

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

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended October 31, 1996

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 1-10308

CUC International Inc.

(Exact name of registrant as specified in its charter)

Delaware

06-0918165

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

707 Summer Street

Stamford, Connecticut

06901

(Address of principal executive offices)

(Zip Code)

(203) 324-9261

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report.)

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

APPLICABLE ONLY TO ISSUERS INVOLVED
IN BANKRUPTCY PROCEEDINGS DURING
THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, \$.01 par value - 396,648,457 shares as of November 30, 1996

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PART I. FINANCIAL INFORMATION
CUC INTERNATIONAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	October 31, 1996 (Unaudited)	January 31, 1996
Assets		
Current Assets		
Cash and cash equivalents	\$368,325	\$333,036
Marketable securities	98,313	97,164
Receivables, net of allowances	537,714	463,492
Prepaid membership materials	49,447	39,061
Prepaid expenses, deferred income taxes and other	193,282	158,523
Total Current Assets	1,247,081	1,091,276
Membership solicitations in process	70,149	60,713
Deferred membership acquisition costs	393,181	404,655
Contract renewal rights and intangible assets - net of accumulated amortization of \$120,552 and \$100,578	355,530	332,806
Properties, at cost, less accumulated depreciation of \$128,183 and \$105,235	142,865	113,353
Deferred income taxes and other	53,301	65,393
	\$2,262,107	\$2,068,196
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued expenses	\$348,935	\$296,048
Federal and state income taxes payable	29,389	35,957
Total Current Liabilities	378,324	332,005
Deferred membership income	673,761	682,823
Convertible debt - net of unamortized original issue discount of \$518 and \$586	23,457	23,389
Zero coupon convertible notes - net of unamortized original issue discount of \$588		14,410
Other	12,156	13,046
Contingencies (Note 5)		
Shareholders' Equity		
Common stock-par value \$.01 per share; authorized 600 million shares; issued 402,636,666 shares and 385,576,801 shares	4,026	3,856
Additional paid-in capital	593,430	429,856
Retained earnings	667,163	601,472
Treasury stock, at cost, 6,136,757 shares and 5,115,947 shares	(56,618)	(30,998)

Other	(33,592)	(1,663)
Total Shareholders' Equity	1,174,409	1,002,523
	\$2,262,107	\$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 October 31,	
	1996	1995
REVENUES		
Membership and service fees	\$503,592	\$420,685
Software	98,611	71,871
Total Revenues	602,203	492,556
EXPENSES		
Operating	181,113	148,786
Marketing	226,347	187,341
General and administrative	81,691	70,264
Costs related to Ideon products abandoned and restructuring		16,439
Merger, integration, restructuring and litigation charges associated with business combinations	147,200	
Interest income, net	(2,319)	(2,263)
Total Expenses	634,032	420,567
INCOME (LOSS) BEFORE INCOME TAXES	(31,829)	71,989
(Benefit from) provision for income taxes	(13,820)	28,590
NET INCOME (LOSS)	(\$18,009)	\$43,399
Net Income (Loss) Per Common Share	(\$0.04)	\$0.11
Weighted Average Number of Common and Dilutive Common Equivalent Shares Outstanding	407,032	395,369

See notes to condensed consolidated financial statements.

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

	Nine Months Ended October 31,	
	1996	1995
REVENUES		
Membership and service fees	\$1,445,330	\$1,207,430
Software	228,096	181,833
Total Revenues	1,673,426	1,389,263

EXPENSES		
Operating	507,454	426,432
Marketing	641,052	537,311
General and administrative	225,967	203,496
Costs related to Ideon products abandoned and restructuring		97,591
Merger, integration, restructuring and litigation charges associated with business combinations	175,835	
Interest income, net	(6,394)	(8,070)
Total Expenses	1,543,914	1,256,760
INCOME BEFORE INCOME TAXES	129,512	132,503
Provision for income taxes	54,939	53,168
NET INCOME	\$74,573	\$79,335
Net Income Per Common Share	\$0.19	\$0.20
Weighted Average Number of Common and Dilutive Common Equivalent Shares Outstanding	401,854	391,290

See notes to condensed consolidated financial statements.

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

	OCTOBER 31,	
	1996	1995
NINE MONTHS ENDED		
OPERATING ACTIVITIES:		
Net income	\$74,573	\$79,335
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Membership acquisition costs	(467,325)	(435,093)
Amortization of membership acquisition costs	478,762	413,954
Deferred membership income	(9,263)	16,872
Membership solicitations in process	(9,436)	(11,567)
Amortization of contract renewal rights and excess cost	20,013	17,775
Deferred income taxes	(41,056)	(33,283)
Loss on impairment of assets		4,317
Amortization of original issue discount on convertible notes	1,743	1,236
Amortization of restricted stock	1,137	
Depreciation	28,463	17,890
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	(71,562)	(101,755)
Increase in prepaid membership materials	(9,919)	(12,527)
Net decrease (increase) in prepaid expenses and other current assets	9,634	(17,159)
Net increase (decrease) in accounts payable, accrued expenses and federal & state income taxes payable	101,193	(9,481)
(Decrease) increase in product		

abandonment and related liabilities	(10,841)	27,557
Other, net	(9,169)	(16,827)
Net cash provided by (used in) operating activities	82,679	(43,200)
INVESTING ACTIVITIES:		
Proceeds from matured marketable securities	108,071	186,375
Purchases of marketable securities	(96,517)	(141,986)
Acquisitions, net of cash acquired	(40,465)	(24,890)
Acquisitions of properties	(55,425)	(53,444)
Net cash used in investing activities	(84,336)	(33,945)
FINANCING ACTIVITIES:		
Issuance of Common Stock	41,879	29,292
Payments for purchase of treasury shares		(9,711)
Borrowings of long-term obligations, net	(2,135)	6,349
Dividends paid	(2,798)	(5,783)
Net cash provided by financing activities	36,946	20,147
Net increase (decrease) in cash and cash equivalents	35,289	(56,998)
Cash and cash equivalents at beginning of period	333,036	281,019
Cash and cash equivalents at end of period	\$368,325	\$224,021

See notes to condensed consolidated financial statements.

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

NOTE 1 -- BASIS OF PRESENTATION

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 of CUC International Inc. (the "Company"), all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended October 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 consolidated financial statements and footnotes thereto included in the Company's Current Report on Form 8-K filed on September 17, 1996 and the Company's Form 10-K filing for the year ended January 31, 1996. The condensed consolidated financial statements at October 31, 1996 and for the three and nine months ended October 31, 1996 and 1995 are unaudited, but have been reviewed by independent accountants and their report is included herein. 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.

NOTE 2 -- MERGERS AND ACQUISITIONS

During July 1996 the Company acquired all of the outstanding capital stock of Davidson & Associates, Inc. ("Davidson") for a purchase price of approximately \$1 billion, which was satisfied by the issuance of approximately 45.1 million shares of the Company's common stock, par value \$.01 per share ("Common Stock"). Also during July 1996 the Company acquired all of the outstanding capital stock of Sierra On-Line, Inc. ("Sierra") for a purchase price of approximately \$858 million, which was satisfied by the issuance of approximately 38.4 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 Group, Inc. ("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 16.6 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 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 nine months ended October 31, 1995 and the last complete interim period preceding each of such mergers (in thousands).

	Six months ended July 31, 1996	Nine months ended October 31, 1995
Revenues:		
The Company	\$880,403	\$1,037,016
Fiscal 1997 Pooled Entities	190,820	352,247
	-----	-----
	\$1,071,223	\$1,389,263
	=====	=====
Net Income (Loss):		
The Company	\$83,558	\$120,759
Fiscal 1997 Pooled Entities	9,024	(41,424)
	-----	-----
	\$92,582	\$79,335
	=====	=====

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 operating results for the nine months ended October 31, 1996. In addition, Sierra's operating results for February and March 1996 have been included in the operating results for the nine months ended October 31, 1996 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 October 31, 1996.

CUC INTERNATIONAL INC. AND SUBSIDIARIES

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

NOTE 2 -- MERGERS AND ACQUISITIONS (continued)

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 reflected as 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, Sierra and Ideon mergers with the Company, the Company charged approximately \$147.2 million (\$89.6 million or \$.22 per common share after-tax effect) and approximately \$175.8 million (\$114.6 million or \$.29 per common share after-tax effect) to operations as merger, integration, restructuring and litigation charges during the three and nine months ended October 31, 1996, respectively. Such costs in connection with the Davidson and Sierra mergers with the Company (approximately \$48.6 million) 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") (approximately \$127.2 million) are non-recurring and include integration and transaction costs as well as a provision relating to certain litigation matters (see Note 5) giving consideration to the Company's intended approach to these matters. Most of the provision is related to these outstanding litigation matters. In determining the amount of the provision, 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 accrued. Any payments related to these matters will reduce the amount of the provision. The Company does not expect any loss in revenue as a result of these integration and consolidation efforts.

During August 1996, the Company acquired substantially all of the assets and liabilities of Kevlin Services, Incorporated ("Kevlin") and one other corporation affiliated with Kevlin for a purchase price of approximately \$27 million, which was satisfied by the issuance of approximately 1.2 million shares of Common Stock. Kevlin provides membership-based consumer services to customers of financial institutions. During September 1996, the Company acquired all of the outstanding capital stock of Dine-A-Mate, Inc. ("Dine-A-Mate") for a purchase price of approximately \$36 million, which was satisfied by the issuance of approximately 1.4 million shares of Common Stock. Dine-A-Mate offers discount dining and entertainment program memberships. These acquisitions were accounted for as poolings-of-interests; however, financial statements for periods prior to the dates of acquisition have not been restated due to immateriality.

On October 11, 1996, the Company entered into an agreement to acquire all of the outstanding capital stock of Knowledge Adventure, Inc. ("KA"), which designs, develops and markets children's educational computer software. The consummation of the acquisition of KA is contingent upon the satisfaction of certain customary closing conditions, including the approval of the transaction by the shareholders of KA. The purchase price for this acquisition will be satisfied by the issuance of approximately 3.4 million shares of Common Stock, subject to certain adjustments. This transaction will be accounted for under the pooling-of-interests method and is expected to be completed during the fourth quarter of fiscal 1997.

CUC INTERNATIONAL INC. AND SUBSIDIARIES

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

NOTE 3 -- SHAREHOLDERS' EQUITY

On September 26, 1996, the Company's Board of Directors declared a three-for-two split of the Common Stock, in the nature of a stock dividend, effective October 21, 1996, payable to shareholders of record on October 7, 1996. Accordingly, the financial statements and all common share and per common share data have been retroactively adjusted to reflect the stock split. The par value of the additional shares of Common Stock issued in connection with the stock split was credited to Common Stock and charged to retained earnings.

During the nine months ended October 31, 1996, \$14.9 million principal of zero coupon convertible notes were converted into 3.4 million shares of Common Stock and the related unamortized original issue discount (\$68,000) was charged against additional paid-in capital. The balance of the change in additional paid-in capital and treasury stock relates principally to acquisitions and 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, 1.4 million 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 nine months ended October 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 \$15.9 million and \$13.7 million for the three months ended October 31, 1996 and 1995, respectively, and \$46.1 million and \$38.0 million for the nine months ended October

31, 1996 and 1995, respectively. Costs of software revenue are included in operating expenses and aggregated \$24.0 million and \$27.3 million for the three months ended October 31, 1996 and 1995, respectively, and \$69.9 million and \$75.2 million for the nine months ended October 31, 1996 and 1995, respectively.

NOTE 5 -- CONTINGENCIES - IDEON

At October 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 Services, Incorporated ("SafeCard"), a subsidiary of Ideon, 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.

CUC INTERNATIONAL INC. AND SUBSIDIARIES

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

NOTE 5 -- CONTINGENCIES - IDEON (continued)

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.

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 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 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 SafeCard's 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 December 10, 1996, the parties filed a joint status report on settlement negotiations requesting an order abating the action until January 24, 1997 to permit further 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(continued)

NOTE 5 -- 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 December 5, 1996, plaintiffs filed a motion for leave to file an amended complaint to name additional parties (previously named as "John Does") and to add

additional claims. On December 10, 1996, the parties filed a joint status report on settlement negotiations requesting an order abating the action until January 24, 1997 to permit further 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. Plaintiff filed his initial brief on September 26, 1996. The Company filed its answer brief on November 1, 1996. Plaintiff's reply brief was filed on November 15, 1996. Oral argument has not yet been scheduled.

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. 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(continued)

NOTE 5 -- 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 filed its answer and affirmative defenses on September 30, 1996.

A suit by Frist 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. The Company filed an answer on December 5, 1996.

As discussed in Note 2, the Company established a provision upon completion of the Ideon Merger related primarily 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.

Independent Accountants' Review Report

Shareholders and Board of Directors
CUC International Inc.

