consolidated financial statements have been retroactively adjusted as if the Fiscal 1997 Pooled Entities and the Company had operated as one since inception.

The following represents revenues and net income of the Company and the Fiscal 1997 Pooled Entities for the six months ended July 31, 1995 and the last complete interim period preceding the mergers (unaudited, in thousands).

Three months ended April 30, 1996	Six months ended July 31, 1995
---	-----------------------------------

Revenues:

The Company	\$390,026	\$672,873
Fiscal 1997 Pooled Entities	125,453	223,834
	-----	-----
	\$515,479	\$896,707
	=====	=====

Net Income:

The Company	\$48,250	\$77,738
Fiscal 1997 Pooled Entities	3,871	(41,802)
	-----	-----
	\$52,121	\$35,936
	=====	=====

CUC INTERNATIONAL INC. AND SUBSIDIARIES
NOTES TO SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 2 -- MERGERS AND ACQUISITIONS (continued)

Davidson, Sierra and Ideon previously used the fiscal year-ends December 31, March 31 and December 31, respectively for their financial reporting. To conform to the Company's January 31 fiscal year-end, Davidson's and Ideon's operating results for January 1996 have been excluded from the six months ended July 31, 1996 operating results in the accompanying supplemental financial statements. In addition, Sierra's operating results for February and March 1996 have been included in the operating results for the six months ended July 31, 1996 in the accompanying supplemental financial statements and for the year ended January 31, 1996. The above-mentioned excluded and duplicated periods have been adjusted by a \$4.3 million charge to retained earnings at July 31, 1996.

Effective January 1, 1995, Ideon changed its fiscal year end from October 31 to December 31 (the "Ideon Transition Period"). The Ideon Transition Period has been excluded from the Company's historical consolidated statements of income. Ideon's revenues and net loss for the Ideon Transition Period were \$34.7 million and \$(49.9) million, respectively. This excluded period has been adjusted by a \$49.9 million charge to retained earnings at January 31, 1996. The net loss for the Ideon Transition Period was principally the result of a \$65.5 million one-time, non-cash, pretax charge recorded in connection with a change in accounting for deferred membership acquisition costs.

In connection with the Davidson and Sierra mergers with the Company, the Company charged \$28.6 million (\$25.1 million or \$.10 per common share after-tax effect) to operations in the three months ended July 31, 1996 for merger costs. Such costs are non-recurring and are comprised primarily of transaction costs, other professional fees and integration costs. Such costs associated with the Company's merger with Ideon (the "Ideon Merger") have not been reflected in the Company's supplemental financial statements but will be reflected in the consolidated statement of income during the period the merger is completed. Such costs are non-recurring and include integration and transaction costs as well as costs relating to certain outstanding litigation matters (see Note 6) giving consideration to the Company's intended approach to these matters, which are estimated by the Company's management to approximate \$125.0 million (\$80.0 million after tax effect). Most of the reserve is related to these outstanding litigation matters. In determining such portion, the Company estimated the cost of settling these litigation matters. In estimating such cost, the Company considered potential liabilities related to these matters and the estimated cost of prosecuting and defending them (including out-of-pocket costs, such as attorneys' fees, and the cost to the Company of having its management involved in numerous complex litigation matters). The Company is unable at this time to determine the estimated timing of the future cash outflows with respect to this liability. Although the Company has attempted to estimate the amounts that will be required to settle these litigation matters, there can be no assurance that the actual aggregate amount of such settlements will not exceed the amount of the reserve to be accrued. The reserve for these matters will be expensed in the consolidated statement of income subsequent to the closing of the Ideon Merger, and any subsequent payments related to these matters will reduce the

amount of the reserve. The Company considered litigation-related costs and liabilities, as well as integration and transaction costs, in determining the agreed upon exchange ratio in respect of the Ideon Merger.

In determining the amount of the reserve related to the Company's proposed integration and consolidation efforts, the Company estimated the significant severance costs to be accrued upon the consummation of the Ideon Merger and costs relating to the expected obligations for certain third-party contracts (e.g., existing leases and vendor agreements) to which Ideon is a party and which are neither terminable at will nor automatically terminated upon a change-in-control of Ideon. The Company expects to incur significant integration costs because Ideon's credit card registration and enhancement services are substantially similar to the Company's credit card registration and enhancement services. All of the business activities related to the operations performed by Ideon's Jacksonville, Florida office were transferred to the Company's Comp-U-Card Division in Stamford, Connecticut upon the consummation of the Ideon Merger. The Company also expects that there will be additional consolidation affecting other parts of Ideon's business that are substantially the same as the Company's existing businesses. The Company does not expect any loss in revenue as a result of these integration and consolidation efforts.

CUC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(continued)

NOTE 3 -- SHAREHOLDERS' EQUITY

For the three and six months ended July 31, 1996, \$14.7 million and \$14.9 million principal of zero coupon convertible notes were converted into 2.2 million shares and 2.3 million shares of Common Stock, respectively, and the related unamortized original issue discount (\$64,000 and \$68,000, respectively) was charged against additional paid-in capital. The balance of the change in additional paid-in capital and treasury stock principally relates to stock option activity.

The Company's fiscal 1990 recapitalization included establishment of a restricted stock plan designed to compensate and retain key employees of the Company. During July 1996, 910,000 restricted shares of Common Stock were granted with a fair value on the date of grant of \$30.5 million, which amount was deducted from shareholders' equity and is being amortized over the vesting period.

