

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, 1997

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 - 426,473,398 shares as of November 28, 1997

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CUC INTERNATIONAL INC. AND SUBSIDIARIES

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

	October 31, 1997 (Unaudited)	January 31, 1997
Assets		
Current Assets		
Cash and cash equivalents	\$986,892	\$564,362
Marketable securities	139,893	75,673
Receivables, net of allowances	686,415	602,718
Prepaid membership materials	55,764	39,470
Prepaid expenses, deferred income taxes and other	248,035	192,928
Total Current Assets	2,116,999	1,475,151
Membership solicitations in process	68,714	76,281
Deferred membership acquisition costs	419,807	401,564
Contract renewal rights and intangible assets - net of accumulated amortization of \$185,940 and \$163,882	676,848	550,512
Properties, at cost, less accumulated depreciation of \$179,806 and \$152,270	192,025	172,228
Deferred income taxes and other	70,479	58,812
	\$3,544,872	\$2,734,548
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued expenses	\$463,819	\$445,888
Federal and state income taxes	24,722	78,956

Total Current Liabilities	488,541	524,844
Deferred membership income	723,235	702,359
Convertible debt - net of unamortized original issue discount of \$7,355 and \$488	561,685	23,487
Long-term debt	67,872	201,276
Other	56,979	6,044

Contingencies (Note 6)

Shareholders' Equity

Common stock-par value \$.01 per share; authorized 600 million shares; issued 433,299,044 shares and 423,214,578 shares	4,333	4,232
Additional paid-in capital	752,566	636,237
Retained earnings	999,768	725,343
Treasury stock, at cost, 6,545,362 shares and 6,136,757 shares	(67,944)	(56,618)
Other	(42,163)	(32,656)
Total Shareholders' Equity	1,646,560	1,276,538
	\$3,544,872	\$2,734,548

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,	
	1997	1996
REVENUES		
Membership and service fees	\$649,485	\$534,719
Software	125,223	98,611
Total Revenues	774,708	633,330
EXPENSES		
Operating	233,574	189,655
Marketing	275,615	233,485
General and administrative	103,590	90,843
Other interest (income) expense, net	(5,207)	1,393
Merger costs		147,200
Interest expense, 3% convertible notes	4,125	
Total Expenses	611,697	662,576
INCOME (LOSS) BEFORE INCOME TAXES	163,011	(29,246)
Provision for (benefit from) income taxes	62,107	(12,838)
NET INCOME (LOSS)	\$100,904	\$(16,408)
Net Income (Loss) Per Common Share	\$0.23	\$(0.04)
Weighted Average Number of Common and Dilutive Common Equivalent Shares Outstanding	456,217	421,235

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,
1997 1996

REVENUES

Membership and service fees	\$1,870,890	\$1,539,240
Software	297,423	228,096
Total Revenues	2,168,313	1,767,336

EXPENSES

Operating	667,324	535,237
Marketing	759,807	660,914
General and administrative	311,127	255,823
Other interest (income) expense, net	(15,074)	5,388
Merger costs		175,835
Interest expense, 3% convertible notes	11,884	
Total Expenses	1,735,068	1,633,197

INCOME BEFORE INCOME TAXES 433,245 134,139

Provision for income taxes 165,259 56,697

NET INCOME \$267,986 \$77,442

Net Income Per Common Share \$0.61 \$0.19

Weighted Average Number of
Common and Dilutive Common
Equivalent Shares Outstanding 452,366 416,057

See notes to condensed consolidated financial statements.

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

Nine Months Ended
October 31,
1997 1996

OPERATING ACTIVITIES:

Net income	\$267,986	\$77,442
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Membership acquisition costs	(474,103)	(467,325)
Amortization of membership acquisition costs	455,860	478,762
Deferred membership income	20,737	(9,263)
Membership solicitations in process	7,567	(9,436)
Amortization of contract renewal rights and excess cost	22,644	25,923
Deferred income taxes	13,351	(41,056)
Amortization of restricted stock and original issue discount on convertible notes	5,968	2,880
Depreciation	37,008	31,400
Net loss during change in fiscal year-ends	(592)	(4,268)

Changes in working capital items, net of acquisitions:

Receivables	(75,202)	(73,794)
Prepaid membership materials	(13,372)	(9,992)
Prepaid expenses and other current assets	(58,750)	9,961
Accounts payable, accrued expenses and federal & state income taxes payable	(122,588)	102,765
Product abandonment and related liabilities		(10,841)
Other, net	(20,991)	(11,813)
Net cash provided by operating activities	65,523	91,345

INVESTING ACTIVITIES:

Proceeds from marketable securities	393,868	108,071
Purchases of marketable securities	(458,088)	(96,517)

Acquisitions, net of cash acquired	(76,401)	(43,138)
Acquisitions of properties	(52,291)	(57,426)
Net cash used in investing activities	(192,912)	(89,010)
FINANCING ACTIVITIES:		
Issuance of Common Stock	69,822	41,879
Long-term obligations, net	(62,866)	(14,368)
Dividends paid		(2,798)
Net proceeds from the issuance of convertible notes	542,963	
Net cash provided by financing activities	549,919	24,713
Net increase in cash and cash equivalents	422,530	27,048
Cash and cash equivalents at beginning of period	564,362	358,326
Cash and cash equivalents at end of period	\$986,892	\$385,374

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. The January 31, 1997 consolidated balance sheet was derived from the Company's audited financial statements. Operating results for the three and nine months ended October 31, 1997 are not necessarily indicative of the results that may be expected for the year ending January 31, 1998 (see Note 2). For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Form 10-K filing for the year ended January 31, 1997.

NOTE 2 -- PENDING MERGER WITH HFS INCORPORATED

On May 27, 1997, the Company entered into an agreement to merge with HFS Incorporated ("HFS") in a tax-free exchange of common shares. Under the terms of the agreement and plan of merger with HFS (the "Merger"), the Company plans to exchange 2.4031 shares of the Company's common stock, par value \$.01 per share ("Common Stock"), for each outstanding share of HFS common stock. The consummation of this Merger is subject to certain customary closing conditions, and has been approved by the shareholders of both companies at a special meeting held on October 1, 1997. The transaction will be accounted for in accordance with the pooling-of-interests method of accounting and is expected to be completed in December 1997. Pursuant to the merger agreement, HFS shall be merged with and into the Company at the effective time of the Merger. Following the effective time of the Merger, the Company shall be the surviving corporation and shall succeed to and assume all of the rights and obligations of HFS. Also, following consummation of the Merger, the Company will change its name to "Cendant Corporation". In connection with the Merger, the Company intends to change its fiscal year end from January 31 to December 31.

