

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 April 30, 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 (I.R.S. Employer  
incorporation or organization) 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 - 409,578,344 shares as of May 30, 1997

INDEX  
CUC INTERNATIONAL INC. AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

PAGE

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets - April 30, 1997 and January 31, 1997.	3
Condensed Consolidated Statements of Income - Three months ended April 30, 1997 and 1996.	4
Condensed Consolidated Statements of Cash Flows - Three months ended April 30, 1997 and 1996.	5

Notes to Condensed Consolidated Financial Statements.	6
Independent Accountants' Review Report.	11
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	12
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	16
Item 2. Changes in Securities	16
Item 4. Submission of Matters to a Vote of Security Holders	17
Item 6. Exhibits and Reports on Form 8-K	18
SIGNATURES	22
INDEX TO EXHIBITS	23

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

	April 30, 1997 (Unaudited)	January 31, 1997
Assets		
Current Assets		
Cash and cash equivalents	\$812,164	\$553,144
Marketable securities	356,831	69,139
Receivables, net of allowances	593,253	578,630
Prepaid membership materials	36,299	37,579
Prepaid expenses, deferred income taxes and other	203,562	191,583
Total Current Assets	2,002,109	1,430,075
Membership solicitations in process	77,024	76,281
Deferred membership acquisition costs	383,418	401,564
Contract renewal rights and intangible assets - net of accumulated amortization of \$132,301 and \$126,013	427,811	366,038
Properties, at cost, less accumulated depreciation of \$136,649 and \$132,090	155,699	145,620
Deferred income taxes and other	54,625	53,794
	\$3,100,686	\$2,473,372
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued expenses	\$411,036	\$405,388
Federal and state income taxes	33,917	75,988
Total Current Liabilities	444,953	481,376
Deferred membership income	697,594	702,359
Convertible debt - net of unamortized original issue discount of \$7,996 and \$488	565,979	23,487
Other	9,835	11,060
Contingencies (Note 5)		
Shareholders' Equity		
Common stock-par value \$.01 per share; authorized 600 million shares; issued 415,182,522 shares and 409,011,654 shares	4,152	4,090
Additional paid-in capital	676,132	619,532
Retained earnings	799,858	722,354
Treasury stock, at cost, 6,168,382 shares and 6,136,757 shares	(57,436)	(56,618)
Other	(40,381)	(34,268)
Total Shareholders' Equity	1,382,325	1,255,090
	\$3,100,686	\$2,473,372

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 April 30,	
	1997	1996
REVENUES		
Membership and service fees	\$544,037	\$455,006
Software	80,634	60,473
Total Revenues	624,671	515,479
EXPENSES		
Operating	209,539	158,327
Marketing	219,793	205,202
General and administrative	86,360	70,066
Other interest income, net	(8,689)	(2,240)
Interest expense, 3% convertible notes	3,634	
Total Expenses	510,637	431,355
INCOME BEFORE INCOME TAXES	114,034	84,124
Provision for income taxes	43,561	32,003
NET INCOME	\$70,473	\$52,121
Net Income Per Common Share	\$0.17	\$0.13
Weighted Average Number of Common and Dilutive Common Equivalent Shares Outstanding	434,006	396,665

See notes to condensed consolidated financial statements.

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

	Three Months Ended April 30,	
	1997	1996
OPERATING ACTIVITIES:		
Net income	\$70,473	\$52,121
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Membership acquisition costs	(133,110)	(164,341)
Amortization of membership acquisition costs	151,256	160,366
Deferred membership income	(4,765)	13,179
Membership solicitations in process	(743)	(950)
Amortization of contract renewal rights and excess cost	6,583	5,684
Deferred income taxes	4,647	(2,508)
Amortization of restricted stock and original issue discount on convertible notes	1,939	739
Depreciation	9,119	6,925
Net loss during change in fiscal year-ends		(4,268)
Changes in working capital items, net of acquisitions:		
Receivables	(6,951)	3,316
Prepaid membership materials	4,153	(3,241)
Prepaid expenses and other current assets	(7,026)	9,534
Accounts payable, accrued expenses and federal & state income taxes payable	(66,253)	(36,114)
Product abandonment and related liabilities		(7,410)
Other, net	(8,038)	(4,309)
Net cash provided by operating activities	21,284	28,723
INVESTING ACTIVITIES:		
Proceeds from matured marketable securities	42,570	46,922

Purchases of marketable securities	(330,262)	(28,832)
Acquisitions, net of cash acquired	(47,171)	(28,932)
Acquisitions of properties	(14,869)	(15,575)
Net cash used in investing activities	(349,732)	(26,417)
FINANCING ACTIVITIES:		
Issuance of Common Stock	46,567	12,984
Long-term obligations, net	(1,562)	1,237
Net proceeds from the issuance of convertible notes	542,463	
Net cash provided by financing activities	587,468	14,221
Net increase in cash and cash equivalents	259,020	16,527
Cash and cash equivalents at beginning of period	553,144	333,036
Cash and cash equivalents at end of period	\$812,164	\$349,563

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 10Q 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 months ended April 30, 1997 are not necessarily indicative of the results that may be expected for the year ending January 31, 1998. 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. The condensed consolidated financial statements at April 30, 1997 and for the three months ended April 30, 1997 and 1996 are unaudited, but have been reviewed by independent accountants and their report is included herein.

##### NOTE 2 -- MERGERS AND ACQUISITIONS

During February 1997, the Company acquired substantially all of the assets and assumed specific liabilities of Numa Corporation ("Numa") for \$73.5 million. The purchase price was satisfied by the issuance of 3.4 million shares of the Company's common stock, par value \$.01 per share ("Common Stock"). Numa publishes personalized heritage publications and markets and sells personalized merchandise. 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 quarter ended April 30, 1997, the Company acquired certain entities for an aggregate purchase price of \$48.3 million, satisfied by the payment of \$10.5 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 \$68.4 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.

Principally in connection with the Davidson & Associates, Inc ("Davidson"), Sierra On-Line, Inc. ("Sierra") and Ideon Group, Inc. ("Ideon") mergers which occurred during fiscal 1997, the Company charged approximately \$179.9 million (\$118.7 million or \$.29 per common share after-tax effect) to operations as merger, integration, restructuring and litigation charges for 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 5) giving consideration to the Company's intended approach to these matters. To date, such payments amounted to \$96.0 million.

NOTE 3 -- 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 months ended April 30, 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 month period ended April 30, 1997 includes the dilutive effect of the 3% convertible subordinated notes issued February 11, 1997 using the if-converted method.

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

NOTE 3 -- SHAREHOLDERS' EQUITY AND NET INCOME PER COMMON SHARE (continued)

On January 31, 1998, 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 quarters ended April 30, 1997 and 1996 is not expected to be material.

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

Software research and development costs are included in operating expenses and aggregated \$24.2 million and \$14.9 million for the three months ended April 30, 1997 and 1996, respectively. Costs of software revenue are included in operating expenses and aggregated \$29.0 million and \$24.8 million for the three months ended April 30, 1997 and 1996, respectively.

NOTE 5 -- CONTINGENCIES - IDEON

At April 30, 1997, Ideon was defending or prosecuting claims in fifteen 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 fifteen cases in which Ideon or its subsidiaries is a party to are as follows:

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

A suit which seeks monetary damages and certain equitable relief filed by SafeCard in August 1993 in Laramie County Circuit Court in Wyoming against Peter Halmos and related entities alleging that Peter Halmos dominated and controlled SafeCard, breached his fiduciary duties to SafeCard, and misappropriated material nonpublic information to make \$48 million in profits on sales of SafeCard stock. In March 1994, Mr. Halmos and related

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

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

NOTE 5 -- CONTINGENCIES - IDEON (continued)

A suit seeking monetary damages by Peter Halmos, purportedly in his name and in the name of CreditLine Corporation and Continuity Marketing Corporation against SafeCard, one of its officers and three of Ideon's directors in United States District Court in the Southern District of Florida, in September 1994 purporting to state various tort claims, state and federal antitrust claims and claims of copyright infringement. The claims principally relate to the allegation by Peter Halmos and his companies that SafeCard has taken action to prevent him from being a successful competitor. All discovery in the case has been stayed pending a ruling on a motion to dismiss filed by SafeCard, its officer and Ideon's directors. On August 16, 1995, the United States Magistrate Judge filed a Report and Recommendation that the case be dismissed. The parties have filed various 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 September 9, 1996, the Court entered an order abating the action until December 9, 1996 to permit the parties to engage in settlement negotiations. The parties filed a joint status report on December 10, 1996 requesting an order abating the action until January 24, 1997 to permit further settlement discussions. On February 11, 1997, the Court entered an order abating the stay and setting the case for trial beginning September 2, 1997.

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.

On June 13, 1997, the Company entered into an agreement (the "Agreement") with Peter Halmos, the co-founder of SafeCard, which was reorganized in 1995 as Ideon. The Company acquired Ideon in August 1996. The Agreement, which, among other matters, 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, is subject to the confirmation of certain matters by a court in Wyoming in which certain of these litigations are pending, and will not become effective unless and until such confirmation is obtained. There can be no assurance that such confirmation will be obtained, and in the event it is not, the litigation will remain outstanding and no payments will be made to Mr. Halmos. 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, commencing at such time as the court's confirmation may be obtained. The three class action matters involving, among other parties, SafeCard, Ideon, the Company and certain Ideon and SafeCard directors and officers remain pending.

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 September 9, 1996, the Court entered an order abating the action until December 9, 1996 to permit the parties to engage in settlement negotiations. On December 5, 1996, plaintiffs filed a motion for leave to file an amended complaint, name additional parties (previously named as "John Does") and include additional legal claims. The amended complaint is a purported buyer and class action under the securities and racketeering laws alleging Ideon and others engaged in a stock manipulation scheme to artificially inflate the price of SafeCard/Ideon stock between January 1993 and December 1995. On February 11, 1997, the Court entered an order abating the stay and setting this case for trial beginning on September 2, 1997. On February 27, 1997, the Company filed a response in opposition to plaintiffs' motion for leave to file an amended complaint.

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 initial and reply briefs and Ideon filed an answer brief. On June 6, 1997, the Appellate Court affirmed the dismissal.