Net income per share, assuming the conversions of the zero coupon convertible notes during the six months ended July 31, 1996 occurred at the beginning of such period, would not differ significantly from the Company's actual earnings per share for such period.

NOTE 4 -- SOFTWARE RESEARCH AND DEVELOPMENT COSTS AND COSTS OF SOFTWARE REVENUE

Software research and development costs are included in operating expenses and aggregated \$15.3 million and \$13.5 million for the three months ended July 31, 1996 and 1995, respectively, and \$30.2 million and \$24.3 million for the six months ended July 31, 1996 and 1995, respectively. Costs of software revenue are included in operating expenses and aggregated \$21.1 million and \$28.4 million for the three months ended July 31, 1996 and 1995, respectively, and \$45.9 million and \$47.9 million for the six months ended July 31, 1996 and 1995, respectively.

NOTE 5 -- INCOME TAXES

The Company's effective tax rate differs from the Federal statutory rate principally because of state income taxes and non-deductible amortization of the excess of cost over net assets acquired.

NOTE 6 -- CONTINGENCIES - IDEON

At July 31, 1996, Ideon was defending or prosecuting claims in thirteen complex lawsuits, twelve of which involved Peter Halmos, former Chairman of the Board and Executive Management Consultant to SafeCard, and various parties related to him as adversaries. Peter Halmos is also a plaintiff in three other lawsuits, one against a former officer, one against a director of Ideon and one against SafeCard's outside counsel, in which neither SafeCard nor Ideon have been named as defendant. The thirteen cases in which Ideon or its subsidiaries

is a party are as follows:

A suit initiated by Peter Halmos, related entities, and Myron Cherry (a former lawyer for SafeCard) in April 1993 in Cook County Circuit Court in Illinois against SafeCard and one of Ideon's directors, purporting to state claims aggregating in excess of \$100 million, principally relating to alleged rights to "incentive compensation," stock options or their equivalent, indemnification, wrongful termination and defamation. On February 7, 1995, the court dismissed with prejudice Peter Halmos' claims regarding alleged rights to "incentive compensation," stock options or their equivalent, wrongful termination and defamation. Mr. Halmos has appealed this ruling. SafeCard has filed an answer to the remaining indemnification claims. Its obligation to file an answer to the claims of Myron Cherry have been stayed pending settlement discussions. On December 28, 1995, the court stayed Halmos' indemnification claims pending resolution of a declaratory judgment action filed by Ideon in Delaware Chancery Court.

A suit which seeks monetary damages and certain equitable relief filed by SafeCard in August 1993 in Laramie County Circuit Court in Wyoming against Peter Halmos and related entities alleging that Peter Halmos dominated and controlled SafeCard, breached his fiduciary duties to SafeCard, and misappropriated material non-public information to make \$48 million in profits on sales of SafeCard stock. In March 1994, Mr. Halmos and related entities filed a counterclaim in which claims were made of conspiracy in restraint to trade, monopolization and attempted monopolization, unfair competition and restraint of trade, breach of contract for indemnity and intentional infliction of emotional distress. SafeCard's motion to sever the conspiracy, monopolization and restraint of trade claims was granted in May 1994. The claims for the conspiracy, monopolization, restraint of trade and unfair competition were dismissed without prejudice in June 1994. On April 12, 1995, the trial court granted the motion of Mr. Halmos and certain related entities to amend their counterclaims. The amended counterclaims include claims for indemnification for legal expenses incurred in the action and a claim that SafeCard's contract with CreditLine should be rescinded. On April 19, 1995, the trial court granted Mr. Halmos' motion for summary judgment that certain of SafeCard's claims against him were barred by the statute of limitation. On March 14, 1996, the Wyoming Supreme Court reversed the trial court's ruling that certain of SafeCard's claims were barred by the statute of limitations. Pursuant to the Court's order of July 31, 1996, the action has been abated to permit the parties to engage in settlement negotiations.

CUC INTERNATIONAL INC. AND SUBSIDIARIES
NOTES TO SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(continued)

NOTE 6 -- CONTINGENCIES - IDEON (continued)

A suit seeking monetary damages by Peter Halmos, purportedly in his name and in the name of CreditLine Corporation and Continuity Marketing Corporation against SafeCard, one of its officers and three of Ideon's directors in United States District Court in the Southern District of Florida, in September 1994 purporting to state various tort claims, state and federal antitrust claims and claims of copyright infringement. The claims principally relate to the allegation by Peter Halmos and his companies that SafeCard has taken action to prevent him from being a successful competitor. All discovery in the case has been stayed pending a ruling on a motion to dismiss filed by SafeCard, its officer and Ideon's directors. On August 16, 1995, the United States Magistrate Judge filed a Report and Recommendation that the case be dismissed. The parties have filed various beliefs and memoranda in response to this Report. On January 4, 1996, the Magistrate recommended ruling that the statute of limitations was tolled during pendency of the case in federal court and the plaintiffs' state law claims were thus not time-barred. Defendants have filed an objection to this recommendation.