On October 29, 1997, the Company entered into an agreement to sell its wholly-owned subsidiary, Interval International, Inc., and certain related entities ("Interval") for approximately \$200 million, subject to certain adjustments. The agreement contemplates that the Company will continue to provide existing services to Interval's developers and members. The sale of Interval is being proposed to address Federal Trade Commission

("FTC") concerns regarding the impact of the Merger on the timeshare exchange business. The consummation of the sale is subject to customary conditions as well as the Company and HFS having entered into a consent decree with the FTC in connection with the Merger.

The following information reflects unaudited pro forma combined condensed financial statements of the Company and HFS. These financial statements include certain pro forma adjustments which give effect to the Merger and certain reclassifications to conform to the presentation to be used by the Company, post Merger.

The pro forma balance sheet at October 31, 1997 reflects the historical financial position of the Company and HFS as of October 31, 1997 and September 30, 1997, respectively. The pro forma statements of income for the three and nine months ended October 31, 1997 include the historical operating results of the Company and HFS for the three and nine months ended October 31, 1997 and September 30, 1997, respectively. The pro forma statements of income for the three and nine months ended October 31, 1996 include the historical operating results of the Company and HFS for the three and nine months ended October 31, 1996 and September 30, 1996, respectively.

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

NOTE 2 -- PENDING MERGER WITH HFS INCORPORATED (continued)

Pro Forma Combined Condensed Balance Sheet
(In thousands)

	At			
	10/31/97	9/30/97	Pro Forma	Combined
	CUC	HFS	Adjustments	Companies
Assets				
Current Assets				
Cash and cash equivalents	\$ 986,892	\$ 93,667		\$1,080,559
Restricted cash		23,825		23,825
Marketable securities	139,893			139,893
Receivables, net	686,415	857,338		1,543,753
Other current assets	303,799	289,519		593,318
Total Current Assets	2,116,999	1,264,349		3,381,348
Deferred membership				
acquisition costs	419,807			419,807
Franchise agreements, net		942,780		942,780
Excess of cost over fair value				
of net assets acquired, net	649,652	1,913,478		2,563,130
Other intangible assets, net	27,196	769,497		796,693
Other assets	331,218	983,601		1,314,819
	3,544,872	5,873,705		9,418,577
Assets under management				
and mortgage programs:				
Net investment in leases				
and leased vehicles		3,547,217		3,547,217
Relocation receivables		587,310		587,310
Mortgage loans held for sale		1,162,220		1,162,220
Mortgage servicing rights and fees		305,428		305,428
		5,602,175		5,602,175
Total assets	\$3,544,872	\$11,475,880		\$15,020,752
Liabilities and Shareholders' Equity				
Current Liabilities - accounts				
payable, accrued expenses and				
other current liabilities	\$ 488,541	\$ 915,216		\$1,403,757
Deferred income	723,235	397,754		1,120,989
Long-term debt	629,557	1,662,169		2,291,726
Other non-current				
liabilities	56,979	204,608		261,587
	1,898,312	3,179,747		5,078,059
Liabilities under management				
and mortgage programs:				

Debt		4,952,083		4,952,083
Deferred income taxes		300,683		300,683
		5,252,766		5,252,766
Shareholders' Equity				
Common stock	4,333	1,628	\$2,210 (a)	8,171
Additional paid-in capital	752,566	2,277,933	(192,680) (a)	2,837,819
Retained earnings	999,768	966,385		1,966,153
Treasury stock	(67,944)	(190,470)	190,470 (a)	(67,944)
Restricted stock, deferred compensation	(28,272)			(28,272)
Foreign currency translation adjustment	(13,891)	(12,109)		(26,000)
Total Shareholders' Equity	1,646,560	3,043,367		4,689,927
Total liabilities and shareholders' equity	\$3,544,872	\$11,475,880		\$15,020,752

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

NOTE 2 -- PENDING MERGER WITH HFS INCORPORATED (continued)

Pro Forma Combined Condensed Statements of Income
(In thousands, except per share amounts)

	For the Three Months Ended			
	10/31/97	9/30/97	Pro Forma	Combined
	CUC	HFS	Adjustment	Companies
Revenues				
Membership and service fees, net	\$649,485	\$597,872		\$1,247,357
Software	125,223			125,223
Fleet leasing (net of depreciation and interest costs of \$307,908)		13,148		13,148
Other		38,860		38,860
Net revenues	774,708	649,880		1,424,588
Expenses				
Operating	233,574	222,771		456,345
Marketing and reservation	275,615	80,897		356,512
General and administrative	77,891	18,670		96,561
Depreciation and amortization	25,699	44,541		70,240
Interest, net	(1,082)	17,239		16,157
Total expenses	611,697	384,118		995,815
Income before income taxes	163,011	265,762		428,773
Provision for income taxes	62,107	108,359		170,466
Net income	\$100,904	\$157,403		\$258,307
Per share information (d)				
Net income per share	\$0.23	\$0.89		\$0.30
Weighted average shares outstanding	456,217	179,703	252,141	888,061

	For the Three Months Ended			
	10/31/96	9/30/96	Pro Forma	Combined
	CUC	HFS	Adjustment	Companies
Revenues				
Membership and service fees, net	\$534,719	\$389,527		\$924,246
Software	98,611			98,611
Fleet leasing (net of depreciation and interest costs of \$283,086)		14,297		14,297
Other		5,747		5,747
Net revenues	633,330	409,571		1,042,901
Expenses				
Operating	189,655	173,771		363,426
Marketing and reservation	233,485	50,044		283,529
General and administrative	66,164	17,647		83,811