A suit seeking monetary damages filed by Peter Halmos against SafeCard,

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

A declaratory judgment action by Ideon and its directors against Peter Halmos in Delaware Chancery Court, New Castle County. This action seeks a declaration regarding Ideon's advance indemnification obligations, if any, to Peter Halmos in connection with his many lawsuits. Halmos filed a motion to dismiss on jurisdictional grounds on November 17, 1995. Ideon filed a brief in opposition and an amended complaint on February 14, 1996. On April 22, 1996, Halmos filed an answer and amended counterclaims in which High Plains Capital Corporation ("High Plains") and Halmos Trading & Investment Company ("Halmos Trading") were added as additional parties. The amended counterclaims seek advancement and/or indemnification for Halmos, High Plains and Halmos Trading for certain litigations and an IRS investigation. The amended counterclaims also seek recovery against individual defendant directors based on allegations they willfully and unjustly denied Halmos indemnification and/or advancement. Ideon filed an answer and affirmative defenses to the amended counterclaims on May 6, 1996.

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 on September 30, 1996.

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



announcements relating to Ideon's expected earnings per share in 1995 and its new product sales, which included the PGA Tour Card Program, Family Protection Network and Collections of the Vatican Museums. On July 15, 1996, Ideon filed a motion to dismiss. The Company withdrew its motion to dismiss and answered the complaint on December 5, 1996.

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. 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. Although management used their best estimates, if the Agreement discussed above is not confirmed by the court, there can be no assurance that the actual aggregate amount of such settlement will not exceed the amount accrued. Although not anticipated, the outcome of the class action matters discussed above could also exceed the amount accrued.

#### NOTE 6 -- SUBSEQUENT EVENT

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 Company plans to exchange 2.4031 shares of Common Stock for each outstanding share of HFS Common Stock (158.1 million shares at April 30, 1997). The consummation of the merger is subject to certain customary closing conditions, including the approval of the shareholders of both companies. The transaction will be accounted for in accordance with the pooling-of-interests method of accounting and is expected to be completed during the Fall of 1997. Pursuant to the merger agreement, HFS shall be merged with and into CUC at the effective time. Following the effective time, CUC shall be the surviving corporation and shall succeed to and assume all the rights and obligations of HFS.

#### Independent Accountants' Review Report

Shareholders and Board of Directors  
CUC International Inc.

We have reviewed the accompanying condensed consolidated balance sheet of CUC International Inc. as of April 30, 1997, and the related condensed consolidated statements of income and cash flows for the three-month periods ended April 30, 1997 and 1996. 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 have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of CUC International Inc. as of January 31, 1997, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended (not presented herein) and in our report dated March 10, 1997, we expressed an unqualified opinion on these consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of January 31, 1997, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

ERNST & YOUNG LLP

June 13, 1997  
Stamford, Connecticut

ITEM 2.

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

Three Months Ended April 30, 1997 vs.  
Three Months Ended April 30, 1996

The Company's overall membership base continues to grow at a rapid rate (from 60.9 million members at April 30, 1996 to 68.6 million members at April 30, 1997), which is the largest contributing factor to the 20% increase in membership revenues (from \$455 million for the quarter ended April 30, 1996 to \$544 million for the quarter ended April 30, 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 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 quarter, individual, wholesale and discount program memberships grew by 10%, 24% and 12%, respectively. Wholesale memberships have grown in part due to the success of the Company's international business in Europe. For the quarter ended April 30, 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 33% from \$60.5 million for the quarter ended April 30, 1996 to \$80.6 million for the quarter ended April 30, 1997. Distribution revenue, which consists principally of third-party software and typically has low operating margins, increased 8% from \$14.9 million for the quarter ended April 30, 1996 to \$16.1 million for the quarter ended April 30, 1997. The Company's software operations continue to grow by focusing on selling titles through retailers. Excluding distribution revenue, core software revenue grew by 42%. Contributing to the software revenue growth in fiscal 1998 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, net, interest expense on 3% convertible notes and income taxes ("EBIT") increased from \$81.9 million to \$109.0 million and EBIT margins improved from 15.9% to 17.4%.

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 April 30, 1997, are revenues resulting from acquisitions which were completed during the quarter. 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 April 30, 1997 vs.  
Three Months Ended April 30, 1996 (continued)

Operating costs increased 32% (from \$158.3 million to \$209.5 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). 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 40% to 35%. This decrease is primarily due to improved per member acquisition costs and an increase in renewing members. Membership acquisition costs incurred decreased 19% (from \$164.3 million to \$133.1 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 decreased by 6% (from \$160.4 million to \$151.3 million). Other marketing costs increased by 53% (from \$44.8 million to \$68.5 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 income, net, increased from \$2.2 million to \$8.7 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 Group, Inc. ("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
Quarter Ended April 30, 1997	68,560,000	2,225,000
Year Ended January 31, 1997	66,335,000	6,685,000
Quarter Ended April 30, 1996	60,875,000	1,225,000
Year Ended January 31, 1996	59,650,000	12,750,000*

\*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 April 30, 1997, no borrowings under the Credit Agreement were outstanding. The Credit Agreement is scheduled to expire March 26, 2001.

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. As of April 30, 1997, interest expense on the 3% Notes was \$3.6 million.

The Company invested approximately \$47 million in acquisitions, net of cash acquired, during the three months ended April 30, 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 other than those relating to the abovementioned litigation matters. 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 next year. Total capital expenditures were \$15 million for the three months ended April 30, 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 and 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 three months ended April 30, 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.

#### 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 fifteen complex lawsuits, twelve of which involve the former Chairman of the Board and Executive Management Consultant to SafeCard (See Note 5 to Condensed Consolidated Financial Statements).

### ITEM 2. CHANGES IN SECURITIES

During the fiscal quarter ended April 30, 1997, the Company issued the following equity securities that were not registered under the Securities Act:

- (a) On February 13, 1997, the Company issued 3,445,851 shares of Common Stock to Numa in connection with the acquisition by the Company of substantially all of the assets of Numa and the Company's assumption of specific liabilities of Numa. 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 March 17, 1997, the Company issued 908,703 shares of Common Stock to Tango Communications ("Tango") in connection with the acquisition by the Company of substantially all of the assets and the assumption of the liabilities of Tango. 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.
- (c) On April 11, 1997, the Company issued 595,664 shares of Common Stock to Berkeley Systems, Incorporated ("Berkeley") in connection with the acquisition by the Company of all of the outstanding capital stock of Berkeley. 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 with respect to the resale of the Common Stock received from the Company in connection with this acquisition.

## PART II. OTHER INFORMATION

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

Matters as specified in the Company's Proxy Statement dated May 5, 1997, a copy of which has previously been filed with the Securities and Exchange Commission, were considered and approved by the Company's shareholders at the annual shareholders' meeting held on June 11, 1997. The results of such matters are as follows:

Proposal 1: To elect Messrs. Bartlett Burnap, Walter A. Forbes and Robert P. Rittereiser to the Board of Directors of the Company, each for a term to expire at the 2000 Annual Meeting.

Results:	Total Vote For	Total Vote Withheld
Bartlett Burnap	338,775,954	4,084,602
Walter A. Forbes	338,825,540	4,035,016
Robert P. Rittereiser	338,814,275	4,046,281

The terms of office as a director of each of T. Barnes Donnelley, Stephen A. Greyser, Christopher K. McLeod, Burton C. Perfit, Stanley M. Rumbough, Jr., E. Kirk Shelton and Kenneth A. Williams continued after the meeting.

Proposal 2: To approve the Company's 1997 Stock Option Plan.  
 Results: For 233,528,464 Against 106,444,921 Abstain 1,338,979

Proposal 3: To ratify the appointment of Ernst & Young LLP as the Company's Independent Auditors for the fiscal year ending January 31, 1998.

Results: For 342,305,022 Against 135,646 Abstain 419,888

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).*                                                     |
| 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).* |

10.1-10.26 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 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).* +                            |
| 10.10 | 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).* +                            |
| 10.11 | 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).\* +

10.12 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).\* +

10.13 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).\*

## PART II. OTHER INFORMATION

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

#### (a) Exhibit

- | No.   | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.14 | 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).*                                                                                                                                                                                                                                                                                                                        |
| 10.15 | 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).*                                                                                                                                                                                                                                                                                                                  |
| 10.16 | 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).*                                                                                                                                                                                                                                                   |
| 10.17 | 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).*                                                                                                                                                                                                                                                                                                              |
| 10.18 | 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).*                                                                                                                                                                                                                                                                                                                                                          |
| 10.19 | 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).*                                                                                                                                                                                                                                                                                                                                                |
| 10.20 | 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).*                                                                                                                                                                                                                                                                                                                                                |
| 10.21 | 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).*                                                                                                                                                                                                                                                                                                                                                |
| 10.22 | 1996 Executive Retirement Plan.                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 10.23 | 1997 Stock Option Plan.                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 10.24 | Form of Employee Stock Option under the 1997 Stock Option Plan.                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 10.25 | Settlement Agreement dated as of May 27, 1997 by and among Janice G. Davidson; Robert M. Davidson; the Janice G. Davidson Charitable Remainder Unitrust; the Robert M. Davidson Charitable Remainder Unitrust; the Elizabeth A. Davidson Irrevocable Trust; the Emilie A. Davidson Irrevocable Trust; the John R. Davidson Irrevocable Trust; the Emilie A. Davidson Charitable Remainder Unitrust; and the John R. Davidson Charitable Remainder Unitrust and CUC International Inc. + |
| 10.26 | 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).*                                                                                                                                                                                                                                                 |
| 10.27 | 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).*                                                         |
| 10.28 | 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).*                                                                                                                                                                                                       |

- 10.29 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).\*

PART II. OTHER INFORMATION

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

(a) Exhibit

- | No.   | Description                                                                                                                                                                                                                                                                                           |
|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.30 | 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).*                                                                                 |
| 10.31 | 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).*                                                                 |
| 10.32 | 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).*                                                                                           |
| 10.33 | 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).*                                                                                            |
| 10.34 | 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).* +                                                                                          |
| 10.35 | 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).*                                                                                        |
| 10.36 | 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 10K for the fiscal year ended January 31, 1996).*                                            |
| 10.37 | 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).*                   |
| 10.38 | 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).* |
| 10.39 | 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).*                           |
| 10.40 | 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).*                                                                                                         |
| 10.41 | 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)                                                                                                                                                                                                                                           |
| 15    | Letter re: Unaudited Interim Financial Information                                                                                                                                                                                                                                                    |
| 27    | Financial data schedule                                                                                                                                                                                                                                                                               |

PART II. OTHER INFORMATION

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



(b) During the quarter ended April 30, 1997, the Company filed the following Current Reports on Form 8-K:

- (1) Current Report on Form 8-K, filed on February 4, 1997, reporting an Item 9 ("Sales of Equity Securities Pursuant to Regulation S") event.
- (2) Current Report on Form 8-K, filed on February 13, 1997, reporting an Item 7 ("Financial Statements and Exhibits") event and an Item 9 ("Sales of Equity Securities Pursuant to Regulation S") event.
- (3) Current Report on Form 8-K, filed on February 26, 1997, reporting an Item 5 ("Other Events") event.
- (4) Current Report on Form 8-K, filed on March 17, 1997, reporting an Item 5 ("Other Events") event.