A suit seeking monetary damages by Peter Halmos, as trustee for the Peter A. Halmos revocable trust dated January 24, 1990 and the Halmos Foundation, Inc. individually and certain other named parties on behalf of themselves and all others similarly situated against SafeCard, one of its officers, one of its former officers and three of Ideon's directors in the United States District Court for the Southern District of Florida in December 1994. This litigation involves claims by a putative class of sellers of SafeCard Stock for the period January 11, 1993 through December 8, 1994 for alleged violations of the federal and states securities laws in connection with alleged improprieties in

SafeCards' investor relations program. The complaint also includes individual claims made by Peter Halmos in connection with the sale of stock by two trusts controlled by him. SafeCard and the individual defendants have filed a motion to dismiss. There has been limited discovery on class certification and identification of "John Doe" defendant issues. Ideon filed its opposition to the pending motion for class certification on December 11, 1995. Plaintiffs' reply was filed March 19, 1996. On September 9, 1996, the Court entered an order abating the action until December 9, 1996 to permit the parties to engage in settlement negotiations.

A suit seeking monetary damages and injunctive relief by LifeFax, Inc. and Continuity Marketing Corporation, companies affiliated with Peter Halmos, in the State Circuit Court in Palm Beach County, Florida in April 1995 against Ideon, Family Protection Network, Inc., SafeCard, one of Ideon's directors and Ideon's Chief Executive Officer purporting to state various statutory and tort claims. The claims principally relate to the allegation by these companies that SafeCard's Early Warnings Service and Family Protection Network were conceived and commercialized by, among others, Peter Halmos and have been improperly copied. An amendment complaint filed on June 14, 1995 seeking monetary damages adds to the prior claims certain claims by Nicholas Rubino that principally relate to the allegation that SafeCard's Pet Registration Product was conceived by Mr. Rubino and has been improperly copied. The Company has filed an appropriate answer.

CUC INTERNATIONAL INC. AND SUBSIDIARIES
NOTES TO SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(continued)

NOTE 6 -- CONTINGENCIES - IDEON (continued)

A suit seeking monetary damages and declaratory relief by Peter Halmos, individually and as trustee for the Peter A. Halmos revocable trust dated January 24, 1990 and by James B. Chambers, individually and on behalf of himself and all others similarly situated against Ideon, SafeCard, each of the members of Ideon's Board of Directors, three non-board member officers of Ideon, Ideon's previous outside auditor and one of Ideon's outside counsel in the United States District Court for the Southern District of Florida in June 1995. The litigation involves claims by a putative class of purchasers of Ideon stock between December 14, 1994 and May 25, 1995 and on behalf of a separate class of all record holders of SafeCard stock as of April 27, 1995. The putative class claims are for alleged violations of the federal securities laws, for alleged breach of fiduciary duty and alleged negligence in connection with certain matters voted on at the Annual Meeting of SafeCard stockholders held on April 27, 1995. Ideon and the individual defendants have filed a motion to dismiss these claims. There has been limited discovery on class certification issues. Ideon filed its opposition to the pending motion for class certification on December 11, 1995. Plaintiffs' reply was filed March 19, 1996. On September 9, 1996, the Court entered an order abating the action until December 9, 1996 to permit the parties to engage in settlement negotiations.

A purported shareholder derivative action initiated by Michael P. Pisano, on behalf of himself and other stockholders of SafeCard and Ideon against SafeCard, Ideon, two of their officers, and Ideon's directors in United States District Court, Southern District of Florida. This litigation involves claims that the officers and directors of SafeCard have improperly refused to accede Peter Halmos' litigation and indemnification demands against Ideon. Ideon and the individual defendants have filed motions to dismiss the first amended complaint. On September 29, 1995, Pisano filed a second amended complaint which made additional allegations of waste and mismanagement against Ideon's officers and directors in connection with the Family Protection Network and PGA Tour Partner products. On December 26, 1995, Ideon filed motions to dismiss the Second Amended Complaint. On June 4 and June 19, 1996, orders were entered dismissing plaintiff's claims with prejudice for failure to join an indispensable party, Peter Halmos. On June 27, 1996, plaintiff filed a notice of appeal.

A suit seeking monetary damages filed by Peter Halmos against SafeCard, one of its directors, its former general counsel, and its legal counsel in the Circuit Court, Fifteenth Judicial Circuit, in and for Palm Beach County, Florida on August 10, 1995. This litigation involves claims by Peter Halmos for breach of fiduciary duty and constructive fraud, fraud, and negligent misrepresentation and is based on allegations arising out of the resolution of a shareholder class

action lawsuit in 1991 and SafeCard's subsequent filing of an action against Halmos and his related companies in Wyoming in 1993. Plaintiff filed an amended complaint on June 26, 1996 and on July 11, 1996 Ideon moved to dismiss plaintiff's amended complaint or in the alternative to stay the action.

A declaratory judgment action by Ideon and its directors against Peter Halmos in Delaware Chancery Court, New Castle County. This action seeks a declaration regarding Ideon's advance indemnification obligations, if any, to Peter Halmos in connection with his many lawsuits. Halmos filed a motion to dismiss on jurisdictional grounds on November 17, 1995. Ideon filed a brief in opposition and an amended complaint on February 14, 1996. On April 22, 1996, Halmos filed an answer and amended counterclaims in which High Plains Capital Corporation ("High Plains") and Halmos Trading & Investment Company ("Halmos Trading") were added as additional parties. The amended counterclaims seek advancement and/or indemnification for Halmos, High Plains and Halmos Trading for certain litigations and an IRS investigation. The amended counterclaims also seek recovery against individual defendant directors based on allegations they willfully and unjustly denied Halmos indemnification and/or advancement.