Merger costs (c)	147,200		147,200
Depreciation and amortization	24,679	25,224	49,903
Interest, net	1,393	1,070	2,463
Total expenses	662,576	267,756	930,332
Income (loss) before income taxes	(29,246)	141,815	112,569
Provision for (benefit from) income taxes	(12,838)	56,941	44,103
Net income (loss)	(\$16,408)	\$84,874	\$68,466
Per share information (d)			
Net income (loss) per share	(\$0.04)	\$0.50	\$0.08
Weighted average shares outstanding	421,235	171,947	241,259
			834,441

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

NOTE 2 -- PENDING MERGER WITH HFS INCORPORATED (continued)

Pro Forma Combined Condensed Statements of Income
(In thousands, except per share amounts)

	For the Nine Months Ended			
	10/31/97	9/30/97	Pro Forma	Combined
	CUC	HFS	Adjustment	Companies
Revenues				
Membership and service fees, net	\$1,870,890	\$1,627,076		\$3,497,966
Software	297,423			297,423
Fleet leasing (net of depreciation and interest costs of \$892,186)		42,905		42,905
Other, net		79,496		79,496
Net revenues	2,168,313	1,749,477		3,917,790
Expenses				
Operating	667,324	657,835		1,325,159
Marketing and reservation	759,807	211,378		971,185
General and administrative	251,475	75,782		327,257
Merger and restructuring charge associated with business combination (b)		303,000		303,000
Depreciation and amortization	59,652	131,075		190,727
Interest, net	(3,190)	47,986		44,796
Total expenses	1,735,068	1,427,056		3,162,124
Income before income taxes	433,245	322,421		755,666
Provision for income taxes	165,259	180,364		345,623
Net income	\$267,986	\$142,057		\$410,043
Per share information (d)				
Net income per share	\$0.61	\$0.83		\$0.47
Weighted average shares outstanding	452,366	175,611	258,360	886,337

	For the Nine Months Ended			
	10/31/96	9/30/96	Pro Forma	Combined
	CUC	HFS	Adjustment	Companies
Revenues				
Membership and service fees, net	\$1,539,240	\$ 974,754		\$2,513,994
Software	228,096			228,096
Fleet leasing (net of depreciation and interest costs of \$839,080)		41,016		41,016
Other, net		16,845		16,845

Net revenues	1,767,336	1,032,615	2,799,951
Expenses			
Operating	535,237	469,154	1,004,391
Marketing and reservation	660,914	115,994	776,908
General and administrative	198,500	56,836	255,336
Merger costs (c)	175,835		175,835
Depreciation and amortization	57,323	62,206	119,529
Interest, net	5,388	11,836	17,224
Total expenses	1,633,197	716,026	2,349,223
Income before income taxes	134,139	316,589	450,728
Provision for income taxes	56,697	128,098	184,795
Net income	\$77,442	\$188,491	\$265,933
Per share information (d)			
Net income per share	\$0.19	\$1.20	\$0.34
Weighted average shares outstanding	416,057	160,068	224,591
			800,716

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

NOTE 2 -- PENDING MERGER WITH HFS INCORPORATED (continued)

(a) In connection with the Merger, each outstanding share of HFS common stock will be converted into the right to receive 2.4031 shares of Common Stock. In addition, each share of HFS common stock that is owned by HFS or the Company will be cancelled and retired. The pro forma adjustments assume that all 159.7 million shares of HFS common stock outstanding at September 30, 1997 (exclusive of 3.1 million shares of HFS common stock in treasury which will be cancelled and retired in connection with the Merger) will be converted into approximately 383.8 million shares of Common Stock in accordance with the exchange ratio.

(b) Includes a one-time pre-tax merger and restructuring charge of \$303 million (after-tax of \$227 million or \$.26 per common share for the nine months ended October 31, 1997) recorded by HFS in connection with its merger with PHH Corporation.

(c) Includes a one-time pre-tax merger and restructuring charge for the three and nine months ended October 31, 1996 of \$147.2 million and \$175.8 million, respectively (after-tax of \$89.6 million and \$114.6 million or \$.11 and \$.14 per common share for the three and nine months ended October 31, 1996, respectively), recorded by the Company in connection with the mergers with Davidson & Associates, Inc. ("Davidson"), Sierra On-Line, Inc. ("Sierra") and Ideon Group, Inc. ("Ideon").

(d) Net income per share has been computed based upon the combined weighted average outstanding shares of Common Stock and HFS common stock for each period. The historical weighted average number of outstanding shares of HFS common stock has been adjusted to reflect the exchange ratio of 2.4031 shares of Common Stock for each share of HFS common stock.

It is expected that the Company will incur transaction costs associated with the Merger (including merger, transaction and restructuring costs related to the acquisition of Hebdo Mag International Inc. ("Hebdo Mag") - see Note 3 to condensed consolidated financial statements) which will be finalized upon completion of the Merger.

NOTE 3 -- OTHER MERGERS AND ACQUISITIONS

During October 1997, the Company, through a wholly-owned subsidiary ("Acquisition Sub"), acquired all of the outstanding capital stock of Hebdo Mag, pursuant to the terms of a Share Purchase Agreement dated August 13, 1997 among the Company, Acquisition Sub, Hebdo Mag and other parties thereto. The purchase price of approximately \$440 million was satisfied by the

issuance of approximately 14.2 million shares of Common Stock. In connection with this acquisition, the Company assumed long-term debt, with interest at LIBOR plus .27%, of which, at October 31, 1997, approximately \$63.6 million of the assumed debt was outstanding. Hebdo Mag is a leading publisher and distributor of classified advertising information. The merger with Hebdo Mag has been accounted for in accordance with the pooling-of-interests method of accounting and, accordingly, the accompanying interim condensed consolidated financial statements have been retroactively adjusted as if Hebdo Mag and the Company had operated as one since inception.

The following represents revenues and net income of the Company and Hebdo Mag for the nine months ended October 31, 1996 and the last complete interim period preceding the merger with Hebdo Mag (unaudited, in thousands).

	Six months ended July 31, 1997	Nine months ended October 31, 1996
Revenues:		
The Company	\$1,297,359	\$1,673,426
Hebdo Mag	96,246	93,910
	\$1,393,605	\$1,767,336
Net Income:		
The Company	\$162,783	\$74,573
Hebdo Mag	4,299	2,869
	\$167,082	\$77,442

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

NOTE 3 -- OTHER MERGERS AND ACQUISITIONS (continued)

To conform to the Company's January 31 fiscal year-end, Hebdo Mag's operating results for January 1997 have been excluded from the nine months ended October 31, 1997 operating results in the accompanying financial statements. The excluded period has been adjusted by a \$.6 million charge to retained earnings at October 31, 1997.