We have reviewed the accompanying condensed consolidated balance sheets of CUC International Inc. as of October 31, 1996, and the related condensed consolidated statements of income for the three-month and nine-month periods ended October 31, 1996 and 1995, and the condensed consolidated statements of cash flows for the nine-month periods ended October 31, 1996 and 1995. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed

consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We previously audited and reported on the consolidated balance sheet of CUC International Inc. as of January 31, 1996, prior to the restatement for the fiscal 1997 poolings of interest with Davidson & Associates, Inc. ("Davidson"), Sierra On-Line, Inc. ("Sierra") and Ideon Group, Inc. ("Ideon") described in Note 2 to the condensed consolidated financial statements. The balance sheets of Davidson, Sierra and Ideon included in the restated January 31, 1996 consolidated balance sheet were audited and reported on separately by other auditors. We have also audited, as to combination only, the consolidated balance sheet as of January 31, 1996, after restatement for the fiscal 1997 poolings of interests with Davidson, Sierra and Ideon; in our opinion, such consolidated balance sheet has been properly combined on the basis described in Note 2 to the condensed consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of January 31, 1996, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

ERNST & YOUNG LLP

December 2, 1996
Stamford, Connecticut

ITEM 2.

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

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

The Company's overall membership base continues to grow at a rapid rate (from 53.2 million members at October 31, 1995 to 63.8 million members at October 31, 1996), which is the largest contributing factor to the 20% increase in membership revenues (from \$420.7 million for the quarter ended October 31, 1995 to \$503.6 million for the quarter ended October 31, 1996). While the overall membership base increased by approximately 1.5 million members during the quarter, the average annual fee collected for the Company's membership services increased by approximately 3% from the same period a year ago. 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 third quarter, individual, wholesale and discount program memberships grew by 6%, 28% and 52%, respectively, including members which came from acquisitions completed during fiscal 1996 (members resulting from acquisitions being "Acquired Members"). Wholesale memberships have grown in part due to the success of the Company's international business in Europe. Discount program memberships have incurred the largest increase from Acquired Members, principally from Advance Ross Corporation, acquired during the fourth quarter of fiscal 1996, which provides local discounts to consumers. For the quarter ended October 31, 1996, individual, wholesale and discount program memberships represented 68%, 13% and 19% of membership revenues, respectively. All membership data has been restated to reflect the acquisition of Ideon, however it has not been restated to reflect other Acquired Members. 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 37% from \$71.9 million for the quarter ended October 31, 1995 to \$98.6 million for the quarter ended October 31, 1996. Distribution revenue, which consists principally of third-party software and typically has low operating margins, remained constant at \$11 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 44%. Contributing to the 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 in renewing existing members. Improved response rates for new members also favorably impacted profit margins. As a result, operating income before interest, costs related to Ideon products abandoned and restructuring, merger, integration, restructuring and litigation charges associated with business combinations, and income taxes ("EBIT") increased from \$86.2 million to \$113.1 million, and EBIT margins improved from 17.5% to 18.8%.

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 October 31, 1996 vs.
Three Months Ended October 31, 1995 (continued)

Operating costs increased 22% (from \$148.8 million to \$181.1 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 maintained per member acquisition costs and an increase in renewing members. Membership acquisition costs incurred decreased by 3% (from \$162.0 million to \$156.9 million) primarily due to increased conversion rates in the Company's various membership marketing programs. 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 12% (from \$141.6 million to \$159.2 million). Other marketing costs increased by 47% (from \$45.7 million to \$67.1 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.

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 eligible for renewal.

General and administrative costs remained constant as a percentage of revenue (14%). This is a result of the Company's ongoing ability to control overhead. Interest income, net, was \$2.3 million for the three months ended October 31, 1996 and 1995.

Included in costs related to Ideon products abandoned and restructuring for the three months ended October 31, 1995, are special charges totaling \$10.9 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. This charge of \$10.9 million was composed of accrued liabilities of \$10.7 million and asset impairments. Also included in costs related to products abandoned and restructuring are marketing and operational costs incurred for Ideon products abandoned of \$5.5 million.

Merger, integration, restructuring and litigation charges of \$147.2 million for the three months ended October 31, 1996 are non-recurring and are comprised primarily of transaction and integration costs principally associated with the mergers of the Company with Davidson, Sierra and Ideon as well as a provision relating to certain outstanding Ideon litigation matters (see Note 5).

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

Nine Months Ended October 31, 1996 vs.
Nine Months Ended October 31, 1995

The Company's overall membership base continues to grow at a rapid rate (from 53.2 million members at October 31, 1995 to 63.8 million members at October 31, 1996), which is the largest contributing factor to the 20% increase in membership revenues (from \$1,207.4 million for the nine months ended October 31, 1995 to \$1,445.3 million for the nine months ended October 31, 1996). While the overall membership base increased by approximately 4.2 million members during the nine months ended October 31, 1996, the average annual fee collected for the Company's membership services increased by approximately 3% from the same period a year ago. 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 nine months, individual, wholesale and discount program memberships grew by 10%, 23% and 57%, respectively, including Acquired Members which came from acquisitions completed during fiscal 1996. Wholesale memberships have grown in part due to the success of the Company's international business in Europe. Discount program memberships have incurred the largest increase from Acquired Members, principally from Advance Ross Corporation, acquired during the fourth quarter of fiscal 1996, which provides local discounts to consumers. For the nine months ended October 31, 1996, individual, wholesale and discount program memberships represented 68%, 13% and 19% of membership revenues, respectively. All membership data has been restated to reflect the acquisition of Ideon, however it has not been restated to reflect other Acquired Members. 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 25% from \$181.8 million for the nine months ended October 31, 1995 to \$228.1 million for the nine months ended October 31, 1996. Distribution revenue, which

consists principally of third-party software and typically has low operating margins, was down from \$52.7 million to \$36.7 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 48%. Contributing to the 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 in renewing existing members. Improved response rates for new members also favorably impacted profit margins. As a result, EBIT increased from \$222.0 million to \$299.0 million, and EBIT margins improved from 16.0% to 17.9%.

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)

Nine Months Ended October 31, 1996 vs.
Nine Months Ended October 31, 1995 (continued)

Operating costs increased 19% (from \$426.4 million to \$507.5 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 revenue (from 39% to 38%). This decrease is primarily due to improved per member acquisition costs and an increase in renewing members. Membership acquisition costs incurred increased by 7% (from \$435.1 million to \$467.3 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 16% (from \$414.0 million to \$478.8 million). Other marketing costs increased by 32% (from \$123.3 million to \$162.3 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 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 eligible for renewal.

General and administrative costs decreased as a percentage of revenue (from 15% to 14%). This is a result of the Company's ongoing ability to control overhead. Interest income, net, decreased from \$8.1 million to \$6.4 million primarily due to cash used to fund acquisitions during fiscal 1996 and the first nine

months of fiscal 1997.

Included in costs related to Ideon products abandoned and restructuring for the nine months ended October 31, 1995, are special charges totaling \$45.0 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. This charge of \$45.0 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 \$52.6 million.

Merger, integration, restructuring and litigation charges of \$175.8 million for the nine months ended October 31, 1996 are non-recurring and are comprised primarily of transaction and integration costs principally associated with the mergers of the Company with Davidson, Sierra and Ideon as well as a provision relating to certain outstanding Ideon litigation matters (see Note 5).

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. All membership data has been restated to reflect the acquisition of Ideon, however it has not been restated to reflect other Acquired Members.

Period	Net New Member	
	Number of Members	Additions for the Period
Nine Months Ended October 31, 1996	63,835,000	4,185,000
Year Ended January 31, 1996	59,650,000	12,750,000*
Nine Months Ended October 31, 1995	53,160,000	6,260,000**
Year Ended January 31, 1995	46,900,000	3,820,000
Quarter Ended October 31, 1996	63,835,000	1,520,000
Quarter Ended October 31, 1995	53,160,000	1,995,000

*Includes approximately 8 million Acquired Members.

**Includes approximately 3.1 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 providing for a \$500 million revolving credit facility (the "Credit Agreement"). The amount of borrowings currently available to the Company under the Credit Agreement was \$500 million at October 31, 1996, as there were no borrowings under the Credit Agreement to that date. The Credit Agreement is scheduled to expire March 26, 2001.

In February 1996, Wright Express Corporation ("Wright Express"), a subsidiary of Ideon, entered into a revolving credit facility agreement which has an available line of credit 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.

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)

Costs related to the Davidson, Sierra and Ideon mergers are non-recurring and include integration and transaction costs as well a provision relating to certain outstanding Ideon litigation matters (see Note 5) giving consideration to the Company's intended approach to these litigation matters. In estimating the cost to settle these matters, the Company considered potential liabilities relating 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 provision.

The Company invested approximately \$40 million in acquisitions, net of cash acquired, during the nine months ended October 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 flows 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 \$55 million for the nine months ended October 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 flows 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 nine months ended October 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

During August 1996, the Company completed its acquisition of Ideon. Ideon is a party to a number of lawsuits which are described in detail in Note 5 to the Condensed Consolidated Financial Statements of the Company.

ITEM 2. CHANGES IN SECURITIES

During the fiscal quarter ended October 31, 1996, the Company issued the following equity securities that were not registered under the Securities Act:

- (a) On August 29, 1996, the Company issued 1,155,733 shares of Common Stock to Kevlin and to one other corporation affiliated with Kevlin in connection with the acquisition by a subsidiary of the Company of substantially all of the assets and liabilities of Kevlin. This issuance was made pursuant to the exemption from registration provided by Section 4(2) of the Securities Act, as this issuance of Common Stock did not involve a "public offering" pursuant to the Securities Act given the limited number and scope of persons to whom the securities were issued. The Company has filed a Registration Statement with the Commission, which has been declared effective by the Commission, with respect to the resale of the Common Stock received from the Company in connection with this acquisition.
- (b) On September 17, 1996, the Company issued 165,630 shares of Common Stock to Charles Stack in connection with the acquisition by a subsidiary of the Company of Book Stacks Unlimited, Inc. ("Book Stacks"), a corporation owned by Mr. Stack. This issuance was made pursuant to the exemption from registration provided by Section 4(2) of the Securities Act, as this issuance of Common Stock did not involve a "public offering" pursuant to the Securities Act given the limited number and scope of persons to whom the securities were issued. The Company has filed a Registration Statement with the Commission, which has been declared effective by the Commission, with respect to the resale by Mr. Stack of the Common Stock received by him from the Company in connection with this acquisition.
- (c) On September 23, 1996, the Company issued 1,394,894 shares of Common Stock to Raymond H. Stanton II and Raymond H. Stanton III (the "Stantons") in connection with the acquisition by the Company of all of the outstanding capital stock of Dine-A-Mate from the Stantons. This issuance was made pursuant to the exemption from registration provided by Section 4(2) of the Securities Act, as this issuance of Common Stock did not involve a "public offering" pursuant to the Securities Act given the limited number and scope of persons to whom the securities were issued. The Company has filed a Registration Statement with the Commission, which has been declared effective by the Commission, with respect to the resale by the Stantons of 741,565 shares of Common Stock received by them from the Company in connection with this acquisition.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit

No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Company, as filed June 5, 1996 (filed as Exhibit 3.1 to the Company's Form 10-Q for the period ended April 30, 1996).*
3.2	By-Laws of the Company (filed as Exhibit 3.2 to the Company's Registration Statement, No. 33-44453, on Form S-4 dated December 19, 1991).*
4.1	Form of Stock Certificate (filed as Exhibit 4.1 to the Company's Registration Statement, No. 33-44453, on Form S-4 dated December 19, 1991).*

10.1-10.20 Management Contracts, Compensatory Plans and Arrangements

- 10.1 Agreement with E. Kirk Shelton, dated as of May 15, 1996 (filed as Exhibit 10.1 to the Company's Form 10-Q for the period ended July 31, 1996).*
- 10.2 Agreement with Christopher K. McLeod, dated as of May 15, 1996 (filed as Exhibit 10.2 to the Company's Form 10-Q for the period ended July 31, 1996).*
- 10.3 Amended and Restated Employment Contract with Walter A. Forbes, dated as of May 15, 1996 (filed as Exhibit 10.3 to the Company's Form 10-Q for the period ended July 31, 1996).*
- 10.4 Agreement with Cosmo Corigliano, dated February 1, 1994 (filed as Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1995).*
- 10.5 Amendment to Agreement with Cosmo Corigliano, dated February 21, 1996 (filed as Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1996).*
- 10.6 Agreement with Amy N. Lipton, dated February 1, 1996 (filed as Exhibit 10.8 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1996).*
- 10.7 Employment Agreement with Robert M. Davidson, dated July 24, 1996 (filed as Exhibit 10.7 to the Company's Form 10-Q for the period ended July 31, 1996).*
- 10.8 Employment Agreement with Janice G. Davidson, dated July 24, 1996 (filed as Exhibit 10.8 to the Company's Form 10-Q for the period ended July 31, 1996).*
- 10.9 Non-Competition Agreement with Robert M. Davidson, dated July 24, 1996 (filed as Exhibit 10.9 to the Company's Form 10-Q for the period ended July 31, 1996).*
- 10.10 Non-Competition Agreement with Janice G. Davidson, dated July 24, 1996 (filed as Exhibit 10.10 to the Company's Form 10-Q for the period ended July 31, 1996).*
- 10.11 Employment Agreement with Kenneth A. Williams, dated July 24, 1996 (filed as Exhibit 10.11 to the Company's Form 10-Q for the period ended July 31, 1996).*
- 10.12 Non-Competition Agreement with Kenneth A. Williams, dated July 24, 1996 (filed as Exhibit 10.12 to the Company's Form 10-Q for the period ended July 31, 1996).*
- 10.13 Form of Employee Stock Option under the 1987 Stock Option Plan, as amended.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K (continued)

(a) Exhibit
No.