CUC INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

NOTE 6 -- CONTINGENCIES - IDEON (continued)

A suit by High Plains against Ideon, SafeCard, two of its directors and The Dilenschneider Group, Inc. in Circuit Court in Palm Beach County, Florida. This litigation involves claims by High Plains for certain incentive compensation arising out of Halmos' affiliation with SafeCard. The complaint includes claims for breach of written agreements regarding additional services and expenses, an alternative claim for quantum meruit based on written agreement and a count for tortious interference with advantageous business relationship. Ideon filed a motion for final summary judgment. Discovery has been stayed pending a ruling on this motion.

A suit filed by High Plains against Ideon and SafeCard in Circuit Court in Broward County, Florida. This litigation involves claims by High Plains for alleged breach of oral contract, alleged violation of Florida's Uniform Trade Secrets Act, alleged misappropriation of trade secrets and for declaration that certain alleged trade secrets are property of High Plains. Ideon filed motions to dismiss and to transfer on December 15, 1995.

A suit by Peter Halmos, purportedly in the name of Halmos Trading, seeking monetary damages and specific performance against SafeCard, one of its former officers and one of Ideon's directors in Circuit Court in Broward County, Florida, making a variety of claims related to the contested lease of SafeCard's former Ft. Lauderdale headquarters. SafeCard had vacated the building, ceased making payments related to such lease and had filed counterclaims. On March 25, 1996, the parties entered into a Settlement Agreement under which Ideon made a payment of \$3.8 million to settle all claims currently pending or previously brought in this lawsuit.

A suit by Lois Hekker on behalf of herself and all others similarly situated seeking monetary damages against Ideon and its former Chief Executive Officer in the United States District Court for the Middle District of Florida on July 28, 1995. The litigation involves claims by a putative class of purchasers of Ideon stock for the period April 25, 1995 through May 25, 1995 for alleged violation of the federal securities laws in connection with statements made about Ideon's business and financial performance. Defendants filed a motion to dismiss on October 2, 1995. On January 3, 1996, the court stayed all merits discovery pending rulings on the motion to dismiss and on the plaintiff's motion for class certification. On August 19, 1996, the court denied the Company's motion to dismiss. The Company's answer is currently scheduled to be filed on September 23, 1996.

A suit by First Capital Partners, Thomas F. Frist III and Patricia F. Elcan against Ideon and two of its employees in the United States District Court for the Southern District of New York. The litigation involves claims against Ideon, its former CEO and its Vice President of Investor Relations for alleged material misrepresentations and omissions in connection

with announcements relating to Ideon's expected earnings per share in 1995 and its new product sales, which included the PGA Tour Card Program, Family Protection Network and Collections of the Vatican Museums. On July 15, 1996, Ideon filed a motion to dismiss.

As noted in Note 2, the Company will establish a reserve upon the Ideon merger related, in part, to these litigation matters. The Company is also involved in certain other claims and litigation arising from the ordinary course of business, which are not considered material to the operations of the Company.

ITEM 2. CUC INTERNATIONAL INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Three Months Ended July 31, 1996 vs.
Three Months Ended July 31, 1995

The Company's overall membership base continues to grow at a rapid rate (from 51.2 million members at July 31, 1995 to 62.3 million members at July 31, 1996), which is the largest contributing factor to the 21% increase in membership revenues (from \$403.8 million for the quarter ended July 31, 1995 to \$487.2 million for the quarter ended July 31, 1996). While the overall membership base increased by approximately 1.4 million members during the quarter, the average annual fee collected for the Company's membership services increased by 1%. 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.

Compared to the previous year's second quarter, individual, wholesale and discount program memberships grew by 9%, 20% and 61%, respectively, including members which came from acquisitions completed during fiscal 1996 (members resulting from acquisitions being "Acquired Members"). Discount program memberships have incurred the largest increase from Acquired Members, principally from Advance Ross Corporation, acquired in fiscal 1996, which provides local discounts to consumers. For the quarter ended July 31, 1996, individual, wholesale and discount coupon program memberships represented 68%, 12% and 20% of membership 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.

Software revenues increased 10% from \$62.3 million for the quarter ended July 31, 1995 to \$68.6 million for the quarter ended July 31, 1996. Distribution revenue, which typically has low operating margins, was down from \$28.6 million to \$12.6 million. The Company's software operations continue to focus on the growth of selling titles through retailers. Excluding distribution revenue, core software revenue grew by 66%. Contributing to the strong software revenue growth in fiscal 1997 is the availability of a larger number of titles as well as the significant increase in the installed base of CD-ROM personal computers.

As the Company's membership 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, costs related to products abandoned and restructuring, merger costs and taxes ("EBIT") increased from \$68.6 million to \$104 million, and EBIT margins improved from 14.7% to 18.7%.

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. The Company records its deferred revenue net of estimated cancellations which are anticipated in the Company's marketing programs.