\*Incorporated by reference

+These documents have been amended, supplemented and/or superseded by the Settlement Agreement set forth as Exhibit 10.25 hereto.

#### 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: June 16, 1997

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

Date: June 16, 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).\*

#### 10.1-10.26 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).\*
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- 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 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).\* +

#### INDEX TO EXHIBITS

Exhibit No.	Description	Page
10.10	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).* +	
10.11	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).* +	
10.12	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).* +	
10.13	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).*	
10.14	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).\*

- 10.15 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).\*
- 10.16 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).\*
- 10.17 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).\*
- 10.18 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).\*
- 10.19 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).\*
- 10.20 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).\*
- 10.21 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).\*
- 10.22 1996 Executive Retirement Plan.
- 10.23 1997 Stock Option Plan.
- 10.24 Form of Employee Stock Option under the 1997 Stock Option Plan.

#### INDEX TO EXHIBITS

Exhibit No.	Description	Page
10.25	Settlement Agreement dated as of May 27, 1997 by and among Janice G. Davidson; Robert M. Davidson; the Janice G. Davidson Charitable Remainder Unitrust; the Robert M. Davidson Charitable Remainder Unitrust; the Elizabeth A. Davidson Irrevocable Trust; the Emilie A. Davidson Irrevocable Trust; the John R. Davidson Irrevocable Trust; the Emilie A. Davidson Charitable Remainder Unitrust; and the John R. Davidson Charitable Remainder Unitrust and CUC International Inc. +	
10.26	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).*	
10.27	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).*	
10.28	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).*	
10.29	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).*	
10.30	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	

- 10.31 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).\*
- 10.32 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).\*
- 10.33 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).\*
- 10.34 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).\* +
- 10.35 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).\*

INDEX TO EXHIBITS

Exhibit No.	Description	Page
10.36	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).*	
10.37	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).*	
10.38	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).*	
10.39	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).*	
10.40	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).*	
10.41	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)	
15	Letter re: Unaudited Interim Financial Information	
27	Financial data schedule	

\*Incorporated by reference

+These documents have been amended, supplemented and/or superseded by the Settlement Agreement set forth as Exhibit 10.25 hereto.

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

	Three Months Ended April 30,	
	1997	1996
PRIMARY		
Average shares outstanding	407,446	376,469
Net effect of dilutive stock options - based on the treasury stock method using average market price	11,594	20,196
Assumed conversion of 3% convertible notes	14,966	
	-----	-----
Total	434,006	396,665
	=====	=====
Net income	\$70,473	\$52,121
Interest expense on 3% convertible notes, net of tax benefit	2,246	
	-----	-----
	\$72,719	\$52,121
	=====	=====
Net income per common share	\$0.168	\$0.131
	=====	=====
FULLY DILUTED		
Average shares outstanding	407,446	376,469
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	11,593	20,874
Assumed conversion of convertible notes	18,052	6,549
	-----	-----
Total	437,091	403,892
	=====	=====
Net income	\$70,473	\$52,121
Interest expense on convertible notes, net of tax benefit	2,487	469
	-----	-----
	\$72,960	\$52,590
	=====	=====
Net income per common share	\$0.167	\$0.130
	=====	=====

CUC INTERNATIONAL INC. AND SUBSIDIARIES

EXHIBIT 15-LETTER RE: UNAUDITED INTERIM FINANCIAL INFORMATION

June 13, 1997

Shareholders and Board of Directors  
CUC International Inc.

We are aware of the incorporation by reference in the following Registration Statements of our report dated June 13, 1997 relating to the unaudited condensed consolidated interim financial statements of CUC International Inc. that are included in its Form 10-Q for the quarter ended April 30, 1997:

Form S-3s,

33-30306, 33-47271, 33-58598, 33-63237, 33-95126, 333-11035,  
333-13537, 333-17323, 333-17411, 333-20391, 333-23063 and 333-26927

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  
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  
333-22003 Knowledge Adventure 1993 Stock Option Plan

Pursuant to Rule 436(c) of the Securities Act of 1933, our report is 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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CUC INTERNATIONAL INC.  
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— — — CUC INTERNATIONAL INC.

EXECUTIVE RETIREMENT PLAN

CUC International Inc., a Delaware corporation (the "Company"), hereby adopts the CUC International Inc. Executive Retirement Plan (the "Plan") effective as of January 1, 1997.

1

PURPOSE AND DEFINITIONS

1.1 The purpose of the Plan is to afford officers and other key employees of the Company, who will be responsible for the management, growth, success and protection of the Company's business, with a long-term incentive in order to create in such employees an increased interest in and a greater concern for the welfare of the Company and to reward those officers and key employees who have been responsible for the growth and success of the Company. The Plan is intended to provide additional retirement security for the participants under the Plan and to constitute an unfunded retirement plan for a select group of management or highly compensated employees within the meaning of Title I of the Employee Retirement Income Security Act of 1974, as amended.

1.2 For purposes of the Plan, the following terms shall have the meaning set forth below:

"Accrued Target Value" means that portion of the Target Value of a Participant described in Section 10.4.

"Actuarial Assumption" means, for purposes of the Plan, an interest rate of 8% and the 1983 Group Annuity Mortality Table (male) as published by the Society of Actuaries, to be utilized to determine an Actuarial Equivalent benefit to be provided by the Target Value.

"Actuarial Equivalent" means the use of Actuarial Assumptions to achieve a value equal to the Target Value or Adjusted Target Value, as the case may be.

"Adjusted Target Value" means the Target Value of a Participant increased or decreased in value based upon an assumed interest rate of 8%, to reflect the deferral of the Commencement Date of a Participant as a result of the continued employment of the Participant with the Company or its Affiliates on or after the Retirement Date of the Participant or to determine the equivalent Target Value prior to the Participant's Retirement Date as required under Articles 3 and 5.

"Affiliate" means a subsidiary or joint venture in which the Company owns directly or indirectly fifty percent (50%) or more of the equity interest (excluding preferred stock).

"Beneficiary" means the beneficiary designated by the Participant, or deemed designated by the Participant,



pursuant to Section 7.1.

"Change in Control" means a change in ownership of the Company or any other action as described in Section 6.3.

"Commencement Date" means the first day of the month following a Participant's Retirement Date, or if the Participant is then employed by the Company or any of its Affiliates, the first day of the month following the Participant's termination of employment with the Company and all of its Affiliates.

"Compensation Committee" means the Compensation Committee of the board of directors of the Company.

"Employment Agreement" means an employment agreement between the Company or an Affiliate and a Participant, in effect at the time of any applicable determinations under the Plan.

"Participant" means a key employee recommended by the Chief Executive Officer of the Company and selected by the Compensation Committee to participate in the Plan pursuant to Section 2.1.

"Retirement Date" means the Retirement Date set by the Compensation Committee at the time a key employee first becomes a Participant under the Plan or any earlier date subsequently set by the Compensation Committee.

"Target Value" means the target value of a Participant's retirement benefit as determined by the Compensation Committee at the date a key employee becomes a Participant of the Plan, or as thereafter may be increased by action of the Compensation Committee.

"Total Disability" means any permanent mental or physical condition which (i) in the good faith judgment of the Compensation Committee prevents the Participant from reasonably discharging the duties of his or her position, (ii) is attested to in writing from time to time by a physician selected by the Compensation Committee and (iii) has continued for a period of at least twelve consecutive months.

"Year of Participation" shall mean a twelve-month period of participation under the Plan during a period of employment with the Company or its Affiliates or while Totally Disabled.

"Year of Vesting Service" means a twelve-month period of employment with the Company or any of its Affiliates or a period of Total Disability as defined in Section 3.1.

## ELIGIBILITY AND PARTICIPATION

2.1 Eligibility. The Chief Executive Officer of the Company shall recommend to the Compensation Committee key employees of the Company for participation in the Plan. The Compensation Committee shall make a determination of each such person who shall participate in the Plan and shall notify such person of participation in writing. Each key employee so designated by the Compensation Committee is hereinafter referred to as a "Participant."

2.2 Designation of Vesting Requirement, Age for Commencement of Payment of Benefits and Target Value. The Compensation Committee shall determine for each Participant at the time a key employee is selected as a Participant and shall advise each Participant in writing the number of Years of Service with the Company that shall be required to achieve vesting of the benefit provided for the Participant under the Plan, the age at which a Participant who is vested may commence to receive benefits under the Plan (provided the Participant has then terminated employment with the Company) and the Target Value of the Participant.

## VESTING AND FORFEITURES

- 3.1 Vesting. A Participant shall become vested in the benefit provided under the Plan after achieving the number of Years of Vesting Service initially set by the Compensation Committee upon the Participant becoming eligible for participation in the Plan, or such lesser number of Year of Vesting Service subsequently set by the Compensation Committee. A Year of Vesting Service is a one-year period of employment of a Participant as an employee of the Company or an Affiliate, the computation of which shall commence with the initial date of employment of the Participant and terminate with the Participant's termination of employment with the Company and all of its Affiliates. Only a consecutive period of employment shall be considered, provided however, that if a Participant terminates employment and thereafter is re-employed within a period of one year, the period of absence shall be counted towards a Year of Vesting Service for purposes of the calculation of vesting. Periods of Total Disability shall be included in calculating Years of Vesting Service.
- 3.2 Forfeiture. Except as provided under Articles 5 and 6, upon a Participant's termination of employment for any reason other than death or Total Disability with the Company and all of its Affiliates prior to the vesting of the Participant under Section 3.1, above, the Participant's entire benefit under the Plan shall be forfeited.
- 3.3 Death. Upon a Participant's death while employed by the Company or any of its Affiliates or while Totally Disabled, prior to becoming vested pursuant to Section 3.1, the Participant's entire benefit under the Plan shall be forfeited. Upon a Participant's death whether before or after termination of employment with the Company and its Affiliates, but after becoming vested pursuant to Section 3.1 and prior to the commencement of payment of benefits under Section 4.1, a benefit shall be payable under the Plan to the Participant's Beneficiary based upon the Adjusted Target Value of the Participant as of the date of death. The benefit shall be payable in equal installments over a period of 60 months, commencing as of the first day of the month following the Participant's death.
- 3.4 Total Disability. If a Participant terminates employment by reason of Total Disability and thereafter ceases to be Totally Disabled prior to becoming vested under Section 3.1 and is not reemployed by the Company or its Affiliates, the Participant shall forfeit any benefit under the Plan.