During February 1997, the Company acquired substantially all of the assets and assumed specific liabilities of Numa Corporation for \$73.5 million. The purchase price was satisfied by the issuance of 3.4 million shares of Common Stock. This acquisition was accounted for as a pooling-of-interests; however, financial statements for periods prior to the date of acquisition have not been restated due to immateriality.

During the nine months ended October 31, 1997, the Company acquired certain other entities for an aggregate purchase price of \$63.3 million, satisfied by the payment of \$27.5 million in cash and the issuance of 1.5 million shares of Common Stock. The excess of cost over net assets acquired resulting from these acquisitions aggregated \$89.9 million. These acquisitions were accounted for in accordance with the purchase method of accounting and, accordingly, the results of operations have been included in the consolidated results of operations from the respective dates of acquisition. The results of operations for the periods prior to the respective dates of acquisition were not significant to the Company's operations.

Primarily in connection with the Davidson, Sierra and Ideon mergers which occurred during fiscal 1997, the Company charged approximately \$179.9 million to operations as merger, integration, restructuring and litigation charges during the year ended January 31, 1997. 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 (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 6) giving consideration to the Company's intended approach to these matters. To date, such charges amounted to \$155.7 million.

NOTE 4 -- SHAREHOLDERS' EQUITY AND NET INCOME PER COMMON SHARE

The change in common stock, additional paid-in capital and treasury stock relates principally to acquisitions and stock option activity.

Net income per common share, assuming the conversions of subordinated convertible notes during the three and nine months ended October 31, 1997 occurred at the beginning of such period, would not differ significantly from the Company's actual earnings per share for such period.

Net income per common share includes the weighted average number of common and common equivalent shares outstanding during the respective periods. Common stock equivalents for the three and nine month periods ended October 31, 1997 includes the dilutive effect of the 3% convertible subordinated notes issued February 11, 1997 using the if-converted method.

At the end of fiscal year, the Company is required to adopt Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share". This new rule requires the Company to change the method currently used to compute earnings per share and requires restatement of all prior periods. Under the new requirements, the dilutive effect of stock options and convertible securities are excluded from computing primary earnings per share. The impact of SFAS No. 128 on the calculation of primary and fully diluted earnings per share for the three and nine months ended October 31, 1997 and 1996 is not expected to be material.

NOTE 5 -- SOFTWARE RESEARCH AND DEVELOPMENT COSTS AND COSTS OF SOFTWARE REVENUE

Software research and development costs are included in operating expenses and aggregated \$32 million and \$15.9 million for the three months ended October 31, 1997 and 1996, respectively, and \$84.9 million and \$46.1 million for the nine months ended October 31, 1997 and 1996, respectively. Costs of software revenue are included in operating expenses and aggregated \$31.8 million and \$24 million for the three months ended October 31, 1997 and 1996, respectively, and \$88.7 million and \$69.9 million for the nine months ended October 31, 1997 and 1996, respectively.

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

NOTE 6 -- CONTINGENCIES - IDEON

On June 13, 1997, the Company entered into an agreement (the "Agreement") with Peter Halmos, the co-founder of SafeCard Services, Incorporated ("SafeCard"), which was reorganized in 1995 as Ideon. The Company acquired Ideon in August 1996. The Agreement, provides for the settlement of all of the outstanding litigations involving Peter Halmos, SafeCard and Ideon previously described in the Company's Form 10-K. The Agreement became effective in July 1997. The Agreement calls for the dismissal with prejudice of these outstanding litigation matters and the payment to Peter Halmos, over a six-year period, of \$70.5 million. Specifically, the Agreement requires that the Company pay Peter Halmos one up-front payment of \$13.5 million and six subsequent annual payments of \$9.5 million each. The Agreement also calls for the transfer to the Company of assets related to SafeCard's CreditLine business, including the transfer by CreditLine Corporation to the Company of all of CreditLine Corporation's rights under a marketing agreement between it and SafeCard dated November 1, 1988.

The following Halmos related cases have been dismissed pursuant

to the Agreement:

1. Halmos Trading & Investing Company v. SafeCard Services, Inc. and Gerald Cahill v. Peter A. Halmos and Steven J. Halmos and Halmos Trading & Investment Co., Case No. 93-04354 (06) in the Circuit Court for the 17th Judicial Circuit in and for Broward County, Florida.
2. SafeCard Services, Inc. v. Peter Halmos, a Florida resident; High Plains Capital Corporation, a Wyoming corporation; and CreditLine Corporation, a Wyoming corporation, in the District Court, First Judicial District of Laramie County, Wyoming; Case No. Doc. 134, No. 192.
3. Peter Halmos, CreditLine Corporation and Continuity Marketing Corporation v. Paul G. Kahn, William T. Bacon, Robert L. Dilenschneider, Eugene Miller and SafeCard Services, Inc., in the United States District Court, Southern District of Florida, Case No. 94-6920 CG-NESBITT.
4. Peter Halmos v. SafeCard Services, Inc., William T. Bacon, Jr., Barry I. Tillis and Barry Natter, Case No. 95-6325 (AJ) filed in the Circuit Court, Fifteenth Judicial Circuit, in and for Palm Beach County, Florida.
5. High Plains Capital Corporation f/k/a Halmos & Company, Inc. v. Ideon Group, Inc., SafeCard Services, Inc., Eugene Miller, Robert L. Dillenschneider, and the Dilenschneider Group, Inc., Palm Beach County, Florida, Civil Action No. CL 95 8313 AE (Hon. Walter Colbath).
6. High Plains Capital Corporation v. Ideon Group, Inc., and SafeCard Services, Inc., Civil Action No. 95 015024, Seventeenth Judicial Circuit, Broward County, Florida.

The following Halmos related case will also be dismissed pursuant to the Agreement:

7. Ideon Group, Inc., SafeCard Services, Inc., Paul G. Kahn, William T. Bacon, Jr., Marshall L. Burman, John Ellis (Jeb) Bush, Robert L. Dilenschneider, Adam W. Herbert, Eugene Miller, and Thomas F. Petway, III v. Peter Halmos, Civil Action No. 14600, filed in the Court of Chancery of New Castle County, Delaware.