CUC INTERNATIONAL INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (continued)

Three Months Ended July 31, 1996 vs.
Three Months Ended July 31, 1995

Operating costs increased 14% (from \$147.7 million to \$168 million). The major components of the Company's membership operating costs continue to be personnel, telephone, computer processing and participant insurance premiums (the cost of obtaining insurance coverage for members). The major components of the Company's software operating costs are material costs, manufacturing labor and overhead, royalties paid to developers and affiliated label publishers and research and development costs related to designing, developing and testing new software products. 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 and software sales. Historically, the Company has seen a direct correlation between providing a high level of service to its members and improved retention.

Marketing costs remained constant as a percentage of revenue (38%). This is primarily due to improved per member acquisition costs and an increase in renewing members. Membership acquisition costs incurred increased 14% (from \$128.6 million to \$146.1 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 25% (from \$127.7 million to \$159.1 million). These increases resulted primarily from the costs of servicing a larger membership base and expenses incurred when selling and marketing a larger number of software titles. Other marketing costs decreased by 1% (from \$51.1 million to \$50.4 million). 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 decreased as a percentage of revenue (from 15% to 13%). This is a result of the Company's ongoing ability to control overhead. Interest income, net, decreased from \$2.8 million to \$1.8 million primarily due to cash used to fund acquisitions during fiscal 1996 and the first quarter of fiscal 1997.

Included in costs related to products abandoned and restructuring for the three months ended July 31, 1995, are special charges totaling \$34.2 million related to the abandonment of certain new product developmental efforts and the related impairment of certain assets and the restructuring of the SafeCard division of Ideon and the Ideon corporate infrastructure. The charge of \$34.2 million was composed of accrued liabilities of \$25.6 million and asset impairments of \$8.6 million. Also included in costs related to products abandoned and restructuring are marketing and operational costs incurred for Ideon products abandoned of \$38.9 million.

Merger costs are non-recurring and are comprised primarily of transaction costs, professional fees and integration costs associated with the mergers of the Company with Davidson and Sierra.

CUC INTERNATIONAL INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Six Months Ended July 31, 1996 vs.
Six Months Ended July 31, 1995

The Company's overall membership base continues to grow at a rapid rate (from 51.2 million members at July 31, 1995 to 62.3 million members at July 31, 1996), which is the largest contributing factor to the 20% increase in membership

revenues (from \$786.7 million for the six months ended July 31, 1995 to \$942.2 million for the six months ended July 31, 1996). While the overall membership base increased by approximately 2.7 million members during the six months ended July 31, 1996, the average annual fee collected for the Company's membership services increased by 1%. 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.

Compared to the previous year's first six months, individual, wholesale and discount program memberships grew by 9%, 20% and 61%, respectively, including members which came from acquisitions completed during fiscal 1996 (members resulting from acquisitions being "Acquired Members"). Discount program memberships have incurred the largest increase from Acquired Members, principally from Advance Ross Corporation, acquired in fiscal 1996, which provides local discounts to consumers. For the six months ended July 31, 1996, individual, wholesale and discount coupon program memberships represented 68%, 12% and 20% of membership 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.

Software revenues increased 17% from \$110 million for the six months ended July 31, 1995 to \$129.1 million for the six months ended July 31, 1996. Distribution revenue, which typically has low operating margins, was down from \$41.7 million to \$25.7 million. The Company's software operations continue to focus on the growth of selling titles through retailers. Excluding distribution revenue, core software revenue grew by 57%. Contributing to the strong software revenue growth in fiscal 1997 is the availability of a larger number of titles as well as the significant increase in the installed base of CD-ROM personal computers.

As the Company's membership 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, EBIT increased from \$135.9 million to \$185.9 million, and EBIT margins improved from 15.2% to 17.4%.

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. The Company records its deferred revenue net of estimated cancellations which are anticipated in the Company's marketing programs.

CUC INTERNATIONAL INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (continued)

Six Months Ended July 31, 1996 vs.
Six Months Ended July 31, 1995

Operating costs increased 18% (from \$277.6 million to \$326.3 million). The major components of the Company's membership operating costs continue to be personnel, telephone, computer processing and participant insurance premiums (the cost of obtaining insurance coverage for members). The major components of the Company's software operating costs are material costs, manufacturing labor and overhead, royalties paid to developers and affiliated label publishers and research and development costs related to designing, developing and testing new software products. 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 and software sales. Historically, the Company has seen a direct correlation between providing a high level of service to its members and improved retention.

Marketing costs remained constant as a percentage of revenue (39%). This is primarily due to maintained per member acquisition costs and an increase in renewing members. Membership acquisition costs incurred increased 18% (from \$263 million to \$310.4 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 17% (from \$272.4 million to \$319.5 million). Other marketing costs increased by 23% (from \$77.6 million to \$95.2 million). These increases resulted primarily from the costs of servicing a larger membership base and expenses incurred when selling and marketing a larger number of software titles. 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 decreased as a percentage of revenue (from 15% to 13%). This is the result of the Company's ongoing ability to control overhead. Interest income, net, decreased from \$5.8 million to \$4.1 million primarily due to cash used to fund acquisitions during fiscal 1996 and the first six months of fiscal 1997.