Description

- 10.14 Form of Director Stock Option for 1990 and 1992 Directors Stock Options Plans (filed as Exhibit 10.4 to the Company's Annual Report for the fiscal year ended January 31, 1991, as amended December 12, 1991 and December 19, 1991).*
- 10.15 Form of Director Stock Option for 1994 Directors Stock Option Plan, as amended.
- 10.16 1987 Stock Option Plan, as amended.
- 10.17 1990 Directors Stock Option Plan, as amended.

- 10.18 1992 Directors Stock Option Plan, as amended.
- 10.19 1994 Directors Stock Option Plan, as amended.
- 10.20 Restricted Stock Plan and Form of Restricted Stock Plan Agreement (filed as Exhibit 10.24 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1991, as amended December 12, 1991 and December 19, 1991).*
- 10.21 Credit Agreement, dated as of March 26, 1996, among: CUC International Inc.; the banks signatory thereto; The Chase Manhattan Bank, N.A., Bank of Montreal, Morgan Guaranty Trust Company of New York, and The Sakura Bank, Limited as Co-Agents; and The Chase Manhattan Bank, N.A., as Administrative Agent (filed as Exhibit 10.17 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1996).*
- 10.22 Agreement and Plan of Merger, dated October 17, 1995, among CUC International Inc., Retreat Acquisition Corporation and Advance Ross Corporation (filed as Exhibit 2 to the Company's Registration Statement on Form S-4, Registration No. 33-64801, filed on December 7, 1995).*
- 10.23 Agreement and Plan of Merger, dated as of February 19, 1996, by and among Davidson & Associates, Inc., CUC International Inc. and Stealth Acquisition I Corp. (filed as Exhibit 2(a) to the Company's Report on Form 8-K filed March 12, 1996).*
- 10.24 Amendment No.1 dated as of July 24, 1996, among Davidson & Associates, Inc., CUC International Inc. and Stealth I Acquisition Corp. (filed as Exhibit 2.2 to the Company's Report on Form 8-K filed August 5, 1996).*
- 10.25 Agreement and Plan of Merger, dated as of February 19, 1996, by and among Sierra On-Line, Inc., CUC International Inc. and Larry Acquisition Corp. (filed as Exhibit 2(b) to the Company's Report on Form 8-K filed March 12, 1996).*
- 10.26 Amendment No.1 dated as of March 27, 1996, among Sierra On-Line, Inc., CUC International Inc. and Larry Acquisition Corp. (filed as Exhibit 2.4 to the Company's Report on Form 8-K filed August 5, 1996).*

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K (continued)

(a) Exhibit

- | No. | Description |
|-------|---|
| 10.27 | Amendment No.2 dated as of July 24, 1996, among Sierra On-Line, Inc., CUC International Inc. and Larry Acquisition Corp. (filed as Exhibit 2.5 to the Company's Report on Form 8-K filed August 5, 1996).* |
| 10.28 | Registration Rights Agreement dated July 24, 1996, among CUC International Inc. and the other parties signatory thereto (filed as Exhibit 10.1 to the Company's Report on Form 8-K filed August 5, 1996).* |
| 10.29 | Agreement of Sale dated July 23, 1996, between Robert M. Davidson and Janice G. Davidson and CUC Real Estate Holdings, Inc. (filed as Exhibit 10.2 to the Company's Report on Form 8-K filed August 5, 1996).* |
| 10.30 | Agreement and Plan of Merger, dated as of April 19, 1996, by and among Ideon Group, Inc., CUC International Inc. and IG Acquisition Corp. (filed as Exhibit 10.21 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1996).* |
| 10.31 | Form of U.S. Underwriting Agreement dated October 1996, among CUC International Inc., certain selling |

stockholders and the U.S. Underwriters (filed as Exhibit 1.1 (a) to the Company's Registration Statement on Form S-3, Registration No. 333-13537, filed on October 9, 1996).*

- 10.32 Form of International Underwriting Agreement dated October 1996, among CUC International Inc., certain selling stockholders and the International Underwriters (filed as Exhibit 1.1 (b) to the Company's Registration Statement on Form S-3, Registration No. 333-13537, filed on October 9, 1996).*
- 11 Statement re: Computation of Per Share Earnings (Unaudited)
- 15 Letter re: Unaudited Interim Financial Information
- 27 Financial data schedule

(b) During the quarter ended October 31, 1996, the Company filed the following Current Reports on Form 8-K:

- (1) Current Report on Form 8-K, filed on August 5, 1996, reporting an Item 2 ("Acquisition or Disposition of Assets") event.
- (2) Current Report on Form 8-K, filed on August 14, 1996, reporting an Item 2 ("Acquisition or Disposition of Assets") event.
- (3) Current Report on Form 8-K, filed on September 17, 1996, reporting an Item 5 ("Other Events") event and an Item 7 ("Financial Statements, Pro Forma Financial Information and Exhibits") event.
- (4) Current Report on Form 8-K, filed on September 19, 1996, reporting an Item 5 ("Other Events") event.
- (5) Current Report on Form 8-K, filed on September 26, 1996, reporting an Item 5 ("Other Events") event.
- (6) Current Report on Form 8-K, filed on October 7, 1996, reporting an Item 5 ("Other Events") event.
- (7) Current Report on Form 8-K, filed on October 28, 1996, reporting an Item 5 ("Other Events") event.

*Incorporated by reference

SIGNATURES

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

CUC INTERNATIONAL INC.
(Registrant)

Date: December 12, 1996

By: WALTER A. FORBES
Walter A. Forbes - Chief
Executive Officer and Chairman
of the Board (Principal
Executive Officer)

INDEX TO EXHIBITS

Exhibit No.	Description	Page
3.1	Amended and Restated Certificate of Incorporation of the Company, as filed June 5, 1996 (filed as Exhibit 3.1 to the Company's Form 10-Q for the period ended April 30, 1996).*	
3.2	By-Laws of the Company (filed as Exhibit 3.2 to the Company's Registration Statement, No. 33-44453, on Form S-4 dated December 19, 1991).*	
4.1	Form of Stock Certificate (filed as Exhibit 4.1 to the Company's Registration Statement, No. 33-44453, on Form S-4 dated December 19, 1991).*	
10.1-10.20	Management Contracts, Compensatory Plans and Arrangements	
10.1	Agreement with E. Kirk Shelton, dated as of May 15, 1996 (filed as Exhibit 10.1 to the Company's Form 10-Q for the period ended July 31, 1996).*	
10.2	Agreement with Christopher K. McLeod, dated as of May 15, 1996 (filed as Exhibit 10.2 to the Company's Form 10-Q for the period ended July 31, 1996).*	
10.3	Amended and Restated Employment Contract with Walter A. Forbes, dated as of May 15, 1996 (filed as Exhibit 10.3 to the Company's Form 10-Q for the period ended July 31, 1996).*	
10.4	Agreement with Cosmo Corigliano, dated February 1, 1994 (filed as Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1995).*	
10.5	Amendment to Agreement with Cosmo Corigliano, dated February 21, 1996 (filed as Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1996).*	
10.6	Agreement with Amy N. Lipton, dated February 1, 1996 (filed as Exhibit 10.8	

to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1996).*

10.7 Employment Agreement with Robert M. Davidson, dated July 24, 1996 (filed as Exhibit 10.7 to the Company's Form 10-Q for the period ended July 31, 1996).*

10.8 Employment Agreement with Janice G. Davidson, dated July 24, 1996 (filed as Exhibit 10.8 to the Company's Form 10-Q for the period ended July 31, 1996).*

10.9 Non-Competition Agreement with Robert M. Davidson, dated July 24, 1996 (filed as Exhibit 10.9 to the Company's Form 10-Q for the period ended July 31, 1996).*

INDEX TO EXHIBITS

Exhibit No.	Description	Page
10.10	Non-Competition Agreement with Janice G. Davidson, dated July 24, 1996 (filed as Exhibit 10.10 to the Company's Form 10-Q for the period ended July 31, 1996).*	
10.11	Employment Agreement with Kenneth A. Williams, dated July 24, 1996 (filed as Exhibit 10.11 to the Company's Form 10-Q for the period ended July 31, 1996).*	
10.12	Non-Competition Agreement with Kenneth A. Williams, dated July 24, 1996 (filed as Exhibit 10.12 to the Company's Form 10-Q for the period ended July 31, 1996).*	
10.13	Form of Employee Stock Option under the 1987 Stock Option Plan, as amended.	
10.14	Form of Director Stock Option for 1990 and 1992 Directors Stock Options Plans (filed as Exhibit 10.4 to the Company's Annual Report for the fiscal year ended January 31, 1991, as amended December 12, 1991 and December 19, 1991).*	
10.15	Form of Director Stock Option for 1994 Directors Stock Option Plan, as amended.	
10.16	1987 Stock Option Plan, as amended.	
10.17	1990 Directors Stock Option Plan, as amended.	
10.18	1992 Directors Stock Option Plan, as amended.	
10.19	1994 Directors Stock Option Plan, as amended.	
10.20	Restricted Stock Plan and Form of Restricted Stock Plan Agreement (filed as Exhibit 10.24 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1991, as amended December 12, 1991 and December 19, 1991).*	
10.21	Credit Agreement, dated as of March 26, 1996, among: CUC International Inc.; the Banks signatory thereto; The Chase Manhattan Bank, N.A., Bank of Montreal, Morgan Guaranty Trust Company of New York, and the Sakura Bank, Limited as Co-Agents; and The Chase Manhattan Bank, N.A., as Administrative Agent (filed as Exhibit 10.17 to the Company's Annual	

- 10.22 Agreement and Plan of Merger, dated October 17, 1995, among CUC International Inc., Retreat Acquisition Corporation and Advance Ross Corporation (filed as Exhibit 2 to the Company's Registration Statement on Form S-4, Registration No. 33-64801, filed on December 7, 1995).*

INDEX TO EXHIBITS

Exhibit No.	Description	Page
10.23	Agreement and Plan of Merger, dated as of February 19, 1996, by and among Davidson & Associates, Inc., CUC International Inc. and Stealth Acquisition I Corp. (filed as Exhibit 2(a) to the Company's Report on Form 8-K filed March 12, 1996).*	
10.24	Amendment No.1 dated as of July 24, 1996, among Davidson & Associates, Inc., CUC International Inc. and Stealth I Acquisition Corp. (filed as Exhibit 2.2 to the Company's Report on Form 8-K filed August 5, 1996).	
10.25	Agreement and Plan of Merger, dated as of February 19, 1996, by and among Sierra On-Line, Inc., CUC International Inc. and Larry Acquisition Corp. (filed as Exhibit 2(b) to the Company's Report on Form 8-K filed March 12, 1996).*	
10.26	Amendment No.1 dated as of March 27, 1996, among Sierra On-Line, Inc., CUC International Inc. and Larry Acquisition Corp.(filed as Exhibit 2.4 to the Company's Report on Form 8-K filed August 5, 1996).*	
10.27	Amendment No.2 dated as of July 24, 1996, among Sierra On-Line, Inc., CUC International Inc. and Larry Acquisition Corp. (filed as Exhibit 2.5 to the Company's Report on Form 8-K filed August 5, 1996).*	
10.28	Registration Rights Agreement dated July 24, 1996, among CUC International Inc. and the other parties signatory thereto (filed as Exhibit 10.1 to the Company's Report on Form 8-K filed August 5, 1996).*	
10.29	Agreement of Sale dated July 23, 1996, between Robert M. Davidson and Janice G. Davidson and CUC Real Estate Holdings, Inc. (filed as Exhibit 10.2 to the Company's Report on Form 8-K filed August 5, 1996).*	
10.30	Agreement and Plan of Merger, dated as of April 19, 1996, by and among Ideon Group, Inc., CUC International Inc. and IG Acquisition Corp. (filed as Exhibit 10.21 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1996).*	
10.31	Form of U.S. Underwriting Agreement dated October 1996, among CUC International Inc., certain selling stockholders and the U.S. Underwriters (filed as Exhibit 1.1 (a) to the Company's Registration Statement on Form S-3, Registration No. 333-13537, filed on	

October 9, 1996).*

- 10.32 Form of International Underwriting Agreement dated October 1996, among CUC International Inc., certain selling stockholders and the International Underwriters (filed as Exhibit 1.1 (b) to the Company's Registration Statement on Form S-3, Registration No. 333-13537, filed on October 9, 1996).*
- 11 Statement re: Computation of Per Share Earnings (Unaudited)
- 15 Letter re: Unaudited Interim Financial Information
- 27 Financial data schedule

*Incorporated by reference

CUC INTERNATIONAL INC. AND
SUBSIDIARIES
EXHIBIT 11 - COMPUTATION OF PER SHARE EARNINGS (UNAUDITED)
(In thousands, except per share amounts)

	Three Months Ended October 31,	
	1996	1995
PRIMARY		
Average shares outstanding	393,893	376,284
Net effect of dilutive stock options - based on the treasury stock method using average market price	13,139	19,085
Total	407,032	395,369
Net Income (Loss)	(\$18,009)	\$43,399
Net income (loss) per common share	(\$0.044)	\$0.110

FULLY DILUTED		
Average shares outstanding	393,893	376,284
Net effect of dilutive stock options - based on the treasury stock method using the period - end market price, if higher than the average market price	13,155	19,891
Net effect of zero coupon convertible notes - based on the if converted method	3,147	7,890
Total	410,195	404,065
Net Income (Loss)	(\$18,009)	\$43,399
Zero Coupon Convertible Notes and Convertible Debt	452	525
	(\$17,557)	\$43,924
Net income (loss) per common share	(\$0.043)	\$0.109

CUC INTERNATIONAL INC. AND SUBSIDIARIES
EXHIBIT 11 - COMPUTATION OF PER SHARE EARNINGS (UNAUDITED)
(In thousands, except per share amounts)

	Nine Months Ended October 31,	
	1996	1995
PRIMARY		
Average shares outstanding	388,519	374,235
Net effect of dilutive stock options - based on the treasury stock method using average market price	13,335	17,055
Total	401,854	391,290
Net Income	\$74,573	\$79,335
Net income per common share	\$0.186	\$0.203

FULLY DILUTED

Average shares outstanding	388,519	374,235
Net effect of dilutive stock options - based on the treasury stock method using the period - end market price, if higher than the average market price	13,568	18,575
Net effect of zero coupon convertible notes - based on the if converted method	4,680	8,400
	-----	-----
Total	406,767	401,210
	=====	=====
Net Income	\$74,573	\$79,335
Zero Coupon Convertible Notes and Convertible Debt	1,443	1,845
	-----	-----
	\$76,016	\$81,180
	=====	=====
Net income per common share	\$0.187	\$0.202
	=====	=====

CUC INTERNATIONAL INC. AND SUBSIDIARIES

EXHIBIT 15-LETTER RE: UNAUDITED INTERIM FINANCIAL INFORMATION

December 12, 1996

Shareholders and Board of Directors
CUC International Inc.