## BENEFITS

- 4.1 Commencement. A vested Participant upon attaining the Participant's Retirement Date shall be entitled to commence to receive as of the Commencement Date, a monthly retirement benefit for life equal to the Actuarial Equivalent of (a) the Target Value of the Participant if the Commencement Date is the first day of the month following the Retirement Date or (b) the Adjusted Target Value if the Commencement Date is any time thereafter.
- 4.2 Optional Form of Benefit. A Participant may elect an Actuarial Equivalent optional form of benefit, with the approval of the Compensation Committee. Such optional form may be any benefit payable over the life of a Participant with or without a survivor benefit for a designated Beneficiary of the Participant and with or without a payment for a period certain (e.g., benefit for life with a 50% survivor benefit for spouse or benefit for life with payments for ten (10) years certain in the event of prior death).

TERMINATION OF EMPLOYMENT WITHOUT CAUSE OR FOR GOOD REASON

5.1 Minimum Benefit. In the event of a termination of a Participant's employment with the Company and all Affiliates (whether prior to, on or after the vesting of the Participant under Section 3.1 above) (i) by the Company or the applicable Affiliate without Cause or (ii) by the Participant for Good Reason, notwithstanding any other provision of the Plan to the contrary, a Participant shall be deemed to have a vested Target Value of 75% of the Participant's Target Value and such amount shall be paid by the Company in a lump sum to the Participant within ten (10) business days following the date of the termination of the Participant's employment with the Company and Affiliates, in satisfaction of any benefit the Participant or the Participant's Beneficiary is otherwise entitled to under the Plan, except for any additional benefit payable under Section 5.4.

5.2 Termination of Employment for Cause. For purposes of this Article 5, a termination of a Participant's employment by the Company or an Affiliate for "Cause" shall mean termination of the Participant's employment by the Company for "Cause" as determined under an Employment Agreement of the Participant, or if none, upon a good faith determination by the board of directors of the Company, by written notice to the Participant specifying the event relied upon for such termination, due to the Participant's serious, willful misconduct with respect to his duties of employment (including but not limited to conviction for a felony or perpetration of a common law fraud) which has resulted or is likely to result in material economic damage to the Company or any Affiliate and which, in any such case, is not cured (if such is capable of being cured) within thirty (30) days after written notice thereof to the Participant.

5.3 Termination of Employment for Good Reason. For purposes of this Article 5, a termination of a Participant's employment by the Participant for "Good Reason" shall mean termination of the Participant's employment by the Participant due to "good reason" or "constructive termination" as determined under an Employment Agreement of the Participant, or if none, due to a reduction of the Participant's aggregate base salary with the Company and Affiliates, or a material change by the Company or applicable Affiliate in the functions, duties or responsibilities of the Participant's position which would reduce the ranking or level, dignity, responsibility, importance or scope of such position; or any relocation of the Participant outside of the general Stamford, Connecticut area, in each case above, without the written consent of the Participant. The Participant shall provide the Company a written notice which describes the circumstances being relied on for the termination of employment for Good Reason within ninety (90) days after the event giving rise to the notice. The Company shall have thirty (30) days after receipt of such notice to remedy the situation prior to the termination of the Participant's employment for Good Reason.

5.4 Additional Benefit. In the event of a termination of the Participant's employment resulting in the payment of a benefit under Section 5.1 above, the Company shall calculate the Actuarial Equivalent of the Participant's Target Value payable as a lump sum as of the date of the termination of the Participant's employment (the "Section 5.4 Actuarial Equivalent Benefit") within five (5) business days following the date of the termination of the Participant's employment. If the Section 5.4 Actuarial Equivalent Benefit is greater than the lump sum benefit payable under Section 5.1 above, the difference between the Section 5.4 Actuarial Equivalent Benefit and the lump sum benefit payable under Section 5.1 above shall be paid by the Company in a lump sum to the Participant within ten (10) business days of the date of the termination of the Participant's employment.

6.1 Minimum Benefit. In the event of a Change in Control, notwithstanding any other provision of the Plan to the contrary, a Participant actively employed with the Company or an Affiliate shall be deemed to have a vested Target Value of 75% of the Participant's Target Value and such amount (on an unreduced basis) shall be paid by the Company in a lump sum to the Participant within ten (10) business days of the Change In Control, in satisfaction of any benefit the Participant or the Participant's Beneficiary is otherwise entitled to under the Plan. Such payment shall be subject to the provisions of Section 6.2.

6.2 Excise Tax Limitation. (i) In the event that any payment or benefit received or to be received by the Participant pursuant to the terms of the Plan (the "Plan Payments") or of any other plan, arrangement or agreement of the Company or any Affiliate ("Other Payments" and, together with the Plan Payments, the "Payments") would, in the opinion of independent tax counsel selected by the Company and reasonably acceptable to the Participant ("Tax Counsel"), be subject to the excise tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") or any successor provision, as determined as provided below, the Payments shall be reduced (but not below zero) until no portion of the Payments would be subject to the Excise Tax. For purposes of this limitation, (a) no portion of the Payments the receipt or enjoyment of which the Participant shall have effectively waived in writing shall be taken into account, (b) only the portion of the Payments which in the opinion of Tax Counsel constitute a "parachute payment" within the meaning of Section 280G(b)(2) of the Code shall be taken into account, (c) the Payments shall be reduced only to the extent necessary so that the Payments would not be subject to the Excise Tax, in the opinion of Tax Counsel, and (d) the value of any noncash benefit or any deferred payment or benefit included in such Payments shall be determined by the Tax Counsel in accordance with the principles of Sections 280G(d)(3) and (4) of the Code. If any reduction in Payments is necessary to satisfy this Section 6.2, the Participant shall be entitled, at any time by written notice to the Company, to reduce the amount of any Payment otherwise payable to him (including, without limitation, by waiving in whole or in part, any accelerated vesting on options previously granted the Participant), and to select from among the Payments those to be so reduced in order to satisfy the limitations of this Section 6.2 and the Company shall reduce the amount of such Payments accordingly. Any stock options the vesting of which would have otherwise accelerated but for the provisions of this Section 6.2 shall continue to vest in accordance with their respective terms; and shall upon such vesting remain exercisable until the applicable expiration dates contained in the applicable stock option agreements pursuant to which such stock options were granted, whether or not the Participant's employment is terminated.

(ii) If it is established pursuant to an opinion of Tax Counsel or a final determination of a court or an Internal Revenue Service proceeding that, notwithstanding the good faith of the Participant and the Company in applying the terms of this Section 6.2, any Payments paid to the Participant or for his benefit exceeded the limitation contained in this Section 6.2, then the Participant shall pay to the Company, within sixty (60) days of receipt of notice of such final determination or opinion, an amount equal to the sum of (a) the excess of the Payments paid to him or for his benefit over the maximum Payments that should have been paid to or for his benefit taking into account the limitations contained in this Section 6.2, and (b) interest on the amount set forth in clause (a) of this sentence at the applicable federal rate (as defined in Section 1274(d) of the Code) from the date of his receipt of such excess until the date of such payment; provided, however, that (x) he shall not be required to make any payment to the Company pursuant to this Section 6.2(ii), (1) if such final determination requires the payment by him of an Excise Tax by reason of any Payment or portion thereof or (2) in the case of the

opinion of Tax Counsel, until the expiration of the application statute of limitations or a final determination of a court or an Internal Revenue Service proceeding that no Excise Tax is due and (y) he shall only be required to make a payment to the Company pursuant to this Section 6.2(ii) to the extent such payment is deductible (or excludable from income) for federal income tax purposes.

(iii) If it is established pursuant to an opinion of Tax Counsel or a final determination of a court or an Internal Revenue Service proceeding that, notwithstanding the good faith of the Participant and the Company in applying the terms of this Section 6.2, any Payments paid to him or for his benefit were in an amount less than the maximum Payments which could be payable to him without such payments being subject to the Excise Tax, then the Company shall pay to him, within ninety (90) days of receipt of notice of such final determination or opinion, an amount equal to the sum of (a) the excess, if any, of the payments that should have been paid to him or for his benefit over the payments paid to or for his benefit and (b) interest on the amount set forth in clause (a) of this sentence at the applicable federal rate (as defined in Section 1274(d) of the Code) from the date of his non-receipt of such excess until the date of such payment.

(iv) The Company shall pay the Plan Payments at such times as set forth in Section 6.1 hereof; provided, however, that if the Company in good faith believes that any such payments shall be reduced under the provisions of this Section 6.2, the Company shall pay to the Participant at such time a good faith estimate of the reduced payments, the computation of which shall be given to him in writing together with a written explanation of the basis for making such adjustment. The Company shall, within thirty (30) days of the otherwise applicable payment date, either (a) pay to the Participant the balance of the payments together with interest thereon at the applicable federal rate (as defined in Section 1274(d) of the Code) or (b) deliver to him a copy of the opinion of Tax Counsel referred to in Section 6.2(i) hereof, as applicable, establishing the amount of the reduced payments, along with the excess, if any, of the reduced payments over the estimate previously paid on account thereof, together with interest thereon at the applicable federal rate (as defined in Section 1274(d) of the Code).

(v) If the Participant and the Company are parties to any other agreement relating to excise tax liability under Section 4999 of the Code, and the provisions of such agreement conflict with the provisions of this Section 6.2, the provisions of such other agreement shall govern to the extent inconsistent with this Section 6.2.