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

NOTE 6 -- CONTINGENCIES - IDEON (continued)

On October 22, 1997, the plaintiffs, the Company and all of the Company's indemnitees, entered into a Memorandum of Understanding and thereafter filed final settlement agreements in James B. Chambers and Peter A. Halmos v. SafeCard Services, Inc.; Ideon Group, Inc.; Paul G. Kahn; William T. Bacon, Jr.; Robert L. Dilenschneider; The Dilenschneider Group; Eugene Miller; G. Thomas Frankland; Francis J. Marino; John R. Birk; Marshall Burman; Thomas F. Petway III; John Ellis Bush; Adam W. Herbert, Jr.; Price Waterhouse LLP; Mahoney Adams & Criser, P.A. and John Does 1 through 25, United States District Court, Southern District of Florida, Case No. 95-1298-CIV-NESBITT ("Chambers"); Lois Hekker v. Ideon Group, Inc. and Paul G. Kahn, United States District Court, Middle District of Florida, Jacksonville Division, Case No. 95-681-CIV-J ("Hekker"); and James L. Binder, individually, as custodian for Elizabeth Binder, and as custodian for the James L. Binder, D.D.S., P.C. Profit Sharing Trust; Edward Dubois; Sheila Ann Dubois, as Personal Representative for The Estate of Winifred Dubois; G. Neal Goolsby; John E. Masters, individually and as custodian for Gregory Halmos and Nicholas Halmos; J.B. McKinney; on behalf of themselves and all others similarly situated, and Peter A. Halmos, as Trustee for the Peter A. Halmos Revocable Trust Dated January 24, 1990, and The Halmos

Foundation, Inc., individually, v. Safecard Services, Inc., a Delaware corporation; Paul G. Kahn; William T. Bacon, Jr.; Robert L. Dilenschneider; The Dilenschneider Group, a Delaware corporation; Eugene Miller; Gerald R. Cahill; Oppenheimer & Co., Inc., a Delaware corporation; and John Does 1 through 100, inclusive, United States District Court for the Southern District of Florida, (Miami Division) Case No. 94-2604-CIV-MOORE ("Binder"). The above referenced settlement in the Chambers and Hekker matters calls for payment by the Company to class members of \$15 million. The settlement in the Binder litigation calls for the payment by the Company to class members of \$3 million. These settlements must be approved by the court at hearings anticipated in January and February 1998.

The following actions remaining pending, in whole or in part, as described below:

A suit initiated by Peter Halmos, related entities, and Myron Cherry (a former lawyer for SafeCard) in July 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' claim 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. As a result of the Halmos settlement described above only the claims of Myron Cherry remain pending.

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 July 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 Family Protection Network was 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. As a result of the Halmos settlement, all claims of Continuity Marketing Corporation will be dismissed, leaving pending only the claims related to Family Protection Network and the Pet Registration Program.

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. On July 15, 1996, Ideon filed a motion to dismiss. The Company withdrew its motion to dismiss and answered the complaint on December 5, 1996.

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

NOTE 6 -- CONTINGENCIES - IDEON (continued)

The Company established a reserve upon the consummation of the merger with Ideon during the third quarter of fiscal 1997 related, in part, to these litigation matters. Although not anticipated, in the event the foregoing class action settlements are not approved by the Court, the outcome of the class action matters described above as well as the other pending Ideon matters could also exceed the amount accrued. The Company is also involved in certain other claims and litigation arising in the ordinary course of business, which are not considered material to the financial position, operations or cash flows of the Company.

ITEM 2.

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

Three Months Ended October 31, 1997 vs.
Three Months Ended October 31, 1996

The Company's overall membership base continues to grow at a rapid rate (from 63.8 million members at October 31, 1996 to 72.9 million members at October 31, 1997), which is the largest contributing factor to the 21% increase in membership revenues (from \$534.7 million for the quarter ended October 31, 1996 to \$649.5 million for the quarter ended October 31, 1997). While the overall membership base increased by approximately 2.2 million members during the quarter, the average annual fee collected for the Company's membership services increased by approximately 1%. The Company divides its memberships into three categories: individual, wholesale and discount program memberships. Individual memberships consist of members that pay directly for the services and the Company pays for the marketing costs to solicit the member, primarily using direct marketing techniques. Wholesale memberships include members that pay directly for the services to their sponsor and the Company does not pay for the marketing costs to solicit the members. Discount program memberships are generally marketed through a direct sales force, participating merchant or general advertising and the related fees are either paid directly by the member or the local retailer. All of these categories share various aspects of the Company's marketing and operating resources.

Compared to the previous year's third quarter, individual, wholesale and discount program memberships grew by 13%, 21% and 13%, respectively. Wholesale memberships have grown in part due to the success of the Company's international business in Europe. For the quarter ended October 31, 1997, individual, wholesale and discount program memberships represented 67%, 14% and 19% of membership revenues, respectively. The Company maintains a flexible marketing plan so that it is not dependent on any one service for the future growth of the total membership base.

Software revenues increased 27% from \$98.6 million for the quarter ended October 31, 1996 to \$125.2 million for the quarter ended October 31, 1997. Distribution revenue, which consists principally of third-party software and typically has low operating margins, increased 45% from \$11 million for the quarter ended October 31, 1996 to \$16 million for the quarter ended October 31, 1997. The Company's software operations continue to grow by focusing on selling titles through retailers. Excluding distribution revenue, core software revenue grew by 25%. Contributing to the software revenue growth in the current fiscal year is the availability of a larger number of titles as well as the significant increase in the installed base of CD-ROM personal computers.

As the Company's membership services continue to mature, a greater percentage of the total individual membership base is in its renewal years. This results in increased profit margins for the Company due to the significant decrease in certain marketing costs incurred on renewing members. Improved response rates for

new members also favorably impacted profit margins. As a result, operating income before other interest (income) expense, net, interest expense on 3% convertible notes, merger costs and income taxes ("EBIT") increased from \$119.3 million to \$161.9 million and EBIT margins improved from 18.8% to 20.9%.