We are aware of the incorporation by reference in the following Registration Statements of our reports dated May 22, 1996, September 4, 1996 and December 2, 1996 relating to the unaudited condensed consolidated interim financial statements of CUC International Inc. which are included in its Forms 10-Q for the quarters ended April 30, 1996, July 31, 1996 and October 31, 1996:

Form S-8s,

33-17247 CUC International Inc. 1985 Non-Qualified Stock Option Plan
33-17248 CUC International Inc. 1985 Incentive Stock Option Plan
33-17249 CUC International Inc. 1987 Performance Share Stock Option Plan
33-26875 CUC International Inc. 1987 Stock Option Plan
33-75682 CUC International Inc. 1987 Stock Option Plan as amended
33-93322 CUC International Inc. 1987 Stock Option Plan as amended
33-41823 CUC International Inc. 1990 Directors Stock Option Plan
33-48175 Entertainment Publications Inc. 1988 Non-Qualified Stock Option Plan
33-58896 CUC International Inc. 1992 Bonus and Salary Replacement Stock Option Plan
33-91656 CUC International Inc. 1992 Bonus and Salary Replacement Stock Option Plan as amended
333-03241 CUC International Inc. 1992 Bonus and Salary Replacement Stock Option Plan as amended
33-74068 CUC International Inc. 1992 Directors Stock Option Plan
33-74066 CUC International Inc. 1992 Employee Stock Option Plan
33-91658 CUC International Inc. 1992 Employee Stock Option Plan as amended
333-00475 CUC International Inc. 1992 Employee Stock Option Plan as amended
333-03237 CUC International Inc. 1992 Employee Stock Option Plan as amended
33-75684 CUC International Inc. 1994 Employee Stock Purchase Plan as amended
33-80834 CUC International Inc. Savings Incentive Plan
33-93372 CUC International Inc. 1994 Directors Stock Option Plan
333-09633 Sierra On-Line, Inc. 1987 Stock Option Plan
333-09637 Sierra On-Line, Inc. 1995 Stock Option and Award Plan
333-09655 Papyrus Design Group Inc. 1992 Stock Option Plan

Form S-3s,

33-30306, 33-47271, 33-58598, 33-63237, 33-95126, 333-11035,
333-13537, 333-17323 and 333-17411

Pursuant to Rule 436(c) of the Securities Act of 1933, our reports are not a part of the registration statements prepared or certified by accountants within the meaning of Section 7 or 11 of the Securities Act of 1933.

ERNST & YOUNG LLP

Stamford, Connecticut

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0000723612
CUC INTERNATIONAL INC.
1,000

9-MOS
JAN-31-1997
OCT-31-1996
368,325
98,313
537,714
0
0
1,247,081
271,048
128,183
2,262,107
378,324
23,457
0
0
4,026
1,170,383
2,262,107
1,673,426
1,673,426
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1,374,473
175,835
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(6,394)
129,512
54,939
74,573
0
0
0
74,573
.19
.19

, 199_

Dear (name):

I am pleased to advise you that the Compensation Committee (the "Committee") of the Board of Directors of CUC International Inc. (the "Corporation") on _____, 199_ authorized the granting to you of a non-statutory option to purchase _____ shares of common stock, \$.01 par value, of the Corporation (the "Common Stock") at a price of \$_____ per share (the "Exercise Price"), which the Committee believes to be the fair market value on that date. Your option has been granted under the Company's 1987 Stock Option Plan (the "Plan").

Terms not defined herein shall have the meaning set forth in the Plan.

Your option may be exercised under the following terms:

(a) This option shall not be transferable except: by will or the laws of descent and distribution; pursuant to a domestic relations order, as defined in the Internal Revenue Code of 1986, as amended (the "Code") or Title I of the Employee Retirement Security Act or the rules thereunder; or as a gift to your family members, trusts for the benefit of your family members or charities or other not-for-profit organizations.

(b) Subject to the provisions of paragraphs (e), (f) and (g) hereof, this option may be exercisable by you as follows:

You may purchase _____ of the Common Stock for which options are herein granted on or after February 1, 199_ and an additional _____ on or after each successive February 1.

Your right to exercise this option shall be cumulative. The Board of Directors of the Corporation may at any time accelerate the vesting of this option. This option shall expire on the tenth anniversary of the date of grant.

(c) If required by the Corporation, prior to the delivery to you of a certificate or certificates representing the shares of Common Stock purchased by you upon the exercise of this option, you shall have deposited with the Corporation a non-disposition letter (restricting disposition by you of the shares of Common Stock) in form satisfactory to counsel for the Corporation.

(d) In the event of a stock split, stock dividend, recapitalization, reorganization, merger, consolidation, extraordinary dividend, split-up, spin-off, combination, stock repurchase, exchange of shares, warrants or rights offering to purchase stock at a price substantially below fair market value or other similar corporate event affecting the Common Stock, the number and kind of shares subject to this option and the Exercise Price shall be equitably adjusted (including by payment of cash to you) in the discretion of the Committee in order to preserve the benefits or potential benefits intended to be made available to you under this option. The determination of the Committee as to what adjustments shall be made, and the extent thereof, shall be final. Unless otherwise determined by the Committee, such adjustments shall be subject to the same vesting schedule and restrictions to which this option is subject. No fractional shares of Common Stock shall be reserved or authorized or made subject to this option by any such adjustment.

(e) Notwithstanding anything herein to the contrary, if you die while in the employ of the Corporation or any of its

subsidiaries or if you die within a period of three (3) months after your employment has terminated or if your employment is terminated by reason of total and permanent disability (as defined in Section 22(e)(3) of the Code), this option shall become immediately exercisable in full and, in the case of your death, your estate shall have the right to exercise your rights hereunder.

- (f) Notwithstanding anything herein to the contrary, in the event your employment or relationship with the Corporation or any of its subsidiaries is terminated for any reason other than death or total and permanent disability (as defined in Section 22(e)(3) of the Code,) you shall be entitled to exercise your options hereunder, to the extent exercisable on the date of termination, for a period of four (4) months from such termination, but in no event after the expiration of the term of the option.
- (g) You may pay for shares purchased pursuant hereto as follows:
- (i) You may pay the Exercise Price per share in cash or check at the time of exercise;
- (ii) You may pay the Exercise Price by remitting to the Corporation in cash or by check an amount equal to or greater than the product of (a) the par value of the Corporation's Common Stock and (b) the number of shares of Common Stock acquired pursuant to the exercise of this option (such amount is hereinafter referred to as the "Minimum Payment") and by executing a promissory note for the balance equal to (A) the product of (i) the Exercise Price and (ii) the number of shares of Common Stock acquired pursuant to the exercise of this option less (B) the Minimum Payment (such balance is hereinafter referred to as the "Principal Amount"). Pursuant to the terms of the promissory note, interest will be charged per year at the lowest interest rate in effect at the time of exercise, which will prevent any imputation of income under Sections 483 or 7872 of the Code. Five years from the date of exercise, the Principal Amount plus interest compounded annually will be due. In the discretion of the Corporation's Board of Directors, the Corporation may demand repayment of the Principal Amount plus accrued interest upon a termination of your employment with the Corporation or any of its subsidiaries. With notice of your exercise of your option, you must give notice of your election to use the loan arrangement described above. In the discretion of the Corporation's Board of Directors, you may be required to execute a pledge agreement. The Corporation will retain possession of certificates representing shares of Common Stock acquired pursuant to the exercise of this option until the loan is repaid in full;
- (iii) Provided that at the time of exercise, Common Stock is publicly traded and quoted regularly in the Wall Street Journal, you may pay for the shares of Common Stock purchased pursuant hereto by delivery of already-owned shares of Common Stock owned by you free and clear of any liens, claims, encumbrances or security interests, which Common Stock shall be valued (a) if listed on a national securities exchange, at the average closing price for the ten (10) trading days immediately preceding the date of exercise, or (b) otherwise at the average of the closing bid and ask quotations published in the Wall Street Journal for the ten (10) trading days immediately preceding the date of exercise (as so valued, the "Fair Market Value");
- (iv) If approved by the Committee, you may request that the Corporation withhold from the number of shares of Common Stock which you would otherwise acquire upon exercise of your option and payment of the Exercise Price therefor, that number of shares of Common Stock which have an aggregate Fair Market Value equal to the aggregate Exercise Price of all or any portion of the options which you are then exercising; or
- (v) You may pay with any other legal consideration that may be acceptable to the Committee in its sole

discretion at the time of exercise.

When you wish to exercise your stock option in whole or in part, please refer to the provisions of this letter and correspond in writing with the Secretary of the Corporation. This is not an incentive stock option under Section 422A of the Code.

Very truly yours,

E. Kirk Shelton
President and Chief Operating Officer

Dear (name):

I am pleased to advise you that the Committee (the "Committee") of the Board of Directors of CUC International Inc. (the "Corporation") which administers the Corporation's 1994 Directors Stock Option Plan (the "Plan") on November __, 199_ authorized the granting to you under the Plan of a non-statutory option to purchase 11,250 shares of common stock, \$.01 par value, of the Corporation (the "Common Stock") at a price of \$_____ per share (the "Exercise Price"), which the Committee believes to be the fair market value of the Common Stock on that date.

Terms not defined herein shall have the meaning set forth in the Plan.

1. Your option may be exercised under the following terms:

(a) This option shall not be transferable except: by will or the laws of descent and distribution; pursuant to a domestic relations order, as defined in the Internal Revenue Code of 1986, as amended (the "Code") or Title I of the Employee Retirement Security Act or the rules thereunder; or as a gift to your family members, trusts for the benefit of your family members or charities or other not-for-profit organizations.

(b) Subject to the provisions of paragraphs (e) through (i) hereof, this option may be exercisable by you as follows:

You may purchase some or all of the Common Stock for which options are herein granted on or after the date hereof.

Your right to exercise this option shall be cumulative.

This option shall expire on the tenth anniversary of the date hereof.

(c) If required by the Corporation, prior to the delivery to you of a certificate or certificates representing the shares of Common Stock purchased by you upon the exercise of the option, you shall have deposited with the Corporation a non-disposition letter (restricting disposition by you of the shares of Common Stock) in form satisfactory to counsel for the Corporation. In no case may you sell the Common Stock purchased by you upon the exercise of this option until at least six months after the date hereof.

(d) In the event of a stock split, stock dividend, recapitalization, reorganization, merger, consolidation, extraordinary dividend, split-up, spin-off, combination, stock repurchase, exchange of shares, warrants or rights offering to purchase stock at a price substantially below fair market value or other similar corporate event affecting the Common Stock, the number and kind of shares subject to this option and the Exercise Price shall be equitably adjusted (including by payment of cash to you) in the discretion of the Committee, as defined in the Plan, in order to preserve the benefits or potential benefits intended to be made available to you under this option. The determination of the Committee as to what adjustments shall be made, and the extent thereof, shall be final. Unless otherwise determined by the Committee, such adjustments shall be subject to the same vesting schedule and restrictions to which this option is subject. No fractional shares of Common Stock shall be reserved or authorized or made subject to this option by any such adjustment.

(e) In the event that the term of your membership on the Board of Directors expires because you (i) lose an

election for a position on the Board of Directors, (ii) resign from the Board of Directors prior to attaining age 65 or (iii) fail to seek election to the Board of Directors for a term commencing prior to your attaining age 62 (in any case, other than on account of death or physical or mental disability), this option shall remain exercisable until the earlier to occur of the expiration of one month after the expiration of your term or the stated expiration date of this option, at which time this option shall expire.

(f) In the event that the term of your membership on the Board of Directors expires because you (i) resign after age 65 or (ii) fail to seek election to the Board of Directors for a term commencing after you attain age 62, this option shall remain exercisable until the earlier to occur of the expiration of five years after the expiration of your term or the stated expiration date of this option, at which time this option shall expire.