6.3 Change in Control. A "Change in Control" shall be deemed to have occurred if (i) a tender offer shall be made and consummated for the ownership of fifty-one percent (51%) or more of the outstanding voting securities of the Company, (ii) the Company or any subsidiary thereof shall be merged with or into or consolidated with another corporation and as a result of such merger or consolidation less than seventy-five percent (75%) of the outstanding voting securities of the surviving or resulting corporation shall be owned in the aggregate by the former shareholders of the Company, (iii) the Company shall sell substantially all of its assets to another corporation which is not a wholly-owned subsidiary of the Company, (iv) a person, within the meaning of Section 3(a)(9) or of Section 13(d)(3) (as in effect on the date hereof) of the Securities Exchange Act of 1934, as amended, shall acquire twenty-five percent (25%) or more of the outstanding voting securities of the Company (whether directly, indirectly, beneficially or of record) or (v) any other event shall take place that a majority of the board of directors of the Company, in its sole discretion, shall determine constitutes a "Change in Control" for the purposes

hereof. For purposes hereof, ownership of voting securities shall take into account and shall include ownership as determined by applying the provisions of Rule 13d-3(d)(1)(i) (as in effect on the date hereof) pursuant to the Securities Exchange Act of 1934, as amended.

7

#### MISCELLANEOUS

- 7.1 Designation of Beneficiary. A Participant shall designate on a form provided by the Compensation Committee a beneficiary to receive any death benefit payable under the terms of the Plan. In the event a Participant does not designate a beneficiary or the beneficiary dies prior to the death of the Participant, the beneficiary shall be deemed to the Participant's estate, except in the event of an optional form of benefit selected under Section 4.2 which provides for a survivor benefit to be paid for the life of a designated beneficiary, in which case no survivor benefit shall be payable after the death of the designated beneficiary.
- 7.2 Incapacity. If a person to whom a benefit is payable is incompetent by reason of a physical or mental disability, the Compensation Committee, in its sole discretion, may cause the payments due to such person to be made to another person for his or her benefit without any responsibility of the Compensation Committee to receipts of the application of such payment. Such payment shall operate as a complete discharge of the obligations of such person under the Plan.
- 7.3 Withholding Taxes. The Company may directly or indirectly withhold from any payments under this Plan all federal, state, city or other taxes that shall be required pursuant to any law or governmental regulation.

8

#### CLAIMS

- 8.1 Claims Procedure. If any Participant or his or her Beneficiary has a claim for benefits which is not being paid, such claimant may file with the Compensation Committee a written claim setting forth the amount and nature of the claim, supporting facts, and the claimant's address. The Compensation Committee shall notify each claimant of its decision in writing by registered or certified mail within sixty (60) days after its receipt of a claim or, under special circumstances, within ninety (90) days after its receipt of a claim. If a claim is denied, the written notice of denial shall set forth the reasons for such denial, refer to pertinent Plan provisions on which the denial is based, describe any additional material or information necessary for the claimant to realize the claim, and explain the claim review procedure under the Plan.
- 8.2 Claims Review Procedure. A claimant whose claim has been denied or such claimant's duly authorized representative may file, within sixty (60) days after notice of such denial is received by the claimant, a written request for review of such claim by the Compensation Committee. If a request is so filed, the Compensation Committee shall review the claim and notify the claimant in writing of its decision within sixty (60) days after receipt of such request. In special circumstances, the Compensation Committee may extend for up to sixty (60) additional days the deadline for its decision. The notice of the final decision of the Compensation Committee shall include the reasons for its decision and specific references to the Plan provisions on which the decision is based. The decision of the Compensation Committee shall be final and binding on all parties.

9

#### ADMINISTRATION

- 9.1 Quorum. A majority of the members of the Compensation

Committee shall constitute a quorum for any meeting of such committee held with respect to the Plan, and the acts of a majority of the members of either such committee, whether at a meeting or approved in writing without a meeting shall be valid acts of such committee.

- 9.2 Duties. The Compensation Committee shall have the power and duty to do all things necessary or convenient to effect the intent and purposes of the Plan, whether or not such powers and duties are specifically set forth herein, and, by way of amplification and not limitation of the foregoing, the Compensation Committee shall have the power to:
- (1) provide rules and regulations for the management, operation and administration of the Plan, and, from time to time, amend or supplement such rules and regulations;
  - (2) construe the Plan in its sole discretion to the fullest extent permitted by law, which shall be final and conclusive upon all parties hereto;
  - (3) correct any defect, supply any omission, or reconcile any inconsistency in the Plan in such manner and to such extent as it shall deem appropriate in its sole discretion to carry the same into effect including amendments to the Plan;
  - (4) establish actuarial principles and assumptions from time to time for use with respect to the Plan, to the extent not set forth in the Plan; and
  - (5) delegate all or any portion of the power to manage, operate and administer the Plan to any person that it so chooses.

9.3 Binding Authority. The acts and determinations of the Compensation Committee or its duly authorized delegate within the powers conferred by the Plan shall be final and conclusive for all purposes of the Plan, and shall not be subject to any appeal or review except as provided herein.

9.4 Exculpation. No member of the Compensation Committee shall be directly or indirectly responsible or otherwise liable for any action taken or any failure to take action as a member of the Compensation Committee, except for such action, default, exercise or failure to exercise resulting from such member's gross negligence or willful misconduct. No member of the Compensation Committee shall be liable in any way for the acts or defaults of any other member of the Compensation Committee, or any of its advisors, agents or representatives.

9.5 Indemnification. The Company shall indemnify and hold harmless each member of the Compensation Committee against any and all expenses and liabilities arising out of his or her own activities relating to the Compensation Committee, except for expenses and liabilities arising out of a member's gross negligence or willful misconduct.

9.6 Information. The Company shall furnish to the Compensation Committee all information the Compensation Committee may deem appropriate for the exercise of its powers and duties in the administration of the Plan. The Compensation Committee shall be entitled to rely on any information provided by the Company without any investigation thereof.

9.7 Self-Interest. No member of the Compensation Committee may act, vote or otherwise influence a decision of such committee relating to his or her benefits, if any, under the Plan.

10.1 Non-Property Interest. Any Participant who may have or claim any interest in or right to any compensation, payment or benefit payable hereunder shall rely solely upon the

unsecured promise of the Company. Nothing herein shall be construed to give to or vest in the Participant or any other person, now or hereafter, any right, title, interest or claim in or to any specific asset, fund, reserve, account, insurance or annuity policy or contract, or other property of any kind whatsoever owned by the Company, or in which the Company may have any right, title or interest, now or at any time in the future.

10.2 Disclosure. The Compensation Committee shall make available to each Participant for examination at the principal office of the Company (or at such other location as may be determined by the Compensation Committee), a copy of the Plan and such of its records, or copies thereof, as may pertain to any benefits of such Participant under the Plan.

10.3 Other Rights. The Plan shall not affect or impair the rights or obligations of the Company or a Participant under any other contract, arrangement, or pension, profit sharing or other compensation plan.

10.4 Amendment or Termination. Notwithstanding any other provision of the Plan, the Plan may at any time be amended, suspended or terminated by the Company, subject to prior written approval of the Compensation Committee in its sole discretion, except no such amendment, suspension or termination shall (a) reduce a Participant's vested Target Value (determined as of the date of such termination or amendment), or (b) if a Participant has not forfeited his or her benefit prior to the time of any such termination or amendment, shall reduce a participant's Target Value below the product of the Target Value, multiplied by a fraction, with the numerator a Participant's Years of Participation and the denominator a Participant's projected Years of Participation to the Participant's Retirement Date (the Participant's "Accrued Target Value"). In the latter case the Participant's Accrued Target Value shall be deemed the Participant's vested Target Value for the purpose of calculating the Participant's benefit under the Plan. Moreover, if the Compensation Committee has established any additional or revised terms and conditions of participation for any Participant, the Compensation Committee may, in its sole discretion, add to, amend or terminate any such terms and conditions upon prior written notice to the Participant, except no such amendment or termination shall reduce a Participant's vested Target Value or Accrued Target Value.

10.5 Severability. If any term or condition of the Plan shall be invalid or unenforceable to any extent or in any application, then the remainder of the Plan, with the exception of such invalid or unenforceable provision, shall not be affected thereby, and shall continue in effect and application to its fullest extent.

10.6 No Employment Rights. Neither the establishment of the Plan or any action of the Compensation Committee shall be held or construed to confer upon any Participant the right to a continuation of employment by the Company. Subject to any applicable employment contract, the Company reserves the right to dismiss or otherwise deal with any Participant to the same extent as though the Plan had not been adopted.

10.7 Transferability of Rights. No Participant or spouse of a Participant shall have any right to commute, encumber, transfer or otherwise dispose of or alienate any present or future right or expectancy which he may have at any time to receive payments of benefits hereunder, which benefits and the right thereto are expressly declared to be non-assignable and nontransferable, except to the extent required by law. Any attempt to transfer or assign a benefit, or any rights granted hereunder, by a Participant or the spouse of a Participant shall, in the sole discretion of the Compensation Committee (after consideration of such facts as it deems pertinent), be grounds for terminating any rights of the Participant, his joint or contingent annuitant or beneficiary, to any portion of the Plan benefits not previously paid.

10.8 Governing Law. The Plan shall be construed, administered, and enforced according to the laws of the



State of Connecticut, except to the extent that such laws are preempted by the federal laws of the United States of America.

IN WITNESS WHEREOF, the Company has caused this Plan to be adopted as of the effective date first set forth above.

CUC INTERNATIONAL INC.

By:

CUC INTERNATIONAL INC.