Individual membership usage continues to increase, which contributes to additional service fees and indirectly contributes to the Company's strong renewal rates. 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. Included in total revenues for the quarter ended October 31, 1997, are revenues resulting from acquisitions which were completed during the nine months ended October 31, 1997. However, total revenues contributed from these acquisitions are not material to the Company's total reported revenues.

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

Three Months Ended October 31, 1997 vs.
Three Months Ended October 31, 1996 (continued)

Operating costs increased 23% (from \$189.7 million to \$233.6 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). Historically, the Company has seen a direct correlation between providing a high level of service to its members and improved retention. 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.

Marketing costs decreased as a percentage of revenue, from 37% to 36%. This decrease is primarily due to improved per member acquisition costs and an increase in renewing members. Membership acquisition costs incurred increased 22% (from \$156.9 million to \$190.9 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 decreased by 3% (from \$159.2 million to \$154.3 million), which reflects a reduction in membership acquisition costs period to period resulting from increased conversion rates in the Company's membership marketing programs. Other marketing costs increased by 63% (from \$74.3 million to \$121.3 million). The overall increase in marketing costs resulted primarily from the costs of servicing a larger membership base and expenses incurred when selling and marketing a larger number of software titles. The marketing functions for the Company's membership services are combined for its various services, and, accordingly, there are no significant changes in marketing costs by membership service.

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

General and administrative costs decreased as a percentage of revenue (from 14% to 13%). This is a result of the Company's

ongoing focus on controlling overhead. Other interest, net, increased from an expense of \$1.4 million to income of \$5.2 million primarily due to the increased level of cash generated by the Company from the proceeds of its issuance of 3% convertible subordinated notes in February 1997 (see "Liquidity And Capital Resources; Inflation; Seasonality").

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

Nine Months Ended October 31, 1997 vs.
Nine Months Ended October 31, 1996

The Company's overall membership base continues to grow at a rapid rate (from 63.8 million members at October 31, 1996 to 72.9 million members at October 31, 1997), which is the largest contributing factor to the 22% increase in membership revenues (from \$1,539.2 million for the nine months ended October 31, 1996 to \$1,870.9 million for the nine months ended October 31, 1997). While the overall membership base increased by approximately 6.6 million members during the nine months ended October 31, 1997, the average annual fee collected for the Company's membership services increased by approximately 3%. The Company divides its memberships into three categories: individual, wholesale and discount program memberships. Individual memberships consist of members that pay directly for the services and the Company pays for the marketing costs to solicit the member, primarily using direct marketing techniques. Wholesale memberships include members that pay directly for the services to their sponsor and the Company does not pay for the marketing costs to solicit the members. Discount program memberships are generally marketed through a direct sales force, participating 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 12%, respectively. Wholesale memberships have grown in part due to the success of the Company's international business in Europe. For the nine months ended October 31, 1997, individual, wholesale and discount program memberships represented 67%, 14% and 19% of membership revenues, respectively. The Company maintains a flexible marketing plan so that it is not dependent on any one service for the future growth of the total membership base.

Software revenues increased 30% from \$228.1 million for the nine months ended October 31, 1996 to \$297.4 million for the nine months ended October 31, 1997. Distribution revenue, which consists principally of third-party software and typically has low operating margins, increased 35% from \$38.5 million for the nine months ended October 31, 1996 to \$51.8 million for the nine months ended October 31, 1997. The Company's software operations continue to grow by focusing on selling titles through retailers. Excluding distribution revenue, core software revenue grew by 30%. Contributing to the software revenue growth in the current fiscal year is the availability of a larger number of titles as well as the significant increase in the installed base of CD-ROM personal computers.

As the Company's membership services continue to mature, a greater percentage of the total individual membership base is in its renewal years. This results in increased profit margins for the Company due to the significant decrease in certain marketing costs incurred on renewing members. Improved response rates for new members also favorably impacted profit margins. As a result, EBIT increased from \$315.4 million to \$430.1 million and EBIT margins improved from 17.8% to 19.8%.

Individual membership usage continues to increase, which

contributes to additional service fees and indirectly contributes to the Company's strong renewal rates. 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. Included in total revenues for the nine months ended October 31, 1997, are revenues resulting from acquisitions which were completed during the nine months ended October 31, 1997. However, total revenues contributed from these acquisitions are not material to the Company's total reported revenues.

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

Nine Months Ended October 31, 1997 vs.
Nine Months Ended October 31, 1996 (continued)

Operating costs increased 25% (from \$535.2 million to \$667.3 million). The major components of the Company's membership operating costs continue to be personnel, telephone, computer processing and participant insurance premiums (the cost of obtaining insurance coverage for members). Historically, the Company has seen a direct correlation between providing a high level of service to its members and improved retention. 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.

Marketing costs decreased as a percentage of revenue, from 37% to 35%. This decrease is primarily due to improved per member acquisition costs and an increase in renewing members. Membership acquisition costs incurred increased 1% (from \$467.3 million to \$474.1 million) primarily due to 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 decreased by 5% (from \$478.8 million to \$455.9 million), which reflects a reduction in membership acquisition costs period to period resulting from increased conversion rates in the Company's membership marketing programs. Other marketing costs increased by 67% (from \$182.1 million to \$303.9 million). The overall increase in marketing costs resulted primarily from the costs of servicing a larger membership base and expenses incurred when selling and marketing a larger number of software titles. The marketing functions for the Company's membership services are combined for its various services, and, accordingly, there are no significant changes in marketing costs by membership service.

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

General and administrative costs remained constant as a percentage of revenue (14%). This is a result of the Company's ongoing focus on controlling overhead. Other interest, net, increased from an expense of \$5.4 million to income of \$15.1 million primarily due to the increased level of cash generated by the Company from the proceeds of its issuance of 3% convertible subordinated notes in February 1997 (see "Liquidity And Capital Resources; Inflation; Seasonality").

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 in August 1996; however it has not been restated to reflect other members added through acquisitions ("Acquired Members").