(g) In the event that the term of your membership on the Board of Directors expires because you become physically or mentally disabled (unless such expiration is described in paragraph (f) above) or you die, the options granted to you under this letter shall remain exercisable until the earlier to occur of the expiration of one year after the expiration of your term or the stated expiration date of such option, at which time such options shall expire.

(h) In the event that you are removed from the Board of Directors by the shareholders of the Corporation or by the Board of Directors, options granted to you shall expire immediately upon such removal or disqualification.

(i) In the event you are appointed a "director emeritus" by the Board of Directors, and you cease to be a director emeritus because of physical or mental disability or death, the provisions of paragraph 1(g) shall apply; if you cease to be a director emeritus because of removal by the Board of Directors, the provisions of paragraph 1(h) shall apply; and if you cease to be a director emeritus for any other reason, the provisions of paragraph 1(f) shall apply.

2. You may pay for shares purchased pursuant hereto as follows:

(a) You may pay the Exercise Price per share in cash or by certified check at the time of exercise;

(b) Provided that at the time of exercise Common Stock is publicly traded and quoted regularly in the Wall Street Journal, you may pay for the shares by delivery of already-owned shares of Common Stock owned by you free and clear of any liens, claims, encumbrances or security interests, which Common Stock shall be valued (a) if listed on a national securities exchange, at the average closing price for the ten (10) trading days immediately preceding the date of exercise or (b) otherwise at the average of the closing bid and ask quotations published in the Wall Street Journal for the ten (10) trading days immediately preceding the date of exercise; or

(c) You may pay for the shares by any combination of the methods set forth in (a) and (b) above.

When you wish to exercise your stock option in whole or in part, please refer to the provisions of this letter and correspond in writing with the Secretary of the Corporation. This is not an incentive stock option under Section 422A of the Code.

Very truly yours,

E. Kirk Shelton

President and Chief Operating Officer

1987 STOCK OPTION PLAN

OF

CUC INTERNATIONAL INC.

1. PURPOSES OF THE PLAN. This stock option plan (the "Plan") is designed to provide an incentive to key employees, including officers and directors who are employees, of CUC International Inc., a Delaware corporation (the "Company"), and its present and future Subsidiaries, as defined in Paragraph 16, and to offer an additional inducement in obtaining the services of such individuals. The Plan provides for the grant of "incentive stock options," within the meaning of Section 422A of the Internal Revenue Code of 1986, as amended (the "Code"), and "non-qualified stock options."
2. STOCK SUBJECT TO THE PLAN; LIMITATION ON OPTIONS GRANTED TO ANY ONE OPTIONEE. Options may be granted under the Plan to purchase in the aggregate not more than 35,578,125 shares of Common Stock, \$.01 par value per share, of the Company ("Common Stock"), which shares may, in the discretion of the Board of Directors, consist either in whole or in part of authorized but unissued shares of Common Stock or shares of Common Stock held in the treasury of the Company. The Company shall at all times during the term of the Plan reserve and keep available such number of shares of Common Stock as will be sufficient to satisfy the requirements of the Plan. Subject to the provision of Paragraph 12, any shares subject to an option which for any reason expires, is canceled or is terminated unexercised as to such shares shall again become available for option under the Plan. Notwithstanding anything else to the contrary which may be set forth herein, no individual optionee shall be granted, in any five-year period, options under and pursuant to the Plan to purchase more than 4,500,000 shares of Common Stock.
3. ADMINISTRATION OF THE PLAN. The Plan shall be administered by a Committee (the "Committee") consisting of not less than two members of the Board of Directors, each of whom shall be a Non-Employee Director of the Company within the meaning of Rule 16b-3 or its successors under the Securities Exchange Act of 1934, as amended ("1934 Act"). A majority of the members shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present, and any acts approved in writing by all members without a meeting, shall be the acts of the Committee.

Subject to the express provisions of the Plan, the Committee shall have the authority, in its sole discretion, to determine the individuals who shall receive options; the times when they shall receive them; whether an incentive and/or a non-qualified stock option shall be granted; the number of shares to be subject to each option; the term of each option; the date each option shall become exercisable; whether an option shall be exercisable in whole, in part or in installments, and if in installments, the number of shares to be subject to each installment; the date each installment shall become exercisable and the term of each installment; to accelerate the date of exercise of any installment; whether shares may be issued on exercise of an option as partly paid, and, if so, the dates when future installments of the exercise price shall become due and the amounts of each installments; the exercise price; the form of payment upon exercise; to require that the individual remain employed in some capacity with the Company or its Subsidiaries for a period of time from and after the date the option is granted to him; the amount necessary to satisfy the Company's withholding obligation; to restrict the sale or other disposition of the shares of Common Stock acquired upon the exercise of an option and to waive any such restriction; to construe the respective option agreements and the Plan; to prescribe, amend and rescind rules and regulations relating to the Plan; to make all other determinations necessary or advisable for administering the Plan; and, with the consent of the optionee, to cancel or modify an option, provided such

option as modified does not violate the terms of the Plan. The determinations of the Committee on the matters referred to in this Paragraph 3 shall be conclusive.

No member of the Committee shall be liable for anything whatsoever in connection with the administration of the Plan except such member's own willful misconduct. Under no circumstances shall any member of the Committee be liable for any act or omission of any other member of the Committee. In the performance of its functions with respect to the Plan, the Committee shall be entitled to rely upon information and advice furnished by the Company's officers, the Company's accountants, the Company's counsel and any other party the Committee deems necessary and no member of the Committee shall be liable for any action taken or not taken in reliance upon any such advice.

4. ELIGIBILITY. The Committee may, consistent with the purposes of the Plan, grant options from time to time, within 15 years from the date of adoption of the Plan by the Board of Directors (provided that, with respect to incentive stock options, this period shall be within 10 years from the date of adoption of the Plan by the Board of Directors), to key employees (including officers and directors who are employees) of the Company or any of its Subsidiaries and covering such number of shares of Common Stock as it may determine; provided, however, that the aggregate market value (determined at the time the stock option is granted) of the shares for which any eligible person may be granted incentive stock options under the Plan or any other plan of the Company, or of a Subsidiary of the Company, which are exercisable for the first time by such optionee during any calendar year shall not exceed \$100,000. Any option (or the portion thereof) granted in excess of such amount shall be treated as a non-qualified stock option.
5. EXERCISE PRICE. The exercise price of the shares of Common Stock under each option shall be determined by the Committee, but in no event shall such purchase price be less than 100% of the fair market value of the Common Stock on the date of grant; provided, however, that if, at the time an option is granted, the optionee owns (or is deemed to own) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of any of its Subsidiaries, the exercise price shall not be less than 110% of the fair market value of the Common Stock subject to the option at the time of the granting of such option. The fair market value of the Common Stock on any day shall be (a) if the principal market for the Common Stock is a national securities exchange, the closing sale price of the Common Stock on such day as reported by such exchange or on a consolidated tape reflecting transactions on such exchange, (b) if the principal market for the Common Stock is not a national securities exchange and the Common Stock is quoted on the National Association of Securities Dealers Automated Quotations System ("NASDAQ"), and (i) if the Common Stock is quoted on the NASDAQ National Market System, the closing sale price of the Common Stock on such day, or (ii) if the Common Stock is not quoted on the NASDAQ National Market System, the average between the highest bid and the lowest asked prices for the Common Stock on such day on NASDAQ, or (c) if the principal market for the Common Stock is not a national securities exchange and the Common Stock is not quoted on NASDAQ, the average between the highest bid and lowest asked prices for the Common Stock on such day as reported by National Quotation Bureau, Incorporated; provided that if clauses (a), (b) and (c) of this Paragraph are all inapplicable, or if no trades have been made or no quotes are available for such day, the fair market value of the Common Stock shall be determined by the Committee by any method consistent with applicable regulations adopted by the Treasury Department relating to stock options. The determination of the Committee shall be conclusive in determining the fair market value of the stock.
6. TERM OF OPTION. The term of each option granted pursuant to the Plan shall be such term as is established by the Committee, in its sole discretion, at the time such option is granted; provided, however, that the term of each incentive stock option granted pursuant to the Plan shall be

for a period not exceeding 10 years from the date of granting thereof, and further, provided, that if, at the time an option is granted, the optionee owns (or is deemed to own) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, or of any of its Subsidiaries, the term of the incentive stock option shall be for a period not exceeding five years. Options shall be subject to earlier termination as hereinafter provided.

7. EXERCISE OF OPTION. An option (or any part or installment thereof) shall be exercised by giving written notice to the Company at its principal office (at present 707 Summer Street, Stamford, Connecticut 06901), stating whether an incentive stock option or a non-qualified stock option is being exercised, specifying the number of shares as to which such option is being exercised and accompanied by payment in full of the aggregate exercise price therefor (or the amount due on exercise if the Stock Option Contract permits installment payments) (i) in cash or by certified check, (ii) with previously acquired shares of Common Stock having an aggregate fair market value, on the date of exercise, equal to the aggregate exercise price of all options being exercised, (iii), if approved by the Committee, by requesting the Company withhold from the shares of Common Stock issuable upon exercise of such options that number of shares which have an aggregate fair market value, on the date of exercise, equal to the aggregate exercise price of all or any portion of the options being exercised, or (iv) any combination thereof.

The Company shall have the right to deduct and withhold from any cash otherwise payable to an optionee, or require that an optionee make arrangements satisfactory to the Company for payment of (including, without limitation, by withholding shares of Common Stock otherwise issuable upon exercise of options), such amounts as the Company shall determine for the purpose of satisfying its liability to withhold Federal, state or local income or FICA taxes incurred by reason of the grant or exercise of an option.

Certificates representing the shares purchased shall be issued as promptly as practicable, provided that the Company may postpone issuing certificates for such shares for such time as the Company, in its sole discretion, may deem necessary or desirable in order to enable it to comply with any requirements of the Securities Act of 1933, as amended ("Securities Act"), the 1934 Act, any Rules or Regulations of the Securities and Exchange Commission promulgated under either of the foregoing acts, the listing requirements of any securities exchange on which the Company's Common Stock may now or hereafter be listed, or any applicable laws of any jurisdiction relating to the authorization, issuance or sale of securities. With respect to persons subject to Section 16 of the 1934 Act, the Company reserves the right to defer distribution of share certificates issuable upon exercise of an option by such person until at least six months have elapsed from the date of grant of the option. The holder of an option shall not have the rights of a stockholder with respect to the shares covered by his option until the date of issuance of a stock certificate to him for such shares; provided, however, that until such stock certificate is issued, any option holder using previously acquired shares in payment of an option exercise price shall have the rights of a shareholder with respect to such previously acquired shares. In no case may a fraction of a share be purchased or issued under the Plan.

8. TERMINATION OF EMPLOYMENT. Any optionee whose employment or relationship with the Company (and its Subsidiaries) has terminated for any reason other than death or permanent and total disability (as defined in Section 22(e) (3) of the Code) may exercise his option, to the extent exercisable on the date of such termination, at any time within four months after the date of termination, unless otherwise permitted by the Committee, but in no event after the expiration of the term of the option. Options granted to an employee under the Plan shall not be affected by any changes in the status of an optionee so long as he continues to be employed in some capacity with the Company, or any of its Subsidiaries, or a Constituent Corporation, as defined in Paragraph 16,

unless the Committee otherwise permits.

Nothing in the Plan or in any option granted under the Plan shall confer on any individual any right to continue in the employ of the Company or any of its Subsidiaries, or interfere in any way with the right of the Company or any of its Subsidiaries to terminate the employee's employment at any time for any reason whatsoever without liability to the Company or any of its Subsidiaries.

9. DEATH OR DISABILITY OF AN OPTIONEE. If an optionee dies while he is employed by the Company or any of its Subsidiaries, or within three months after the termination of his employment, or if the optionee's employment has terminated by reason of a permanent and total disability (as defined in Section 22(e)(3) of the Code), options granted under this Plan shall become immediately exercisable by his executor, administrator or other person at the time entitled by law to his rights under the option.
10. STOCK OPTION CONTRACTS. Each option shall be evidenced by an appropriate Stock Option Contract, and shall contain such terms and conditions not inconsistent herewith as may be determined by the Committee, and which may provide, among other things, (a) that in the event of the exercise of such option, unless the shares of Common Stock received upon such exercise shall have been registered under an effective registration statement under the Securities Act, such shares will be acquired for investment and not with a view to distribution thereof, and that such shares may not be sold except in compliance with the applicable provisions of the Securities Act, and (b) that in the event of any disposition of the shares of Common Stock acquired upon the exercise of an incentive stock option within two years from the date of grant of the option or one year from the date of issuance of such shares to him (a "Disqualifying Disposition") the optionee will notify the Company thereof in writing within 30 days after such disposition, pay the Company, on demand, in cash an amount necessary to satisfy its obligation, if any, to withhold any Federal, state or local income taxes or other taxes by reason of such Disqualifying Disposition and provide the Company, on demand, with such information as the Company shall reasonably request to determine such obligation.
11. ADJUSTMENTS UPON CHANGES IN COMMON STOCK. The number and kind of shares reserved for issuance hereunder may be equitably adjusted, in the discretion of the Committee, in the event of a stock split, stock dividend, recapitalization, reorganization, merger, consolidation, extraordinary dividend, split-up, spin-off, combination, stock repurchase, exchange of shares, warrants or rights offering to purchase stock at a price substantially below fair market value or other similar corporate event affecting the stock, in order to preserve the benefits intended to be made available under the Plan. In the event of any of the foregoing, the number and kind of shares subject to any outstanding option granted pursuant to the Plan and the exercise price of any such option shall be equitably adjusted (including by payment of cash to the holder of such option) in the discretion of the Committee in order to preserve the benefits or potential benefits intended to be made available to the holder of an option granted pursuant to the Plan. The determination of the Committee as to what adjustments shall be made, and the extent thereof, shall be final. Unless otherwise determined by the Committee, such adjustments shall be subject to the same vesting schedule and restrictions to which the underlying option is subject. No fractional shares of Company Stock shall be reserved or authorized or made subject to any outstanding option by any such adjustment.
12. AMENDMENTS AND TERMINATION OF THE PLAN. The Plan was adopted by the Board of Directors on October 27, 1987. No incentive stock options may be granted under the Plan after October 26, 1997, and no non-qualified stock options may be granted under the Plan after October 26, 2002. The Board of Directors, without further approval of the Company's stockholders, may at any time suspend or terminate the Plan, in whole or in part, or amend it from time to time in such respects as it may deem advisable, including, without

limitation, in order that incentive stock options granted hereunder meet the requirements for "incentive stock options" under the Code, or any comparable provisions thereafter enacted and conform to any change in applicable law or to regulations or rulings of administrative agencies. No termination, suspension or amendment of the Plan shall, without the consent of the holder of an existing option affected thereby, adversely affect his rights under such option.