1996 Executive Retirement Plan

CUC INTERNATIONAL INC.  
EXECUTIVE RETIREMENT PLAN

TABLE OF CONTENTS

		Page
ARTICLE 1	PURPOSE AND DEFINITIONS	1
ARTICLE 2	ELIGIBILITY AND PARTICIPATION	3
2.1	Eligibility	3
2.2	Designation of Vesting Requirement, Age for Commencement of Payment of Benefits and Target Value	3
ARTICLE 3	VESTING AND FORFEITURES	4
3.1	Vesting	4
3.2	Forfeiture	4
3.3	Death	4
3.4	Total Disability	5
ARTICLE 4	BENEFITS	5
4.1	Commencement	5
4.2	Optional Form of Benefit	5
ARTICLE 5	TERMINATION OF EMPLOYMENT WITHOUT CAUSE OR FOR GOOD REASON	6
5.1	Minimum Benefit	6
5.2	Termination of Employment for Cause	6
5.3	Termination of Employment for Good Reason	6
5.4	Additional Benefit	7
ARTICLE 6	CHANGE OF CONTROL	7
6.1	Minimum Benefit	7
6.2	Excise Tax Limitation	8
6.3	Change in Control	11
ARTICLE 7	MISCELLANEOUS	11
7.1	Designation of Beneficiary	11
7.2	Incapacity	12
7.3	Withholding Taxes	12
ARTICLE 8	CLAIMS	12
8.1	Claims Procedure	12
8.2	Claims Review Procedure	12
ARTICLE 9	ADMINISTRATION	13

9.1	Quorum	13
9.2	Duties	13
9.3	Binding Authority	14
9.4	Exculpation	14
9.5	Indemnification	14
9.6	Information	14
9.7	Self-Interest	14
ARTICLE 10	GENERAL PROVISIONS	15
10.1	Non-Property Interest	15
10.2	Disclosure	15
10.3	Other Rights	15
10.4	Amendment or Termination	15
10.5	Severability	16
10.6	No Employment Rights	16
10.7	Transferability of Rights	16
10.8	Governing Law	17

AS ADOPTED ON JUNE 11, 1997

1997 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 422 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 10,000,000 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"), and also shall be an Outside Director of the Company, within the meaning of Treasury Regulation Section 1.162-27(e)(3). 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 10 years from the date of adoption of the Plan by the Executive Committee of 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 Executive Committee of the Board of Directors on April 22, 1997. No stock options may be granted under the Plan after April 22, 2007. 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 424(f) of the Code.
  - (b) Parent. The term "Parent" shall have the same definition as "parent corporation" in Section 424(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 424(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.



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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 \_\_\_\_\_, \_\_\_\_ 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 1997 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, \_\_\_\_ 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

EKS:kg

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Do not delete this box or the codes above it; do not type above this box.

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— — — SETTLEMENT AGREEMENT (this "Agreement"),

made as of May 27, 1997, by and among Janice G. Davidson;

Robert M. Davidson; the Janice G. Davidson Charitable

Remainder Unitrust; the Robert M. Davidson Charitable

Remainder Unitrust; the Elizabeth A. Davidson Irrevocable

Trust; the Emilie A. Davidson Irrevocable Trust; the John R.

Davidson Irrevocable Trust; the Emilie A. Davidson

Charitable Remainder Unitrust; and the John R. Davidson

Charitable Remainder Unitrust (collectively, the

"Davidsons") and CUC International Inc., a Delaware

corporation ("CUC").

WHEREAS, CUC, Stealth Acquisition I Corp. (as

assignee of Stealth Acquisition II Corp.), a California

corporation and a wholly owned subsidiary of CUC, and

Davidson & Associates, Inc., a California corporation

("Davidson"), entered into an Agreement and Plan of Merger,

dated as of February 19, 1996 (the "Merger Agreement"),

which provided, among other things, for CUC's acquisition of

all of the outstanding capital stock of Davidson through the

merger (the "Merger") of Stealth Acquisition I Corp. into

Davidson, with Davidson as the surviving entity; and

WHEREAS, the Merger was consummated on July 24,

1996 and, as a result, Davidson became a wholly-owned

subsidiary of CUC; and

WHEREAS, in connection with the Merger, on

July 24, 1996, CUC and certain of the Davidsons entered

into a Registration Rights Agreement (the "Registration

Rights Agreement") pertaining to the sale by the Davidsons

named on the signature pages of the Registration Rights

Agreement and certain of their successors-in-interest of

the CUC common stock, \$.01 par value ("CUC Common Stock"),

received by such Davidsons in the Merger; and

WHEREAS, in connection with the Merger, on

July 24, 1996, CUC also entered into employment agreements (collectively, the "Original Employment Agreements") and Noncompetition Agreements (collectively, the "Noncompetition Agreements") with each of Janice G. Davidson and Robert M. Davidson; and

WHEREAS, Janice G. Davidson and Robert M. Davidson ceased to be full-time employees of CUC on January 19, 1997; and

WHEREAS, Janice G. Davidson and Robert M. Davidson have informed CUC that they believe that they individually, and the other Davidsons, have certain claims against CUC in connection with certain matters set forth in the Notice of Arbitration, dated March 7, 1997, sent to CUC by Jones, Day, Reavis & Pogue ("Jones Day"), attorneys for the Davidsons (the "Notice"), and matters related to Robert M. Davidson's and Janice G. Davidson's employment and responsibilities while CUC employees (collectively, the "Employment"); and

WHEREAS, CUC vigorously denies all wrongdoing; and

WHEREAS, CUC and the Davidsons desire that disputes, controversies and claims between the Davidsons, on the one hand, and CUC and/or its affiliates (collectively, the "CUC Affiliates"), on the other hand, as to matters set forth in the Notice or relating to the Employment be permanently and irrevocably released and settled to avoid the expense, inconvenience and disruption of any litigation involving CUC, the CUC Affiliates and/or the Davidsons;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

1. EFFECTIVENESS OF THIS AGREEMENT.

(a) Obligations of CUC.

The obligations of CUC under this Agreement are conditioned upon the representations and warranties of the Davidsons made herein being true and correct on the date hereof.

(b) Obligations of the Davidsons.

The obligations of the Davidsons under this Agreement are conditioned upon the representations and warranties of CUC made herein being true and correct on the date hereof.

2. PAYMENT AND GRANT OF OPTIONS TO CERTAIN OF THE DAVIDSONS.

In full settlement, satisfaction and compromise of the claims asserted by any of the Davidsons or any individual, corporation, limited liability company, partnership, association, trust or any other entity or organization, including any public or governmental authority or political subdivision or any agency or instrumentality thereof (each, a "Person") in respect of which any of the Davidsons, directly, or indirectly through one or more intermediaries, has the right to exercise or exercises "control" (within the meaning of Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (each, a "Davidson Control Person") against CUC and/or any one or more of the CUC Affiliates relating to the matters set forth in the Notice or relating to the Employment, and in consideration of the covenant not to sue set forth in Section 6 of this Agreement and the other provisions of this Agreement, CUC agrees to:

(a) and does hereby confirm the prior grant of 800,000 options to each of Janice G. Davidson and Robert M. Davidson (for an aggregate of 1.6 million options), to purchase shares of CUC Common Stock (as contemplated in the Option Letters to each attached hereto as Exhibit A (the "New Option Letters")); and

(b) pay to Janice G. Davidson and Robert M. Davidson, on the date hereof, in immediately available funds, to an account (or accounts) designated in writing by Janice G. Davidson and Robert M. Davidson on the date hereof, (i) performance bonuses for the 1996 fiscal year in the sums of \$150,000 and \$250,000, respectively, and (ii) an amount, not to exceed \$200,000 in the aggregate, in respect of the Davidsons' reasonable legal fees and expenses incurred in connection with the matters referred to in the Notice, the Employment and this Agreement (upon receipt of reasonable evidence of the incurrence thereof).

3. AMENDMENT OF OTHER AGREEMENTS; WAIVERS.

Janice G. Davidson, Robert M. Davidson and CUC

agree that Sections 2(a), (b), and (c) and Section 6 of each of the Noncompetition Agreements are hereby deleted in their entirety and replaced with the following:

2. Restricted Activities

(a) (i) For the period commencing on July 24, 1996 and ending on July 24, 2000 (the "Restricted Period"), the Executive, without prior express written approval by the Board of Directors of the Company (the "Board of Directors"), will not (A) engage in competition with, (B) directly or indirectly own or hold a proprietary interest in (except as provided in Section 2(a)(ii) below) or (C) be employed by, or consult with or receive compensation from, any party which competes, in any way or manner with the Davidson Business (as defined below). The "Davidson Business" shall mean the business of Davidson or any of its subsidiaries as conducted on July 24, 1996. The Executive acknowledges that the Davidson Business is conducted nationally and internationally and agrees that the provisions in the foregoing sentence shall operate throughout the United States and the world.

(ii) Notwithstanding the provisions of Section 2(a)(i)(B), from and after July 24, 1998 until the end of the Restricted Period, the Executive may directly or indirectly own or hold a proprietary interest in a party which competes with the Davidson Business (a "Competitor"); provided that such direct or indirect proprietary interest, when added to any proprietary interest held in such Competitor at any time directly or indirectly by (x) the Executive's spouse; or (y) any trust of which the Executive or the Executive's spouse is a trustee or beneficiary, and which trust is a signatory to the Settlement Agreement, dated as of May 27, 1997, by and among CUC, the Executive and the other parties named therein (the "Settlement Agreement") and only during such time as the Executive or such spouse is such a trustee, and not at any other time (such combined proprietary interest hereinafter called "Combined Proprietary Interest") does not at any time in aggregate exceed the lesser of: (x) 25% of the total equity of such Competitor or (y) such percentage as is 1% less than the percentage of total equity of the Competitor which would allow the holders of the Combined Proprietary Interest to exercise control over or with respect to such Competitor (including, without limitation, control which arises from the ability of the holder of such equity to block any action or actions of the Competitor because of super-majority or similar provisions under applicable law or which are contained in the Competitor's constituent documents or agreements with or among the holders of any of the Competitor's common or preferred stock or other equity).

(b) During the Restricted Period, the Executive, without express prior written approval from the Board of Directors, will not solicit any clients of Davidson or any of its subsidiaries for the Davidson Business or discuss with any employee of the Company or any of its affiliates information or operation of any business intended to compete with the Davidson Business.

(c) During the Restricted Period, the Executive will not solicit or induce any person who is an employee of Davidson or any of its subsidiaries to terminate any relationship such person may have with Davidson or any of its subsidiaries, nor shall the Executive during such period directly or indirectly engage, employ or compensate, or cause or permit any person with which the Executive may be affiliated, to engage, employ or compensate, any employee of the Company or any of its affiliates (other than as contemplated in Section 8(a) of the Settlement Agreement). The Executive hereby represents and warrants that the Executive has not entered into any agreement, understanding or arrangement with any employee of the Company or any of its affiliates pertaining to any business in which the Executive has participated or plans to participate, or to the employment, engagement or compensation of any such employee.