Period	Number of Members	Net New Member Additions for the Period
Nine Months Ended October 31, 1997	72,910,000	6,575,000
Year Ended January 31, 1997	66,335,000	6,685,000
Nine Months Ended October 31, 1996	63,835,000	4,185,000
Year Ended January 31, 1996	59,650,000	12,750,000*
Quarter Ended October 31, 1997	72,910,000	2,225,000
Quarter Ended October 31, 1996	63,835,000	1,520,000

*Includes approximately 8 million Acquired Members.

The membership acquisition costs incurred applicable to obtaining a new member, for memberships other than coupon book memberships, generally 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 have been provided principally through cash flows from operations and credit facilities, while acquisitions have also been funded through the issuance of Common Stock. The Company entered into a credit agreement effective March 26, 1996 which provides for a \$500 million revolving credit facility with a variety of different types of loans available thereunder ("Credit Agreement"). At October 31, 1997, no borrowings under the Credit Agreement were outstanding. The Credit Agreement currently is scheduled to expire March 26, 2001; however, the Company has agreed with the lenders to terminate the Credit Agreement upon the consummation of the Merger.

On February 11, 1997, the Company issued \$550 million in principal amount of 3% convertible subordinated notes (the "3% Notes") due February 15, 2002. Interest on the 3% Notes is payable semi-annually on February 15 and August 15 of each year, commencing August 15, 1997. For the nine month period ended October 31, 1997, interest expense on the 3% Notes was \$11.9 million.

The Company invested approximately \$76.4 million in acquisitions, net of cash acquired, during the nine months ended October 31, 1997. Substantially all 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 its credit facilities will be sufficient to achieve its current long-term objectives.

The Company does not anticipate any material capital expenditures for the remainder of the year. Total capital expenditures were \$52.3 million for the nine months ended October 31, 1997.

The Company intends to continue to review potential acquisitions that it believes would enhance the Company's growth and profitability. Any acquisitions will initially be financed through the issuance of Common Stock, excess cash flows from operations, the Company's Credit Agreement or from the proceeds of the issuance of the 3% Notes. However, depending on the financing necessary to complete an acquisition, additional funding may be required.

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)

To date, the overall impact of inflation on the Company has not been material. Except for the cash receipts from the sale of coupon book memberships, the Company's membership business is generally not seasonal. Most cash receipts from these coupon book memberships are received in the fourth quarter and, to a lesser extent, in the first and the third quarters of each fiscal year. As is typical in the consumer software industry, the Company's software business is highly seasonal. Net revenues and operating income are highest during the third and fourth quarters and are lowest in the first and second quarters. This seasonal pattern is primarily due to the increased demand for the Company's software products during the year-end holiday selling season.

For the nine months ended October 31, 1997, the Company's international businesses represented less than 10% of EBIT. Operating in international markets involves dealing with sometimes volatile movements in currency exchange rates. The economic impact of currency exchange rate movements on the Company is complex because it is linked to variability in real growth, inflation, interest rates and other factors. Because the Company operates in a mix of membership services and numerous countries, management believes currency exposures are fairly well diversified. To date, currency exposure has not been a significant competitive factor at the local market operating level. As international operations continue to expand and the number of cross-border transactions increases, the Company intends to continue monitoring its currency exposures closely and take prudent actions as appropriate.

On October 29, 1997, the Company entered into an agreement to sell Interval for approximately \$200 million, subject to certain adjustments. The agreement contemplates that the Company will continue to provide existing services to Interval's developers and members. The sale of Interval is being proposed to address FTC concerns regarding the impact of the Merger on the timeshare exchange business. The consummation of the sale is subject to customary conditions as well as the Company and HFS having entered into a consent decree with the FTC in connection with the Merger.

Forward-Looking Statements

Except for historical information contained herein, the above discussion contains certain forward-looking statements that involve potential risks and uncertainties. The Company's future results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, changes in market conditions, effects of state and federal regulations and risks inherent in international operations. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof or to reflect the occurrence of unanticipated events.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Ideon and certain of its subsidiaries are defending or prosecuting a number of complex lawsuits (See Note 6 to Condensed Consolidated Financial Statements).

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the fiscal quarter ended October 31, 1997, the Company issued the following equity securities that were not registered under the Securities Act:

- (a) On October 2, 1997, the Company issued 14,202,924 shares of Common Stock to the shareholders of Hebdo Mag in connection with the acquisition by the Company of all of the outstanding capital stock of Hebdo Mag. The 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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held a special meeting of its shareholders on October 1, 1997, pursuant to a Notice of Special Meeting and Proxy Statement dated August 28, 1997, a copy of which has been filed previously with the Securities and Exchange Commission, at which shareholders of the Company considered and approved the proposed Merger of the Company and HFS (and related transactions contemplated thereby) and the Company's 1997 Stock Incentive Plan. The results of such matters are as follows:

Proposal 1: To approve the proposed Merger of the Company and HFS (and related transactions contemplated thereby).

Results:	For	Against	Abstain
	280,653,487	630,695	911,958

Proposal 2: To approve the Company's 1997 Stock Incentive Plan.

Results:	For	Against	Abstain
	214,725,702	65,934,965	1,535,472

ITEM 5. OTHER INFORMATION

On May 27, 1997, the Company entered into an agreement to merge with HFS. The consummation of this Merger is subject to certain customary closing conditions, and has been approved by the shareholders of both companies. See Note 2 to Condensed Consolidated Financial Statements for additional information relating to the Merger including unaudited pro forma combined condensed financial statements as of October 31, 1997 and for the three and nine months ended October 31, 1997 and 1996.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit

No.	Description
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- | | |
|-----|---|
| 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).*
 - 4.2 Indenture dated as of February 11, 1997, between CUC International Inc. and Marine Midland Bank, as trustee (filed as Exhibit 4(a) to the Company's Report on Form 8-K filed February 13, 1997).*
- 10.1-10.21 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 Amendment to Agreement with Cosmo Corigliano, dated January 1, 1997 (filed as Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1997).*
 - 10.7 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).*
 - 10.8 Amendment to Agreement with Amy N. Lipton, dated January 1, 1997 (filed as Exhibit 10.8 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1997).*
 - 10.9 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).*
 - 10.10 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).*
 - 10.11 Form of Employee Stock Option under the 1987 Stock Option Plan, as amended (filed as Exhibit 10.13 to the Company's Form 10-Q for the period ended October 31, 1996).*
 - 10.12 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).*
 - 10.13 Form of Director Stock Option for 1994 Directors Stock Option Plan, as amended (filed as Exhibit 10.15 to the Company's Form 10-Q for the period ended October 31, 1996).*