13. TRANSFERABILITY OF OPTIONS. Options granted under the Plan shall be transferable by the optionee only pursuant to the following methods, and, with respect to incentive stock options, only to the extent permitted under the Code for options to qualify as incentive stock options: by will or the laws of descent and distribution; pursuant to a domestic relations order, as defined in the Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder; or as a gift to family members of the optionee, trusts for the benefit of family members of the optionee or charities or other not-for-profit organizations. Except to the extent provided in this Paragraph, Paragraph 9 and Paragraph 14, options may not be assigned, transferred, pledged, hypothecated or disposed of in any way (whether by operation of law or otherwise), shall not be subject to execution, attachment or similar process, and may be exercised during the lifetime of the holder thereof only by such holder.
14. DESIGNATION OF BENEFICIARY. The optionee may designate in writing on forms prescribed by and filed with the Committee prior to the optionee's death a beneficiary or beneficiaries to receive all or part of the options to be delivered to the optionee under this Plan in the event of the death of the optionee at any time on forms prescribed by and filed with the Committee. In the event of the optionee's death, the options to be delivered to the optionee under this Plan with respect to which a designation of a beneficiary has been made (to the extent such designation is valid and enforceable under applicable law) shall be delivered, in accordance with the Plan, to the designated beneficiary or beneficiaries. Any options to be delivered as to which a designation has not been made shall be delivered to the optionee's estate. If there is any question as to the legal right of any beneficiary to receive delivery of the Plan pursuant to the Plan, the options (and shares issuable upon the exercise thereof) may be delivered in the sole discretion of the Committee to the estate of the optionee, in which event neither the Company nor any Subsidiary shall have any further liability to anyone with respect to such options.
15. SUBSTITUTIONS AND ASSUMPTIONS OF OPTIONS OF CERTAIN CONSTITUENT CORPORATIONS. Anything in this Plan to the contrary notwithstanding, the Board of Directors may, without further approval by the stockholders, substitute new options for prior options of a Constituent Corporation or assume the prior options of such Constituent Corporation.
16. DEFINITIONS.
 - (a) Subsidiary. The term "Subsidiary" shall have the same definition as "subsidiary corporation" in Section 425(f) of the Code.
 - (b) Parent. The term "Parent" shall have the same definition as "parent corporation" in Section 425(e) of the Code.
 - (c) Constituent Corporation. The term "Constituent Corporation" shall mean any corporation which engages with the Company or any of its Subsidiaries in a transaction to which Section 425(a) of the Code applies (or would apply if the option assumed or substituted were an incentive stock option), or any Parent or any Subsidiary of such corporation.
17. STOCKHOLDERS' APPROVAL. The Plan shall be subject to approval by a majority of the Company's outstanding stock entitled to vote thereon at the next annual or special meeting of its stockholders to be held to consider such

approval and no options granted hereunder may be exercised prior to such approval, provided that the date of grant of any options granted hereunder shall be determined as if the Plan had not been subject to such approval.

18. GOVERNING LAW. The Plan and all rights hereunder shall be construed in accordance with and governed by the internal laws of the State of Delaware.
19. COMPLIANCE WITH RULE 16b-3. With respect to optionees subject to Section 16 of the 1934 Act, transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the 1934 Act. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

¹ Gives effect to October 21, 1996 stock split.

1990 DIRECTORS STOCK OPTION PLAN

OF

CUC INTERNATIONAL INC.

1. PURPOSES OF THE PLAN. This stock option plan (the "Plan") is designed to provide an incentive to directors of CUC International Inc., a Delaware corporation (the "Company").
2. STOCK SUBJECT TO THE PLAN. Options may be granted as provided herein to purchase in the aggregate not more than One Million One Hundred Thirty-Nine Thousand Sixty-Two (1,139,062) shares of Common Stock, \$.01 par value per share, of the Company ("Common Stock"). Each individual who on August 23, 1990 was a director (but not an employee) of the Company was granted on such date options with respect to seventy-five thousand nine hundred thirty-seven (75,937) shares of Common Stock. Each individual who after August 23, 1990 becomes a director (but not an employee) of the Company, on the date of his election to the Board of Directors, shall be granted an option to purchase seventy-five thousand nine hundred thirty-seven (75,937) shares of Common Stock. Such shares may, in the discretion of the Committee, consist either in whole or in part of authorized but unissued shares of Common Stock or shares of Common Stock held in the treasury of the Company. The Company shall at all times during the term of the Plan reserve and keep available such number of shares of Common Stock as will be sufficient to satisfy the requirements of the Plan. Such options shall be considered "non-qualified stock options," within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"). No director to whom any options are granted hereunder shall be eligible to receive any additional options under the Plan. Subject to the provision of Paragraph 11, any shares subject to an option which for any reason expires, is canceled or is terminated unexercised as to such shares shall again become available for option under the Plan.
3. ADMINISTRATION OF THE PLAN. The Plan shall be administered by a Committee (the "Committee") consisting of not less than two members of the Board of Directors, each of whom shall be a Non-Employee Director of the Company within the meaning of Rule 16b-3 or its successors under the Securities Exchange Act of 1934 (the "34 Act"). A majority of the members shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present, and any acts approved in writing by all members without a meeting, shall be the acts of the Committee.

Subject to the express provisions of the Plan, the Committee shall have the authority, in its sole discretion, to make all determinations necessary or advisable for administering the Plan; and, with the consent of the optionee, to modify an option, provided such option as modified does not violate the terms of the Plan. The determinations of the Committee on the matters referred to in this Paragraph 3 shall be conclusive.

No member of the Committee shall be liable for anything whatsoever in connection with the administration of the Plan except such member's own willful misconduct. Under no circumstances shall any member of the Committee be liable for any act or omission of any other member of the Committee. In their performance of its functions with respect to the Plan, the Committee shall be entitled to rely upon information and advice furnished by the Company's officers, the Company's accountants, the Company's counsel and any other party the Committee deems necessary and no member of the Committee shall be liable for any action taken or not taken in reliance upon any such advice.

4. EXERCISE PRICE. The exercise price of the shares of Common Stock under each option shall be 100% of the fair market value of the Common Stock on the date of grant. The determination of the Committee shall be conclusive in determining the fair market value of the stock.

5. TERM OF OPTION. The term of each option granted pursuant to the Plan shall be such term as is established by the Committee, in its sole discretion, at the time such option is granted. Options shall be subject to earlier termination as hereinafter provided.
6. EXERCISE OF OPTION. An option or any part or installment thereof shall be exercised by giving written notice to the Company at its principal office (at present 707 Summer Street, Stamford, Connecticut 06901), specifying the number of shares as to which such option is being exercised and accompanied by payment in full of the aggregate exercise price therefor (or the amount due on exercise if the Stock Option Contract permits installment payments) (i) in cash or by certified check, (ii) with previously acquired shares of Common Stock having an aggregate exercise price of all options being exercised, or (iii) any combination thereof.

The Company shall have the right to deduct and withhold from any cash otherwise payable to an optionee, or require that an optionee make arrangements satisfactory to the Company for payment of, such amounts as the Company shall determine for the purpose of satisfying its liability to withhold Federal, state or local income or FICA taxes incurred by reason of the grant or exercise of an option.

Certificates representing the shares purchased shall be issued as promptly as practicable, provided that the Company may postpone issuing certificates for such shares for such time as the Company, in its sole discretion, may deem necessary or desirable in order to enable it to comply with any requirements of the Securities Act of 1933, as amended ("Securities Act"), the 34 Act, any Rules or Regulations of the Securities and Exchange Commission promulgated under either the foregoing acts, the listing requirements of any securities exchange on which the Company's Common Stock may now or hereafter be listed, or any applicable laws of any jurisdiction relating to the authorization, issuance or sale of securities. With respect to persons subject to Section 16 of the 34 Act, the Company reserves the right to defer distribution of share certificates issuable upon exercise of an option by such person until at least six months have elapsed from the date of grant of the option. The holder of an option shall not have the rights of a stockholder with respect to the shares covered by his option until the date of issuance of a stock certificate to him for such shares; provided, however, that until such stock certificate is issued, any option holder using previously acquired shares in payment of an option exercise price shall have the rights of a shareholder with respect to such previously acquired shares. In no case may a fraction of a share be purchased or issued under the Plan.

7. TERMINATION OF DIRECTOR'S TERM.

(a) In the event that the term of an optionee's membership on the Board of Directors expires because the optionee (i) loses an election for a position on the Board of Directors, (ii) resigns from the Board of Directors prior to attaining age 65 or (iii) fails to seek election to the Board of Directors for a term commencing prior to his attainment of age 62 (in any case, other than on account of death or physical or mental disability), options granted to such optionee shall remain exercisable until expiration of one month after the expiration of such optionee's term, at which time such options shall expire.

(b) In the event that the term of an optionee's membership on the Board of Directors expires because of the optionee's resignation after age 65 or failure to seek election to the Board of Directors for a term commencing after his attainment of age 62, options granted to such optionee shall remain exercisable until the expiration of five years after the expiration of such optionee's term, at which time such options shall expire.

(c) In the event that the term of an optionee's membership on the Board of Directors expires because of

the optionee's physical or mental disability (unless such expiration is described in subsection (b) hereof) or death, options granted to such optionee shall become immediately exercisable by his executor, administrator or other person at the time entitled by law to his rights under the option, by his executor, administrator or other person at the time entitled by law to his rights under the option and shall remain exercisable until the expiration of one year after the expiration of such optionee's term, at which time such options shall expire.

(d) In the event that an optionee is removed from the Board of Directors by the shareholders of the Company or by the Board of Directors, options granted to such optionee shall expire immediately upon such removal or disqualification.

8. **CHANGE IN CONTROL.** In the event of a change in control, as hereinafter defined, options granted under this Plan shall become immediately exercisable, provided that such change in control occurs after the initial vesting of an option grant. A "change in control" shall be deemed to have occurred if (i) a tender offer shall be made and consummated for the ownership of 51% or more of the outstanding voting securities of the Company, (ii) the Company shall be merged or consolidated with another corporation and as a result of such merger or consolidation less than 75% of the outstanding voting securities of the surviving or resulting corporation shall be owned in the aggregate by the former shareholders, of the Company, other than affiliates (within the meaning of the 34 Act) of any party to such merger or consolidation, as the same shall have existed immediately prior to such merger or consolidation, (iii) the Company shall sell substantially all of its assets to another corporation which is not a wholly owned subsidiary, or (iv) a person, within the meaning of Section 3(a)(9) or of Section 13(d)(3) (as in effect on the date hereof) of the 34 Act, shall acquire 25% or more of the outstanding voting securities of the Company (whether directly, indirectly, beneficially or of record). For purposes hereof, ownership of voting securities shall take into account and shall include ownership as determined by applying the provisions of Rule 13d-3(d)(1)(i) (as in effect on the date hereof) pursuant to the 34 Act.
9. **STOCK OPTION CONTRACTS.** Each option shall be evidenced by an appropriate Stock Option Contract, and shall contain such terms and conditions not inconsistent herewith as may be determined by the Committee, and which may provide, among other things, that in the event of the exercise of such option, unless the shares of Common Stock received upon such exercise shall have been registered under an effective registration statement under the Securities Act, such shares will be acquired for investment and not with a view to distribution thereof, and that such shares may not be sold except in compliance with the applicable provisions of the Securities Act.
10. **ADJUSTMENTS UPON CHANGES IN COMMON STOCK.** The number and kind of shares reserved for issuance hereunder may be equitably adjusted, in the discretion of the Committee, in the event of a stock split, stock dividend, recapitalization, reorganization, merger, consolidation, extraordinary dividend, split-up, spin-off, combination, stock repurchase, exchange of shares, warrants or rights offering to purchase stock at a price substantially below fair market value or other similar corporate event affecting the stock, in order to preserve the benefits intended to be made available under the Plan. In the event of any of the foregoing, the number and kind of shares subject to any outstanding option granted pursuant to the Plan and the exercise price of any such option shall be equitably adjusted (including by payment of cash to the holder of such option) in the discretion of the Committee in order to preserve the benefits or potential benefits intended to be made available to the holder of an option granted pursuant to the Plan. The determination of the Committee as to what adjustments shall be made, and the extent thereof, shall be final. Unless otherwise determined by the Committee, such adjustments shall be subject to the same vesting schedule

and restrictions to which the underlying option is subject. No fractional shares of Company stock shall be reserved or authorized or made subject to any outstanding option by any such adjustment.