Section 6:

6. Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given (and shall be deemed to have been duly received if so given) by hand delivery, telegram, telex or telecopy, or by mail (registered or certified mail, postage prepaid, return receipt requested) or by any courier service, such as Federal Express, providing proof of delivery. All communications hereunder shall be delivered to the respective parties at the following addresses:

If to the Executive:

The Davidson Group  
Union Bank Tower, Suite 960  
Del Amo Financial Center  
21515 Hawthorne Boulevard  
Torrance, CA 90503  
Telephone: (310) 540-2740  
Facsimile: (310) 540-2804

with a copy to:

Jones, Day, Reavis & Pogue  
555 West Fifth Street  
Suite 4600  
Los Angeles, CA 90013-1025  
Attention: Bertram R. Zweig, Esq.  
                  Gerald W. Palmer, Esq.  
Telephone: (213) 489-3939  
Facsimile: (213) 243-2539

If to the Company:

CUC International Inc.  
707 Summer Street  
Stamford, Connecticut 06901  
Telephone: (203) 324-9261  
Facsimile: (203) 348-1982  
Attention: Amy N. Lipton, Esq.

with a copy to:

Weil, Gotshal & Manges LLP  
767 Fifth Avenue  
New York, New York 10153  
Telephone: (212) 310-8000  
Facsimile: (212) 310-8007  
Attention: Howard Chatzinoff, Esq.

or to such other address as the person to whom notice is given may have previously furnished to the others in writing in the manner set forth above.



(b) Registration Rights Agreement.

CUC and the Davidsons agree that Sections 2(a)(i); 2(a)(vii); 2(d) and 4(b) of the Registration Rights Agreement are hereby amended to read as follows:

Section 2(a)(i):

At any time, and from time to time, commencing with the Effective Date and ending six years thereafter (the "Effective Period"), upon the written request of any Qualified Holder(s) (as hereinafter defined) requesting that Parent effect the registration under the Securities Act of 1933, as amended (the "Securities Act"), of Registrable Securities (as hereinafter defined), which, in the aggregate, constitute at least 3,000,000 1 shares of Parent Common Stock for each registration hereunder, Parent shall use its best efforts to register under the Securities Act (a "Demand Registration"), as expeditiously as may be practicable, the Registrable Securities which Parent has been requested to register, all to the extent requisite to permit the disposition of such Registrable Securities in accordance with the methods intended by the sellers thereof; provided that no Qualified Holder(s) shall be permitted to exercise a Demand Registration within three months of the effective date of any registration statement for equity securities of Parent (other than on Form S-4 or Form S-8 or any successor or similar form). An exercise of a Demand Registration right will not count as the use of such right unless the registration statement to which it relates is declared effective under the Securities Act and remains effective for a period (not less than 30 days) sufficient to allow for the orderly sale of the Registrable Securities covered thereby, except that such exercise shall count if such registration statement is withdrawn because (a) the Qualified Holders, for any reason whatsoever, determine not to proceed with such registration and (b) the Qualified Holders do not reimburse Parent for all Registration Expenses and Counsel Fees (each as hereinafter defined) incurred in connection with the preparation and filing of such registration statement. Qualified Holders exercising a Demand Registration Right after May 27, 1997, and prior to the end of the two year period following the Merger shall deliver, together with the request in respect of such Demand Registration, an opinion, rendered by Jones, Day, Reavis & Pogue, substantially in the form attached as Exhibit C to the Settlement Agreement dated as of May 27, 1997 among Parent and the other parties named on the signature pages thereof. Such opinion shall be confirmed by such counsel in writing at the closing of any sale by the Davidsons pursuant to a Demand Registration.

Section 2(a)(vii):

It is hereby further agreed that with respect to any Demand Registration requested pursuant to this Section 2(a), Parent may defer the filing or effectiveness of any registration statement related thereto for a reasonable period of time (not to exceed 45 days after such request) if (A) Parent and a proposed underwriter are, at such time, working on an underwritten public offering of Parent Common Stock ("Parent Common Stock

Offering") and Parent is advised by such underwriter or its managing underwriter(s) that such Parent Common Stock Offering would in its or their opinion be adversely affected by such filing or (B) Parent determines, in its good faith and reasonable judgment, that any such filing or the offering of any Registrable Securities would materially impede, delay or interfere with any material proposed financing, offer or sale of securities, acquisition, corporate reorganization or other significant transaction involving Parent (each, a "Material Transaction"); provided that, Parent shall not defer the filing or effectiveness of any registration statement requested pursuant to this Section 2(a) on or prior to May 27, 1998 (1) if the underwritten public offering referred to in clause (A) or the Material Transaction involves the registration of Parent Common Stock for Parent's own account or any other financing transaction for Parent's own account; (2) if the underwritten public offering referred to in Clause (A) or the Material Transaction involves gross proceeds of (in the case of an underwritten public offering) or a purchase price (in the case of any Material Transaction) less than \$250 million; or (3) in the case of any Material Transaction involving an offer or sale of securities or an acquisition by Parent or any of Parent's subsidiaries, such offer, sale or acquisition has not been proposed by Parent at the time such Demand Registration is requested; provided further, however, that with respect to clause (B), Parent gives the Qualified Holders written notice of such determination; and provided further, however, with respect to both clauses (A) and (B), Parent shall not be entitled to postpone such filing or effectiveness if, within the preceding 12 months, it has effected two postponements pursuant to this paragraph (vii) and, following such postponements, the Registrable Securities to be sold pursuant to the postponed registration statements were not sold (for any reason). Parent agrees that the Effective Period shall be extended by a period which is not less than the aggregate number of days included in the periods during which Parent deferred the filing or effectiveness of a registration statement as provided above (each, a "Suspension Period"). A Suspension Period shall commence on and include the date on which Parent provides such written notice and shall end on the date when the affected registration statement is filed or declared effective.

Section 2(d):

Registration Expenses. Except as otherwise provided in Section 2(b)(ii) or in this Section 2(d), whether or not any registration statement prepared and filed pursuant to this Section 2 is declared effective by the Commission (except where a Demand Registration is terminated, withdrawn or abandoned at the written request of the Majority Qualified Holders), Parent shall pay all expenses incident to Parent's performance of or compliance with the registration requirements of this Agreement, including, without limitation, the following: (A) all Commission and any NYSE registration and filing fees and expenses; (B) any and all expenses incident to its performance of, or compliance with, this Agreement, including, without limitation, any allocation of salaries and expenses of Parent personnel or other general overhead expenses of Parent, or other expenses for the preparation of historical and pro forma financial statements or other data

normally prepared by Parent in the ordinary course of its business; (C) all listing, transfer and/or exchange agent and registrar fees; (D) fees and expenses in connection with the qualification of the Registrable Securities under securities or "blue sky" laws including reasonable fees and disbursements of counsel for the underwriters in connection therewith; (E) printing expenses; (F) messenger and delivery expenses; and (G) fees and out-of-pocket expenses of counsel for Parent and its independent certified public accountants (including the expenses of any audit, review and/or "cold comfort" letters) and other persons, including special experts, retained by Parent (collectively, clause (A) through (G), "Registration Expenses"); provided, however, that Parent shall not be required to pay, and the Qualified Holders shall pay, (1) 50% of all Registration Expenses (other than those described in clause (B) above) for all Demand Registrations after the third Demand Registration and (2) all fees and out-of-pocket expenses of counsel selected by the Qualified Holders, any fees or disbursements of Managing Underwriters and their counsel, participating underwriters and brokers-dealers or any discounts, commissions or fees of underwriters, selling brokers and dealers relating to the distribution of the Registrable Securities; provided further, however, that in respect of the second Demand Registration, Parent shall pay the reasonable fees and out-of-pocket expenses of counsel selected by the Qualified Holders and the fees and disbursements of Managing Underwriters and their counsel (collectively, "Counsel Fees"), up to an aggregate of \$300,000. If the amount of such Counsel Fees incurred in respect of the second Demand Registration is less than \$300,000, Parent shall, in respect of the third Demand Registration, pay Counsel Fees in an amount equal to the difference between \$300,000 and the Counsel Fees incurred in respect of the second Demand Registration.

Section 4(b):

If to the Shareholders, to:  
The Davidson Group  
Union Bank Tower, Suite 960  
Del Amo Financial Center  
21515 Hawthorne Boulevard  
Torrance, CA 90503  
Attention: Janice G. Davidson  
and  
Robert M. Davidson  
(310) 540-2740 (phone)  
(310) 540-2804 (fax)

with a copy to:

Jones, Day, Reavis & Pogue  
555 West Fifth Street  
Suite 4600  
Los Angeles, CA 90013-1025  
Attention: Bertram R. Zweig, Esq.  
Gerald W. Palmer, Esq.  
(213) 489-3939 (phone)  
(213) 243-2539 (fax)

(c) Merger Agreement - Election to Parent Board;

Resignation.

The Davidsons hereby waive any and all rights they may have pursuant to the provisions of Section 4.21 of the Merger Agreement and acknowledge that, from and after the date hereof,

CUC shall not have any further obligations thereunder. Each of Janice G. Davidson and Robert M. Davidson is executing and delivering to CUC, on the date hereof, a resignation from the CUC Board of Directors and the Boards of Directors of all CUC Affiliates on which they serve, substantially in the form attached hereto as Exhibit B.

(d) Continuity of Interest Certificate - Holding Period.

With respect to (x) each Sale (as defined in the Certificate referred to below) within a two-year period following the Merger pursuant to a Demand Registration Right exercised pursuant to the Registration Rights Agreement and (y) each purchase of CUC Common Stock pursuant to Section 4 hereof within a two-year period following the Merger, CUC hereby waives the covenant, set forth in Paragraph 1(e) of the Continuity of Interest Certificate executed on March 21, 1996 by certain of the Davidsons in connection with the Merger (the "Certificate"), that the Davidsons not sell CUC Common Stock prior to the expiration of the time period contained in such Paragraph 1(e) of the Certificate; provided that such waiver is conditioned upon CUC's receipt in respect of each such Demand Registration or purchase, as the case may be, of a manually signed copy of the opinion of Jones, Day, Reavis & Pogue required to be delivered in connection with the exercise of such Demand Registration or purchase, pursuant to the Registration Rights Agreement or this Agreement, respectively.

(e) Employment Agreements; Previously Awarded Stock Options.