PART II. OTHER INFORMATION

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

(a) Exhibit

No.	Description
10.14	1987 Stock Option Plan, as amended (filed as Exhibit 10.16 to the Company's Form 10-Q for the period ended October 31, 1996).*
10.15	1990 Directors Stock Option Plan, as amended (filed as Exhibit 10.17 to the Company's Form 10-Q for the period ended October 31, 1996).*
10.16	1992 Directors Stock Option Plan, as amended (filed as Exhibit 10.18 to the Company's Form 10-Q for the period ended October 31, 1996).*
10.17	1994 Directors Stock Option Plan, as amended (filed as Exhibit 10.19 to the Company's Form 10-Q for the period ended October 31, 1996).*
10.18	1996 Executive Retirement Plan (filed as Exhibit 10.22 to the Company's Form 10-Q for the period ended April 30, 1997).*
10.19	1997 Stock Option Plan (filed as Exhibit 10.23 to the Company's Form 10-Q for the period ended April 30, 1997).*
10.20	Form of Employee Stock Option under the 1997 Stock Option Plan (filed as Exhibit 10.24 to the Company's Form 10-Q for the period ended April 30, 1997).*
10.21	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).*
10.22	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).*
10.23	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).*
10.24	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).*
10.25	Amendment No.1 dated as of July 24, 1996, among Davidson & Associates, Inc., CUC International Inc. and Stealth Acquisition I Corp. (filed as Exhibit 2.2 to the Company's Report on Form 8-K filed August 5, 1996).*
10.26	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).*
10.27	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).*

- 10.28 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).*

PART II. OTHER INFORMATION

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

(a) Exhibit

No.	Description
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 July 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).*
10.33	Registration Rights Agreement dated as of February 11, 1997, between CUC International Inc. and Goldman, Sachs & Co. (for itself and on behalf of the other purchasers party thereto) (filed as Exhibit 4(b) to the Company's Report on Form 8-K filed February 13, 1997).*
10.34	Agreement and Plan of Merger between CUC International Inc. and HFS Incorporated, dated as of May 27, 1997 (filed as Exhibit 2.1 to the Company's Report on Form 8-K filed on May 29, 1997).*
10.35	Plan for Corporate Governance of CUC International Inc. following the Effective Time (filed as Exhibit 99.2 to the Company's Report on Form 8-K filed on May 29, 1997).*
11	Statement re: Computation of Per Share Earnings (Unaudited)
27	Financial data schedule

(b) During the quarter ended October 31, 1997, the Company filed the following Current Reports on Form 8-K:

- (1) Current Report on Form 8-K, filed on August 15, 1997, reporting an Item 5 ("Other Events") event and an Item 7 ("Financial Statements, Pro Forma Financial Information and Exhibits") event.
- (2) Current Report on Form 8-K, filed on October 31, 1997, reporting an Item 5 ("Other Events") event and an Item 7 ("Financial Statements, Pro Forma Financial Information and Exhibits") 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 15, 1997

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

Date: December 15, 1997

By: COSMO CORIGLIANO
Cosmo Corigliano - Senior Vice President
and Chief Financial Officer (Principal
Financial and Accounting 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).*
 - 4.2 Indenture dated as of February 11, 1997, between CUC International Inc. and Marine Midland Bank, as trustee (filed as Exhibit 4(a) to the Company's Report on Form 8-K filed February 13, 1997).*
- 10.1-10.21 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 Amendment to Agreement with Cosmo Corigliano, dated January 1, 1997 (filed as Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1997).*
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May 29, 1997).*
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(filed as Exhibit 99.2 to the Company's Report
on Form 8-K filed on May 29, 1997).*
- 11 Statement re: Computation of Per Share Earnings (Unaudited)
- 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,	
	1997	1996
PRIMARY		
Average shares outstanding	425,316	408,096
Net effect of dilutive stock options and restricted stock - based on the treasury stock method using average market price	12,942	13,139
Assumed conversion of 3% convertible notes	17,959	
	-----	-----
Total	456,217	421,235
	=====	=====
Net income (loss)	\$100,904	\$ (16,408)
Interest expense on 3% convertible notes, net of tax benefit	2,553	
	-----	-----
	\$103,457	\$ (16,408)
	=====	=====
Net income (loss) per common share	\$0.227	\$ (0.039)
	=====	=====
FULLY DILUTED		
Average shares outstanding	425,316	408,096
Net effect of dilutive stock options and restricted stock - based on the treasury stock method using the period - end market price, if higher than the average market price	13,704	13,155
Assumed conversion of convertible notes	20,458	3,147
	-----	-----
Total	459,478	424,398
	=====	=====
Net income (loss)	\$100,904	\$ (16,408)
Interest expense on convertible notes, net of tax benefit	2,785	452
	-----	-----
	\$103,689	\$ (15,956)
	=====	=====
Net income (loss) per common share	\$0.226	\$ (0.038)
	=====	=====

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

	Nine Months Ended October 31,	
	1997	1996
PRIMARY		
Average shares outstanding	423,557	402,722
Net effect of dilutive stock options and restricted stock - based on the treasury stock method using average market price	11,848	13,335

Assumed conversion of 3% convertible notes	16,961	-----
	-----	-----
Total	452,366	416,057
	=====	=====
Net income	\$267,986	\$77,442
Interest expense on 3% convertible notes, net of tax benefit	7,350	-----
	-----	-----
	\$275,336	\$77,442
	=====	=====
Net income per common share	\$0.609	\$0.186
	=====	=====
FULLY DILUTED		
Average shares outstanding	423,557	402,722
Net effect of dilutive stock options and restricted stock - based on the treasury stock method using the period - end market price, if higher than the average market price	12,137	13,568
Assumed conversion of convertible notes	19,712	4,680
	-----	-----
Total	455,406	420,970
	=====	=====
Net income	\$267,986	\$77,442
Interest expense on convertible notes, net of tax benefit	8,030	1,443
	-----	-----
	\$276,016	\$78,885
	=====	=====
Net income per common share	\$0.606	\$0.187
	=====	=====

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