11. AMENDMENTS AND TERMINATION OF THE PLAN. The Plan was adopted by the Board of Directors on August 23, 1990. No options may be granted under the Plan after August 23, 2000. The Board of Directors, without further approval of the Company's stockholders, may at any time suspend or terminate the Plan, in whole or in part, or amend it from time to time in such respects as it may deem advisable. No termination, suspension or amendment of the Plan shall, without the consent of the holder of an existing option affected thereby, adversely affect his rights under such option.
12. TRANSFERABILITY OF OPTIONS. Options granted under the Plan shall be transferable by the optionee only pursuant to the following methods: by will or the laws of descent and distribution; pursuant to a domestic relations order, as defined in the Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder; or as a gift to family members of the optionee, trusts for the benefit of family members of the optionee or charities or other not-for-profit organizations. Except to the extent provided in this Paragraph and Paragraph 7(c), options may not be assigned, transferred, pledged, hypothecated or disposed of in any way (whether by operation of law or otherwise), shall not be subject to execution, attachment or similar process, and may be exercised during the lifetime of the holder thereof only by such holder.
13. STOCKHOLDERS' APPROVAL. The Plan shall be subject to approval by a majority of the Company's outstanding stock entitled to vote thereon at the next annual or special meeting of its stockholders to be held to consider such approval and no options granted hereunder may be exercised prior to such approval, provided that the date of grant of any options granted hereunder shall be determined as if the Plan had not been subject to such approval.
14. GOVERNING LAW. The Plan and all rights hereunder shall be construed in accordance with and governed by the internal laws of the State of Delaware.
15. COMPLIANCE WITH RULE 16b-3. All transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the 34 Act, regardless of whether such conditions are set forth in the Plan. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

¹ Gives effect to October 21, 1996 stock split.

1992 DIRECTORS STOCK OPTION PLAN

OF

CUC INTERNATIONAL INC.

1. PURPOSES OF THE PLAN. This stock option plan (the "Plan") is designed to provide an incentive to directors of CUC International Inc., a Delaware corporation (the "Company").
2. STOCK SUBJECT TO THE PLAN. Options may be granted as provided herein to purchase in the aggregate not more than Six Hundred Seventy-Five Thousand (675,000) shares of Common Stock, \$.01 par value per share, of the Company ("Common Stock"). Each individual who on August 28, 1992 was a director (but not an employee) of the Company was granted on such date options with respect to sixty-seven thousand five hundred (67,500) shares of Common Stock. Each individual who after August 28, 1992 becomes a director (but not an employee) of the Company, on the date of his election to the Board of Directors, shall be granted an option to purchase sixty-seven thousand five hundred (67,500) shares of Common Stock. Such shares may, in the discretion of the Committee, consist either in whole or in part of authorized but unissued shares of Common Stock or shares of Common Stock held in the treasury of the Company. The Company shall at all times during the term of the Plan reserve and keep available such number of shares of Common Stock as will be sufficient to satisfy the requirements of the Plan. Such options shall be considered "non-qualified stock options," within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"). No director to whom any options are granted hereunder shall be eligible to receive any additional options under the Plan. Subject to the provision of Paragraph 11, any shares subject to an option which for any reason expires, is canceled or is terminated unexercised as to such shares shall again become available for option under the Plan.
3. ADMINISTRATION OF THE PLAN. The Plan shall be administered by a Committee (the "Committee") consisting of not less than two members of the Board of Directors, each of whom shall be a Non-Employee Director of the Company within the meaning of Rule 16b-3 or its successors under the Securities Exchange Act of 1934, as amended (the "34 Act"). A majority of the members shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present, and any acts approved in writing by all members without a meeting, shall be the acts of the Committee.

Subject to the express provisions of the Plan, the Committee shall have the authority, in its sole discretion, to make all determinations necessary or advisable for administering the Plan; and, with the consent of the optionee, to modify an option, provided such option as modified does not violate the terms of the Plan. The determinations of the Committee on the matters referred to in this Paragraph 3 shall be conclusive.

No member of the Committee shall be liable for anything whatsoever in connection with the administration of the Plan except such member's own willful misconduct. Under no circumstances shall any member of the Committee be liable for any act or omission of any other member of the Committee. In their performance of its functions with respect to the Plan, the Committee shall be entitled to rely upon information and advice furnished by the Company's officers, the Company's accountants, the Company's counsel and any other party the Committee deems necessary and no member of the Committee shall be liable for any action taken or not taken in reliance upon any such advice.

4. EXERCISE PRICE. The exercise price of the shares of Common Stock under each option shall be 100% of the fair market value of the Common Stock on the date of grant. The determination of the Committee shall be conclusive in determining the fair market value of the stock.

5. TERM OF OPTION. The term of each option granted pursuant to the Plan shall be such term as is established by the Committee, in its sole discretion, at the time such option is granted. Options shall be subject to earlier termination as hereinafter provided.
6. EXERCISE OF OPTION. An option or any part or installment thereof shall be exercised by giving written notice to the Company at its principal office (at present 707 Summer Street, Stamford, Connecticut 06901), specifying the number of shares as to which such option is being exercised and accompanied by payment in full of the aggregate exercise price therefor (or the amount due on exercise if the Stock Option Contract permits installment payments) (i) in cash or by certified check, (ii) with previously acquired shares of Common Stock having an aggregate exercise price of all options being exercised, or (iii) any combination thereof.

The Company shall have the right to deduct and withhold from any cash otherwise payable to an optionee, or require that an optionee make arrangements satisfactory to the Company for payment of, such amounts as the Company shall determine for the purpose of satisfying its liability to withhold Federal, state or local income or FICA taxes incurred by reason of the grant or exercise of an option.

Certificates representing the shares purchased shall be issued as promptly as practicable, provided that the Company may postpone issuing certificates for such shares for such time as the Company, in its sole discretion, may deem necessary or desirable in order to enable it to comply with any requirements of the Securities Act of 1933, as amended ("Securities Act"), the 34 Act, any Rules or Regulations of the Securities and Exchange Commission promulgated under either the foregoing acts, the listing requirements of any securities exchange on which the Company's Common Stock may now or hereafter be listed, or any applicable laws of any jurisdiction relating to the authorization, issuance or sale of securities. With respect to persons subject to Section 16 of the 34 Act, the Company reserves the right to defer distribution of share certificates issuable upon exercise of an option by such person until at least six months have elapsed from the date of grant of the option. The holder of an option shall not have the rights of a stockholder with respect to the shares covered by his option until the date of issuance of a stock certificate to him for such shares; provided, however, that until such stock certificate is issued, any option holder using previously acquired shares in payment of an option exercise price shall have the rights of a shareholder with respect to such previously acquired shares. In no case may a fraction of a share be purchased or issued under the Plan.

7. TERMINATION OF DIRECTOR'S TERM.

(a) In the event that the term of an optionee's membership on the Board of Directors expires because the optionee (i) loses an election for a position on the Board of Directors, (ii) resigns from the Board of Directors prior to attaining age 65 or (iii) fails to seek election to the Board of Directors for a term commencing prior to his attainment of age 62 (in any case, other than on account of death or physical or mental disability), options granted to such optionee shall remain exercisable until expiration of one month after the expiration of such optionee's term, at which time such options shall expire.

(b) In the event that the term of an optionee's membership on the Board of Directors expires because of the optionee's resignation after age 65 or failure to seek election to the Board of Directors for a term commencing after his attainment of age 62, options granted to such optionee shall remain exercisable until the expiration of five years after the expiration of such optionee's term, at which time such options shall expire.

(c) In the event that the term of an optionee's membership on the Board of Directors expires because of

the optionee's physical or mental disability (unless such expiration is described in subsection (b) hereof) or death, options granted to such optionee shall become immediately exercisable by his executor, administrator or other person at the time entitled by law to his rights under the option and shall remain exercisable until the expiration of one year after the expiration of such optionee's term, at which time such options shall expire.

(d) In the event that an optionee is removed from the Board of Directors by the shareholders of the Company or by the Board of Directors, options granted to such optionee shall expire immediately upon such removal or disqualification.

(e) For the purposes of this Section 7 only, in the case of an optionee who is appointed by the Board of Directors as a "director emeritus" of the Company, the "term" of such optionee's "membership on the Board of Directors" shall not be deemed to terminate or expire until such time as such optionee ceases for any reason to be a director emeritus of the Company. If such optionee ceases to be a director emeritus because of physical or mental disability or death, the provisions of Section 7(c) shall apply; if such optionee ceases to be a director emeritus because of removal by the Board of Directors, the provisions of Section 7(d) shall apply; if such optionee ceases to be a director emeritus for any other reason, the provisions of Section 7(b) shall apply.

8. CHANGE IN CONTROL. In the event of a change in control, as hereinafter defined, options granted under this Plan shall become immediately exercisable, provided that such change in control occurs after the initial vesting of an option grant. A "change in control" shall be deemed to have occurred if (i) a tender offer shall be made and consummated for the ownership of 51% or more of the outstanding voting securities of the Company, (ii) the Company shall be merged or consolidated with another corporation and as a result of such merger or consolidation less than 75% of the outstanding voting securities of the surviving or resulting corporation shall be owned in the aggregate by the former shareholders of the Company, other than affiliates (within the meaning of the 34 Act) of any party to such merger or consolidation, as the same shall have existed immediately prior to such merger or consolidation, (iii) the Company shall sell substantially all of its assets to another corporation which is not a wholly owned subsidiary, or (iv) a person, within the meaning of Section 3(a)(9) or of Section 13(d)(3) (as in effect on the date hereof) of the 34 Act, shall acquire 25% or more of the outstanding voting securities of the Company (whether directly, indirectly, beneficially or of record). For purposes hereof, ownership of voting securities shall take into account and shall include ownership as determined by applying the provisions of Rule 13d-3(d)(1)(i) (as in effect on the date hereof) pursuant to the 34 Act.

9. STOCK OPTION CONTRACTS. Each option shall be evidenced by an appropriate Stock Option Contract, and shall contain such terms and conditions not inconsistent herewith as may be determined by the Committee, and which may provide, among other things, that in the event of the exercise of such option, unless the shares of Common Stock received upon such exercise shall have been registered under an effective registration statement under the Securities Act, such shares will be acquired for investment and not with a view to distribution thereof, and that such shares may not be sold except in compliance with the applicable provisions of the Securities Act.

10. ADJUSTMENTS UPON CHANGES IN COMMON STOCK. The number and kind of shares reserved for issuance hereunder may be equitably adjusted, in the discretion of the Committee, in the event of a stock split, stock dividend, recapitalization, reorganization, merger, consolidation, extraordinary dividend, split-up, spin-off, combination, stock repurchase, exchange of shares, warrants or rights offering to purchase stock at a price substantially below

fair market value or other similar corporate event affecting the stock, in order to preserve the benefits intended to be made available under the Plan. In the event of any of the foregoing, the number and kind of shares subject to any outstanding option granted pursuant to the Plan and the exercise price of any such option shall be equitably adjusted (including by payment of cash to the holder of such option) in the discretion of the Committee in order to preserve the benefits or potential benefits intended to be made available to the holder of an option granted pursuant to the Plan. The determination of the Committee as to what adjustments shall be made, and the extent thereof, shall be final. Unless otherwise determined by the Committee, such adjustments shall be subject to the same vesting schedule and restrictions to which the underlying option is subject. No fractional shares of Company stock shall be reserved or authorized or made subject to any outstanding option by any such adjustment.

11. AMENDMENTS AND TERMINATION OF THE PLAN. The Plan was adopted by the Board of Directors on August 28, 1992. No options may be granted under the Plan after the tenth anniversary of that date. The Board of Directors, without further approval of the Company's stockholders, may at any time suspend or terminate the Plan, in whole or in part, or amend it from time to time in such respects as it may deem advisable. No termination, suspension or amendment of the Plan shall, without the consent of the holder of an existing option affected thereby, adversely affect his rights under such option.
12. TRANSFERABILITY OF OPTIONS. Options granted under the Plan shall be transferable by the optionee only pursuant to the following methods: by will or the laws of descent and distribution; pursuant to a domestic relations order, as defined in the Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder; or as a gift to family members of the optionee, trusts for the benefit of family members of the optionee or charities or other not-for-profit organizations. Except to the extent provided in this Paragraph and Paragraph 7(c), options may not be assigned, transferred, pledged, hypothecated or disposed of in any way (whether by operation of law or otherwise), shall not be subject to execution, attachment or similar process, and may be exercised during the lifetime of the holder thereof only by such holder.
13. STOCKHOLDERS' APPROVAL. The Plan shall be subject to approval by a majority of the Company's outstanding stock entitled to vote thereon at the next annual or special meeting of its stockholders to be held to consider such approval and no options granted hereunder may be exercised prior to such approval, provided that the date of grant of any options granted hereunder shall be determined as if the Plan had not been subject to such approval.
14. GOVERNING LAW. The Plan and all rights hereunder shall be construed in accordance with and governed by the internal laws of the State of Delaware.
15. COMPLIANCE WITH RULE 16b-3. All transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the 34 Act, regardless of whether such conditions are set forth in the Plan. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

¹ Gives effect to October 21, 1996 stock split.