Included in costs related to products abandoned and restructuring for the six months ended July 31, 1995, are special charges totaling \$34.2 million, related to the abandonment of certain new product developmental efforts and the related impairment of certain assets and the restructuring of the SafeCard division of Ideon and the Ideon corporate infrastructure. The charge of \$34.2 million was composed of accrued liabilities of \$25.6 million and asset impairments of \$8.6 million. Also included in costs related to products abandoned and restructuring are marketing and operational costs incurred for Ideon products abandoned of \$47 million.

Merger costs are non-recurring and are comprised primarily of transaction costs, professional fees and integration costs associated with the mergers of the Company with Davidson and Sierra.

CUC INTERNATIONAL INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (continued)

Membership Information

The following chart sets forth the approximate number of members and net additions for the respective periods.

Period	Number of Members	Net New Member Additions for the Period
Six Months Ended July 31, 1996	62,315,000	2,665,000
Year Ended January 31, 1996	59,650,000	12,750,000*
Six Months Ended July 31, 1995	51,165,000	4,265,000**
Year Ended January 31, 1995	46,900,000	3,820,000
Quarter Ended July 31, 1996	62,315,000	1,440,000
Quarter Ended July 31, 1995	51,165,000	1,290,000

*Includes approximately 8 million Acquired Members.

**Includes approximately 2.1 million Acquired Members.

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.

Membership cancellations processed by certain of the Company's clients 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 and acquisitions have been provided through cash flow from operations. The Company also has a credit agreement, dated March 26, 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 "Credit Agreement"). The Credit Agreement provides for a \$500 million revolving credit facility with a variety of different types of loans available thereunder. The Credit Agreement contains certain customary restrictive covenants including, without limitation, financial covenants and restrictions on certain corporate transactions, and also contains various event of default provisions including, without limitation, defaults arising from certain changes in control of the Company. The amount of borrowings available to the Company under the Credit Agreement was \$500 million at July 31, 1996, as there were no borrowings under the Credit Agreement at that date. The Credit Agreement is scheduled to expire March 26, 2001.

In February 1996, Wright Express entered into a revolving credit facility agreement which has an available line of \$75 million of which \$50 million may be used to finance working capital requirements and for general corporate and \$25 million may be used for acquisition financing. This facility expires December 1, 1998.

In fiscal 1996, Sierra entered into an unsecured bank line of credit that provides for borrowing of up to \$10 million, expiring August 31, 1996. The line contains covenants requiring Sierra to maintain certain financial ratios and minimum balances in cash and cash equivalents. There have been no borrowings by Sierra under this line of credit to date. This line of credit expired August 31, 1996.

All costs related to the Ideon Merger have not been reflected in the Company's supplemental financial statements but will be reflected in the consolidated statement of income during the period the merger is completed. Such costs are non-recurring and include integration and transaction costs as well as costs relating to certain outstanding litigation matters, (see Note 6 to the Supplemental Condensed Consolidated Financial Statements) giving consideration to the Company's intended approach to these matters, which are estimated by the Company's management to approximate \$125.0 million (\$80.0 million after tax effect). Most of the reserve is related to these outstanding litigation matters. In determining such portion, the Company estimated the cost of settling these litigation matters. In estimating such cost, the Company considered potential liabilities related to these matters and the estimated cost of prosecuting and defending them (including out-of-pocket costs, such as attorneys' fees, and the cost to the Company of having its management involved in numerous complex litigation matters). The Company is unable at this time to determine the estimated timing of the future cash outflows with respect to this liability. Although the Company has attempted to estimate the amounts that will be required to settle these litigation matters, there can be no assurance that the actual aggregate amount of such settlements will not exceed the amount of the reserve to be accrued.

CUC INTERNATIONAL INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Liquidity And Capital Resources; Inflation; Seasonality (continued)

The Company invested approximately \$33 million in acquisitions, net of cash acquired, during the six months ended July 31, 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. The Company anticipates that cash flow from operations and the Credit Agreement will be sufficient to achieve its current long-term objectives.

The Company does not anticipate any material capital expenditures for the next year. Total capital expenditures were \$24 million for the six months ended July 31, 1996.

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

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 membership 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. As is typical in the consumer software industry, the Company's software business is highly seasonal. Net revenues and operating income are highest during the third and fourth quarters and are lowest in the first and second quarters. This seasonal pattern is primarily due to the increased demand for the Company's software products during the year-end holiday season.

For the six months ended July 31, 1996, the Company's international businesses represented less than 5% 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.

CUC International Inc. and Subsidiaries

Exhibit 99.3--Selected Supplemental Consolidated Financial Data

(In thousands, except for per common share data)

	Year Ended January 31,				
	1996 (b)	1995 (b)	1994	1993 (b)	1992
Income Statement Data (a)					
Total revenues	\$ 1,935,232	\$ 1,554,611	\$ 1,278,664	\$ 1,043,311	\$904,052
Income from continuing operations before income taxes	235,312 (c)	256,931 (f)	198,319	117,434	100,896 (g)
Income from continuing operations	144,975 (c)	162,057 (f)	124,705	80,239	70,479 (g)
Income per common share from continuing operations (d)	\$.55 (c)	\$.64 (f)	\$.51	\$.35	\$.37 (g)
Cash dividends per common share (i)	\$.02	\$.02	\$.02	\$.02	\$.02
Weighted average number of common and dilutive common equivalent shares outstanding (d)					
	261,472	252,842	243,943	227,141	192,108
Balance Sheet Data (a)					
Total assets (e)	\$2,068,196	\$1,772,122	\$1,199,805	\$1,032,269	\$814,961
Long-term obligations (h)	6,481	22,872	24,235	30,091	16,336
Zero coupon convertible notes	14,410	15,046	22,176	37,295	69,228
Convertible debt	23,389	34,634	-	-	-
Stockholders' equity	1,002,523 (j)	826,083	558,181	389,461	235,675
Working capital (e)	759,271	523,996	298,230	147,475	167,394