1994 DIRECTORS STOCK OPTION PLAN

OF

CUC INTERNATIONAL INC.

1. PURPOSES OF THE PLAN. The 1994 Directors Stock Option Plan (the "Plan") is designed to attract, retain and provide an incentive to directors of CUC International Inc., a Delaware corporation (the "Company"), who are not employees of the Company, by providing them with an ownership interest in the Company.
2. STOCK SUBJECT TO THE PLAN. Options may be granted as provided herein to purchase in the aggregate not more than Three Hundred Thirty-Seven Thousand Five Hundred (337,500) shares of Common Stock, \$.01 par value per share, of the Company ("Common Stock"). Options to purchase eleven thousand two hundred fifty (11,250) shares of Common Stock (as adjusted through October 21, 1996 and as it may be adjusted pursuant to Section 10 hereof) shall be automatically granted on November 23 (or the first succeeding business day thereafter on which the Common Stock is traded on the principal securities exchange on which it is listed) of each of 1994, 1995, 1996 and 1997 to each individual who is a director (but not an employee) of the Company on such date. In the event of the expiration of the term of the membership on the Board of Directors of the Company ("Board of Directors") of any individual who is a director (but not an employee) of the Company, because of such individual's physical or mental disability or death, such individual (or his executor, administrator or other person at the time entitled by law thereto) shall automatically be granted, as of the date of the expiration of such individual's term on the Board of Directors, all of the options under this Plan which such individual would have been entitled to receive during the remainder of his then-current term on the Board of Directors, with the exercise thereof subject to the provisions of Paragraph 7(c) hereof. The Common Stock that may be purchased pursuant to options under this Plan by any one individual shall not exceed forty-five thousand (45,000) shares of Common Stock (as adjusted through October 21, 1996 and as it may be adjusted pursuant to Section 10 hereof).

Such shares may, in the discretion of the Committee, consist either in whole or in part of authorized but unissued shares of Common Stock or shares of Common Stock held in the treasury of the Company. The Company shall at all times during the term of the Plan reserve and keep available such number of shares of Common Stock as will be sufficient to satisfy the requirements of the Plan. Such options shall be considered "non-qualified stock options," within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"). Subject to the provision of Paragraph 11 hereof, any shares subject to an option which for any reason expires, is canceled or is terminated unexercised as to such shares shall again become available for option under the Plan.

3. ADMINISTRATION OF THE PLAN. The Plan shall be administered by a Committee (the "Committee") appointed by the Board of Directors consisting of not less than two (2) members of the Board of Directors, each of whom shall be a Non-Employee Director of the Company within the meaning of Rule 16b-3 or its successors under the Securities Exchange Act of 1934 (the "Exchange Act"). A majority of the members of the Committee shall constitute a quorum, and the acts of a majority of the members of the Committee present at any meeting at which a quorum is present, and any acts approved in writing by all members of the Committee without a meeting, shall be the acts of the Committee.

Subject to the express provisions of the Plan, the Committee shall have the authority, in its sole discretion, to make all determinations necessary or advisable for administering the Plan; and, with the consent of the optionee, to modify an option, provided such option as modified does not violate the terms of the Plan. The determinations of the Committee

on the matters referred to in this Paragraph 3 shall be conclusive. The Chief Executive Officer and the President of the Company shall be authorized to implement the Plan in accordance with its terms.

No member of the Committee shall be liable for anything whatsoever in connection with the administration of the Plan except such member's own willful misconduct. Under no circumstances shall any member of the Committee be liable for any act or omission of any other member of the Committee. In the performance of its functions with respect to the Plan, the Committee shall be entitled to rely upon information and advice furnished by the Company's officers, the Company's accountants, the Company's counsel and any other party the Committee deems necessary and no member of the Committee shall be liable for any action taken or not taken in reliance upon any such advice.

4. EXERCISE PRICE. The exercise price of the shares of Common Stock under each option shall be 100% of the fair market value of the Common Stock on the date of grant. The determination of the Committee shall be conclusive in determining the fair market value of the Common Stock.
5. TERM OF OPTION. The term of each option granted pursuant to the Plan shall be such term as is established by the Committee, in its sole discretion, at the time such option is granted. Options shall be subject to earlier termination as hereinafter provided.
6. EXERCISE OF OPTION. An option or any part or installment thereof shall be exercised by giving written notice to the Company at its principal office (at present, 707 Summer Street, Stamford, Connecticut 06901), specifying the number of shares of Common Stock as to which such option is being exercised and accompanied by payment in full of the aggregate exercise price therefor (or the amount due on exercise if the Stock Option Contract (as described in Paragraph 9 hereof) permits installment payments) (i) in cash or by certified check, (ii) with previously acquired shares of Common Stock having an aggregate exercise price of all options being exercised, or (iii) any combination thereof.

The Company shall have the right to deduct and withhold from any cash otherwise payable to an optionee, or require that an optionee make arrangements satisfactory to the Company for payment of, such amounts as the Company shall determine for the purpose of satisfying its liability to withhold Federal, state or local income or FICA taxes incurred by reason of the grant or exercise of an option.

Certificates representing the shares of Common Stock purchased shall be issued as promptly as practicable, provided that the Company may postpone issuing certificates for such shares for such time as the Company, in its sole discretion, may deem necessary or desirable in order to enable it to comply with any requirements of the Securities Act of 1933, as amended ("Securities Act"), the Exchange Act, any Rules or Regulations of the Securities and Exchange Commission promulgated under either of the foregoing acts, the listing requirements of any securities exchange on which the Company's Common Stock may now or hereafter be listed, or any applicable laws of any jurisdiction relating to the authorization, issuance or sale of securities. The Company reserves the right to defer distribution of share certificates issuable upon exercise of an option by an optionee until at least six (6) months have elapsed from the date of grant of the option. The holder of an option shall not have the rights of a stockholder with respect to the shares of Common Stock covered by his option until the date of issuance of a stock certificate to him for such shares; provided, however, that until such stock certificate is issued, any option holder using previously acquired shares of Common Stock in payment of an option exercise price shall have the rights of a shareholder with respect to such previously acquired shares. In no case may a fraction of a share of Common Stock be purchased or issued under the Plan.

An optionee receiving options to purchase Common Stock under the Plan shall not be able to sell the Common Stock

underlying such options until at least six (6) months have elapsed from the date such options were granted to such optionee.

7. TERMINATION OF DIRECTOR'S TERM. Unless otherwise determined by the Committee, options shall be exercisable following termination of an optionee's term as a director or director emeritus only as indicated below:

(a) In the event that the term of an optionee's membership on the Board of Directors expires because the optionee (i) loses an election for a position on the Board of Directors, (ii) resigns from the Board of Directors prior to attaining age 65, or (iii) fails to seek election to the Board of Directors for a term commencing prior to his attainment of age 62 (in any case, other than on account of death or physical or mental disability), options granted to such optionee shall remain exercisable until the earlier to occur of the expiration of one month after the expiration of such optionee's term or the stated expiration date of such options, at which time such options shall expire.

(b) In the event that the term of an optionee's membership on the Board of Directors expires because of the optionee's resignation after age 65 or failure to seek election to the Board of Directors for a term commencing after his attainment of age 62, options granted to such optionee shall remain exercisable until the earlier to occur of the expiration of five years after the expiration of such optionee's term or the stated expiration date of such options, at which time such options shall expire.

(c) In the event that the term of an optionee's membership on the Board of Directors expires because of the optionee's physical or mental disability (unless such expiration is described in subsection (b) hereof) or death, options granted to such optionee shall remain exercisable by his executor, administrator or other person at the time entitled by law to his rights under the option until the earlier to occur of the expiration of one year after the expiration of such optionee's term or the stated expiration date of such options, at which time such options shall expire.

(d) In the event that an optionee is removed from the Board of Directors by the shareholders of the Company or by the Board of Directors, options granted to such optionee shall expire immediately upon such removal or disqualification.

(e) For the purposes of this Section 7 only, in the case of an optionee who is appointed by the Board of Directors as a director emeritus of the Company, the "term" of such optionee's "membership on the Board of Directors" shall not be deemed to terminate or expire until such time as such optionee ceases for any reason to be a director emeritus of the Company. If such optionee ceases to be a director emeritus because of physical or mental disability or death, the provisions of Section 7(c) shall apply; if such optionee ceases to be a director emeritus because of removal by the Board of Directors, the provisions of Section 7(d) shall apply; if such optionee ceases to be a director emeritus for any other reason, the provisions of Section 7(b) shall apply.

8. CHANGE IN CONTROL. In the event of a change in control, as hereinafter defined, each individual who is a director (but not an employee) of the Company on the effective date of such change of control shall automatically be granted, as of such date, all of the options under the Plan which such individual would have been entitled to receive if such individual were a non-employee director on November 23 of each remaining year in which the Plan provides that grants are to be made. A "change in control" shall be deemed to have occurred if (i) a tender offer shall be made and consummated for the ownership of 51% or more of the outstanding voting securities of the Company, (ii) the

Company shall be merged or consolidated with another corporation and as a result of such merger or consolidation less than 75% of the outstanding voting securities of the surviving or resulting corporation shall be owned in the aggregate by the former shareholders of the Company, other than affiliates (within the meaning of the Exchange Act) of any party to such merger or consolidation, as the same shall have existed immediately prior to such merger or consolidation, (iii) the Company shall sell substantially all of its assets to another corporation which is not a wholly owned subsidiary, or (iv) a person, within the meaning of Section 3(a)(9) or of Section 13(d)(3) (as in effect on the date hereof) of the Exchange Act, shall acquire 25% or more of the outstanding voting securities of the Company (whether directly, indirectly, beneficially or of record). For purposes hereof, ownership of voting securities shall take into account and shall include ownership as determined by applying the provisions of Rule 13d-3(d)(1)(i) (as in effect on the date hereof) pursuant to the Exchange Act.

9. STOCK OPTION CONTRACTS. Each option shall be evidenced by an appropriate Stock Option Contract, and shall contain such terms and conditions not inconsistent herewith as may be determined by the Committee, and which may provide, among other things, that in the event of the exercise of such option, unless the shares of Common Stock received upon such exercise shall have been registered under an effective registration statement under the Securities Act, such shares will be acquired for investment and not with a view to distribution thereof, and that such shares may not be sold except in compliance with the applicable provisions of the Securities Act.
10. ADJUSTMENTS UPON CHANGES IN COMMON STOCK. The number and kind of shares reserved for issuance hereunder may be equitably adjusted, in the discretion of the Committee, in the event of a stock split, stock dividend, recapitalization, reorganization, merger, consolidation, extraordinary dividend, split-up, spin-off, combination, stock repurchase, exchange of shares, warrants or rights offering to purchase stock at a price substantially below fair market value or other similar corporate event affecting the Common Stock, in order to preserve the benefits intended to be made available under the Plan. In the event of any of the foregoing, the number and kind of shares subject to any outstanding option granted pursuant to the Plan and the exercise price of any such option shall be equitably adjusted (including by payment of cash to the holder of such option) in the discretion of the Committee in order to preserve the benefits or potential benefits intended to be made available to the holder of an option granted pursuant to the Plan. The determination of the Committee as to what adjustments shall be made, and the extent thereof, shall be final. Unless otherwise determined by the Committee, such adjustments shall be subject to the same vesting schedule and restrictions to which the underlying option is subject. No fractional shares of Company stock shall be reserved or authorized or made subject to any outstanding option by any such adjustment.
11. AMENDMENTS AND TERMINATION OF THE PLAN. The Plan was adopted by the Board of Directors on November 23, 1994. No options may be granted under the Plan after the third anniversary of that date. The Board of Directors, without further approval of the Company's stockholders, may at any time suspend or terminate the Plan, in whole or in part, or amend it from time to time in such respects as it may deem advisable. No termination, suspension or amendment of the Plan shall, without the consent of the holder of an existing option affected thereby, adversely affect his rights under such option.
12. TRANSFERABILITY OF OPTIONS. Options granted under the Plan shall be transferable by the optionee only pursuant to the following methods: by will or the laws of descent and distribution; pursuant to a domestic relations order, as defined in the Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder; or as a gift to family members of the optionee, trusts for the benefit of family members of the optionee or charities or other not-for-

profit organizations. Except to the extent provided in this Paragraph and Paragraph 7(c), options may not be assigned, transferred, pledged, hypothecated or disposed of in any way (whether by operation of law or otherwise), shall not be subject to execution, attachment or similar process, and may be exercised during the lifetime of the holder thereof only by such holder.

13. STOCKHOLDERS' APPROVAL. The Plan shall be subject to approval by a majority of the Company's outstanding stock entitled to vote thereon at the next annual or special meeting of its stockholders to be held to consider such approval and no options granted hereunder may be exercised prior to such approval, provided that the date of grant of any options granted hereunder shall be determined as if the Plan had not been subject to such approval. In the event such approval is not obtained, any options granted hereunder shall be null and void.
14. GOVERNING LAW. The Plan and all rights hereunder shall be construed in accordance with and governed by the internal laws of the State of Delaware.
15. COMPLIANCE WITH RULE 16b-3. All transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act, regardless of whether such conditions are set forth in the Plan. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

¹ Gives effect to October 21, 1996 stock split.