- (a) Includes acquisitions accounted for in accordance with the pooling-of-interests method of accounting (see Note B to Supplemental Consolidated Financial Statements).
- (b) Includes acquisitions accounted for in accordance with the purchase method of accounting (see Note B to the Supplemental Consolidated Financial Statements).
- (c) Includes provision for costs incurred in connection with the acquisition of Advance Ross Corporation ("Advance Ross"). The charge aggregated \$5.2 million (\$4.2 million or \$.02 per common share after-tax effect). Also during fiscal 1996, Ideon Group, Inc. ("Ideon") recorded pre-tax charges of \$43.8 million related to the abandonment of certain new product development efforts and the restructuring of its SafeCard division and its corporate infrastructure.
- (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) All periods presented reflect the Company's reclassifications of deferred membership acquisition costs (previously classified as an offset to deferred membership income) and membership solicitations in process (previously classified as a current asset) to noncurrent assets.
- (f) During fiscal 1995, Ideon recorded a pre-tax charge of \$7.9 million for various severance agreements and a lease termination in connection with a reorganization of its operations and senior management team.
- (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). In addition, includes a pre-tax charge of \$17.5 million in connection with Ideon's relocation of an operations center.

- (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 \$15.4 million, \$11.8 million, \$5.5 million, \$23.2 million and \$26.7 million of amounts due under revolving credit facilities at January 31, 1996, 1995, 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 Gift Wrap, LP.
- (i) Represents cash dividends paid to Ideon common stockholders. 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.
- (j) Effective January 1, 1995, Ideon changed its fiscal year end from October 31 to December 31 (the "Ideon Transition Period"). The Ideon Transition Period has been excluded from the accompanying supplemental consolidated statement of income. Ideon's revenues and net loss for the Ideon Transition Period were \$34.7 million and \$(49.9) million, respectively. The net loss for the Ideon Transition Period was principally the result of a \$65.5 million one-time, non-cash, pretax charge recorded in connection with a change in accounting for deferred membership acquisition costs.

CUC International Inc. and Subsidiaries

Exhibit 99.4--Supplemental 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 47 million members at January 31, 1995 to 59.7 million members at January 31, 1996), which is the largest contributing factor to the 20% increase in membership revenues (from \$1,363.6 million in fiscal 1995 to \$1,629.8 million in fiscal 1996). While the overall membership base increased by 12.7 million members, or 27%, 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%. 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 merchants 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 8%, 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 68%, 12% and 20% of membership 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 Supplemental Consolidated Financial Statements).

Software revenues increased 60% to \$305.4 million in fiscal 1996 from \$191.1 million in fiscal 1995. Contributing to the strong software growth in fiscal 1996 was the release of 63 new titles and an additional 18 titles which were acquired compared to 34 new products released in fiscal 1995. Also contributing to the software revenue growth is the significant increase in the installed base of CD-ROM personal computers as well as increases in affiliated label and distribution revenues.

As the Company's membership 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, costs related to products abandoned and restructuring, gain on sale of and equity in loss from ImagiNation Network and income taxes ("EBIT") increased from \$239.1 million to \$322.7 million and EBIT margins improved from 15.4% to 16.7%.

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 \$376 million, \$354 million and \$319 million, respectively, for the fiscal years ended January 31, 1996, 1995 and 1994. This represents 19%, 21% and 22%, respectively,

of the gross membership 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 25% (from \$474.1 million to \$593.5 million). The major components of the Company's membership operating costs continue to be personnel, telephone, computer processing and participant insurance premiums (the cost of obtaining insurance coverage for members). The major components of the Company's software operating costs are material costs, manufacturing labor and overhead, royalties paid to developers and affiliated label publishers and research and development costs related to designing, developing and testing new software products. 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 and software sales. 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 40% to 38%. This decrease is primarily due to improved per member acquisition costs and an increase in renewing members. Membership acquisition costs incurred increased 19% (from \$508.8 million to \$605.1 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 19% (from \$467 million to \$556.5 million). Other marketing costs increased by 20% (from \$151.3 million to \$180.9 million). This increase resulted primarily from the costs of servicing a larger membership base and expenses incurred when selling and marketing a larger number of software titles. The marketing functions for the Company's membership services are combined for its various services and, accordingly, there are no significant changes in marketing costs by membership service.

The Company routinely reviews all membership 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 increased as a percentage of revenues, from 14% to 15%. This is principally due to acquisitions completed during fiscal 1996. Interest income, net, increased from \$7.9 million to \$9.7 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.

Included in costs related to products abandoned and restructuring for the year ended January 31, 1996, are special charges totaling \$43.8 million, net of recoveries, related to the abandonment of certain new product developmental efforts and the related impairment of certain assets and the restructuring of the SafeCard division of Ideon and the Ideon corporate infrastructure. The original charge of \$45 million was composed of accrued liabilities of \$36.2 million and asset impairments of \$8.8 million. Also included in costs related to products abandoned and restructuring are marketing and operational costs incurred for Ideon products abandoned of \$53.2 million.

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 42.9 million members at January 31, 1994 to 47 million members at January 31, 1995), which is the largest contributing factor to the 19% increase in membership revenues (from \$1,143.2 million in fiscal 1994 to \$1,363.6 million in fiscal 1995). While the overall membership base increased by 4.1 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 70%, 11% and 19% of membership 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).

Software revenues increased 41% to \$191.1 million in fiscal 1995 from \$135.5 million in fiscal 1994. Contributing to the strong software growth in fiscal 1995 was the release of 34 new titles. Also contributing to the software growth is the expansion in the installed base of personal computers as well as an increase in affiliated label revenues.

As the Company's membership 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 \$200.2 million to \$239.1 million, however EBIT margins decreased slightly from 15.7% to 15.4%, due principally to increased software research and development.

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 \$354 million, \$319 million and \$292 million, respectively, for the fiscal years ended January 31, 1995, 1994 and 1993. This represents approximately 21%, 22% and 24% of the gross membership 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 29% (from \$368.8 million to \$474.1 million). The major components of the Company's membership operating costs continue to be personnel, telephone, computer processing, participant insurance premiums (the cost of obtaining insurance coverage for members). The major components of the Company's software operating costs are material costs, manufacturing labor and overhead, royalties paid to developers and affiliated label publishers and research and development costs related to designing, developing and testing new software products. 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 and software sales. Historically, the Company has seen a direct correlation between providing a high level of service to its members and improved retention.

Marketing costs remained constant as a percentage of revenue (40%). This is primarily due to improved per member acquisition costs and an increase in renewing members. Membership acquisition costs incurred increased 11% (from \$457.3 million to \$508.8 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 14% (from \$409.5 million to \$467 million). Other marketing costs increased by 44% (from \$105.1 million to \$151.3 million). This increase resulted primarily from the costs of servicing a larger membership base, costs to establish the American Airlines AAdvantage Dining program and expenses incurred when selling and marketing a larger number of software titles. The marketing functions for the Company's membership services are combined for its various services and, accordingly, there are no significant changes in marketing costs by membership service.

The Company routinely reviews all membership 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 15% to 14%. This is the result of the Company's ongoing ability to control overhead. Interest income, net, increased from \$3.2 million to \$7.9 million primarily due to the reduction of the Company's average outstanding loan balance and the net interest income from the increased level of cash generated by the Company for investment.

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	59,650,000	12,700,000*
January 31, 1995	46,950,000	4,050,000
January 31, 1994	42,900,000	3,820,000

*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 \$376 million, \$353 million and \$321 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 E to the Supplemental 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.

In 1994, Ideon assumed a revolving loan agreement in connection with its acquisition of Wright Express Corporation ("Wright Express"). The agreement, as originally structured, provided for maximum borrowings equal to the lesser of \$17.5 million or an amount based on a percentage of eligible accounts receivable as defined therein. In November 1994, the revolving credit agreement was amended increasing the available line to \$27.5 million. At January 31, 1996, Ideon had \$15.4 million outstanding under the revolving line of credit. In February 1996, Wright Express entered into a new revolving credit facility agreement replacing the previous revolving line of credit. The new credit facility has an available line of \$75 million of which \$50 million may be used to finance working capital requirements and for general corporate purposes and \$25 million may be used for acquisition financing. The new credit facility expires December 1, 1998.

In fiscal 1996, Sierra entered into an unsecured bank line of credit that provides for borrowing of up to \$10 million, expiring August 31, 1996. The line contains covenants requiring Sierra to maintain certain financial ratios and minimum balances in cash and cash equivalents. There have been no borrowings by Sierra under this line of credit to date. This line of credit expired August 31,

1996.

All costs related to the mergers with the Fiscal 1997 Pooled Entities have not been reflected in the Company's financial statements but will be reflected in the consolidated statements of income during the periods the respective mergers are completed. Such costs are non-recurring and those associated with the Company's mergers with Davidson and Sierra are comprised primarily of merger and integration costs and are expected to approximate \$28.6 million (\$25.1 million or \$.10 per common share after-tax effect) in the aggregate. Such costs associated with the Company's merger with Ideon (the "Ideon Merger") include integration and transaction costs as well as costs relating to certain outstanding litigation matters (see Note 5) giving consideration to the Company's intended approach to these matters, which are estimated by the Company's management to approximate \$125.0 million (\$80.0 million after tax effect). Most of the reserve is related to these outstanding litigation matters. The Company is unable at this time to determine the estimated timing of the future cash outflows with respect to this liability. Although the Company has attempted to estimate the amounts that will be required to settle these litigation matters, there can be no assurance that the actual aggregate amount of such settlements will not exceed the amount of the reserve to be accrued.

The Company invested approximately \$75 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 the above-mentioned litigation matters. The Company anticipates that cash flow from operations and its credit facilities 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 \$63 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 membership 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. As is typical in the consumer software industry, the Company's software business is highly seasonal. Net revenues and operating income are highest during the third and fourth quarters and are lowest in the first and second quarters. This seasonal pattern is primarily due to the increased demand for the Company's software products during the year-end holiday selling season.

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.