Each of Janice G. Davidson and Robert M. Davidson agrees that the Original Employment Agreement to which she or he is a signatory is hereby amended and restated to read in its entirety as set forth in Exhibit D-1 or D-2, respectively (collectively, the "Amended and Restated Employment Agreements"). Each of CUC, Janice G. Davidson and Robert M. Davidson acknowledges that (A) of the options to purchase 300,000 shares of CUC Common Stock (150,000 each) granted to Janice G. Davidson and Robert M. Davidson on July 24, 1996 in connection with the execution and delivery of their respective Original Employment Agreements, as evidenced by letters and stock option agreements dated July 24, 1996 from CUC to each of Janice G. Davidson and Robert M. Davidson (collectively, the "Original Option Grant Documents," attached hereto and make a part hereof as Exhibits D-3 and D-

4), and notwithstanding the foregoing, each of Janice G. Davidson and Robert M. Davidson is entitled to exercise options for no more than 75,000 shares each (for an aggregate of 150,000 shares), and each of Janice G. Davidson and Robert M. Davidson agrees not to assert or claim otherwise or attempt to exercise options for more than 75,000 shares each (for an aggregate of 150,000 shares), (B) the Original Option Grant Documents are hereby amended (i) to give effect to the foregoing and (ii) by deleting paragraphs (e) and (f) of each of them and inserting in lieu thereof the paragraphs set forth in Exhibit D-5 hereto (it being understood that the vesting schedule set forth in paragraph (b) of the Original Option Grant Documents shall remain in effect (on a pro rata basis) as to such reduced numbers of shares), and (C) as so amended, the Original Option Grant Documents are hereby reconfirmed, remade and renewed. The numbers of shares in this paragraph give effect to the 3-for-2 split, effective October 21, 1996.

4. PURCHASE OF CERTAIN OF THE DAVIDSONS' CUC COMMON STOCK.

(a) Proposed Purchase Acquisitions.

CUC agrees that, each time (if any) that CUC proposes to acquire any Person, during the four year period commencing on the date hereof, and CUC intends to account for the purchase of such Person as a purchase, and not as a "pooling of interests" (each such proposed acquisition to be referred to as a "Purchase Acquisition"), CUC shall (subject to the terms and conditions set forth in this Section 4) offer to purchase from the Davidsons (pro rata in accordance with their respective holdings of CUC Common Stock or in such other proportions as the Davidsons may, by a writing signed by all of them, inform CUC) such number of shares, if any, of CUC Common Stock as CUC, in its sole discretion, proposes to issue in connection with such Purchase Acquisition. CUC shall notify the Davidsons of such Purchase Acquisition no later than fifteen days preceding the scheduled closing date ("Scheduled Closing Date") of such proposed Purchase Acquisition, which notice shall contain an estimate of the number of shares CUC proposes to purchase from the Davidsons (which would be not less than the number of shares CUC proposes to issue) in connection with such proposed Purchase

Acquisition and the Scheduled Closing Date of such proposed Purchase Acquisition.

(b) No Obligation.

CUC shall have no obligation to propose or consummate any Purchase Acquisition.

(c) Purchase Price.

The purchase price for each share of CUC Common Stock to be so purchased from the Davidsons shall be equal to the Average Stock Price. The term "Average Stock Price" shall mean, with respect to each proposed Purchase Acquisition, the average of the closing prices per share of CUC Common Stock on the New York Stock Exchange (the "NYSE") as reported on the NYSE Composite Tape during the five consecutive trading day period (the "Measurement Period") ending on the fifth trading day immediately preceding the Scheduled Closing Date for such proposed Purchase Acquisition.

(d) Conditions to Purchase.

Under no circumstances shall CUC be required to purchase any shares of CUC Common Stock from the Davidsons if:

(i) such purchase might, in CUC's good faith judgment, cause CUC to violate any applicable law or regulation (including any applicable tax or accounting rule or release);

(ii) such purchase might, in CUC's good faith judgment, prevent CUC from accounting for any acquisition which CUC wishes to account for as a "pooling of interests" as a "pooling of interests" (whether or not such "pooling of interests" acquisition has been consummated prior to the closing of the proposed Purchase Acquisition referred to in Section 4(a)); or

(iii) such shares were not issued to the Davidsons pursuant to the Merger.

(b) Proposed Purchase Notice.

As soon as reasonably practicable after CUC has determined the Average Stock Price in respect of a proposed Purchase Acquisition (but in no event later than the fourth trading day preceding the Scheduled Closing Date), CUC shall provide notice to the Davidsons (each, a "Proposed Purchase Notice"), which

Proposed Purchase Notice shall contain the following information:

(i) the number of shares of CUC Common Stock which CUC proposes to purchase from the Davidsons;

(ii) the Average Stock Price in respect of such proposed purchase; and

(iii) the Scheduled Closing Date of the proposed Purchase Acquisition and the location at, and the time and place on, which such proposed purchase of shares of CUC Common Stock from the Davidsons is to occur.

(c) Acceptance Notice.

Within two trading days after the receipt of such Proposed Purchase Notice, Janice G. Davidson and/or Robert M. Davidson, on behalf of all of the Davidsons, shall provide a notice to CUC (each, an "Acceptance Notice"), which Acceptance Notice shall contain at least the following information:

(i) whether one or more Davidsons wishes to sell all or any part of the CUC Common Stock which CUC has proposed to purchase;

(ii) the number of shares of CUC Common Stock which each such Davidson wishes to sell to CUC; and

(iii) the Person who will act as the Davidsons' agent in respect of such sale.

If an Acceptance Notice setting forth such information is not so delivered within such two trading day period, the Davidsons shall have no rights under this Section 4 in respect of the proposed Purchase Acquisition.

(d) No Offer.

No Proposed Purchase Notice shall be deemed to constitute an offer, and CUC shall have no obligation to effectuate any purchase described in any such Proposed Purchase Notice, until such time as the closing of the Purchase Acquisition in connection with which CUC proposes to purchase shares of CUC Common Stock from the Davidsons actually occurs. The Acceptance Notice shall constitute an offer to sell shares of CUC Common Stock by the Davidsons designated in such Acceptance Notice as wishing to sell shares of CUC Common Stock, but may be revoked by each such Davidson, in whole or in part, as to the shares of CUC Common Stock to be sold by such Davidson, at any time until the close of business on the second trading day immediately preceding the Scheduled Closing Date.

(e) Deliveries at Closing.

At the closing of each purchase of CUC Common Stock

from the Davidsons under this Section 4 (which may occur on a date later than the Scheduled Closing Date, but in no event earlier than the date and time on which all of the conditions set forth in this Section 4 in respect of such purchase have been satisfied):

(i) the Davidsons proposing to sell shares of CUC Common Stock to CUC hereunder shall deliver to CUC:

(x) with respect to any sale of shares of CUC Common Stock to be made to CUC prior to the end of the two-year period following the Merger, a manually signed copy of the opinion, substantially in the form attached hereto as Exhibit C, rendered by Jones, Day, Reavis & Pogue;

(y) a certificate or certificates representing the shares of CUC Common Stock to be sold to CUC, together with duly executed, blank stock powers in respect thereof; and

(z) customary representations as to (1) the good and marketable title of the Davidsons proposing to sell shares of CUC Common Stock, to the CUC Common Stock which they propose to sell; (2) each such Davidson's authority to sell such shares of CUC Common Stock to CUC; (3) each such Davidson's ability to sell shares of CUC Common Stock to CUC without violating any laws, rules, regulations, agreements, judgments or orders to which they may be parties or may be subject; and (4) there being no default by such Davidson of such Davidson's respective obligations under this Agreement or any other agreement referred to in this Agreement or surviving the execution of this Agreement; and

(i) CUC shall deliver to each Davidson selling shares of CUC Common Stock to CUC hereunder immediately available funds, to an account or accounts designated in writing by such Davidson, in an amount equal to the number of shares of CUC Common Stock to be purchased from such Davidson multiplied by the Average Stock Price.

(i) Fees and Expenses.

All reasonable legal fees and expenses and other related expenses incurred by the Davidsons in connection with any repurchase of shares of CUC Common Stock pursuant to this Section 4 shall be paid by CUC; provided that CUC shall only be obligated to pay the legal fees of a single law firm. The Davidsons shall be responsible for the payment of any applicable transfer or similar taxes arising out of the sale



by them to CUC of CUC Common Stock.

(j) Capital Gains Treatment.

At the request of the Davidsons, CUC will use its good faith efforts to structure each repurchase transaction pursuant to Section 4 so as to have each such transaction qualify for capital gains treatment for the Davidsons; provided, however, that in no event shall CUC be obligated to repurchase a number of shares greater than the number it proposes to issue in the applicable Purchase Acquisition.

5. MUTUAL RELEASE.

Each of the Davidsons, on behalf of himself, herself, itself, and her, his or its heirs, executors, successors, assigns and each Davidson Control Person and any other Person claiming by, through or because of any of the Davidsons (collectively, the "Davidson Releasers"), and CUC, on behalf of itself and the CUC Affiliates and any of their successors, assigns or any other Person claiming by, through or because of any of CUC or the CUC Affiliates (collectively, the "CUC Releasers" and with the Davidson Releasers, the "Releasers", and each individually a "Releaser"), jointly and severally, hereby agrees as follows:

(a) Benefit.

The following release (this "Release") by and on behalf of the Davidson Releasers is in respect of and for the benefit of CUC, and by and on behalf of the CUC Releasers is in respect of and for the benefit of the Davidsons and each Davidson Control Person and in each case, for the benefit of each of its present and former share holders, officers, directors, employees, agents, attorneys, accountants, representatives, successors, assigns, affiliates (within the meaning of Rule 12b-2 under the Exchange Act) and any other Person who is or may be liable as a result of any association with any of them (each, a "Releasee" and collectively, the "Releasees").

(b) Release.

Each of the Releasees is entitled to enforce the terms of this Release contained in this Agreement by all means available at law, in equity or as herein provided. Each of the Davidsons, on behalf of himself, herself, itself and his, her or its respective other Releasers, and CUC, on behalf of itself and its other Releasers hereby acquits,

remises, discharges, and forever releases each of the Releasees and each of their respective shareholders, officers, directors, employees, agents, attorneys, accountants, representatives, successors, assigns, affiliates, parents, spouses, heirs, executors, administrators and personal or legal representatives, past or present, from any and all sums of money, actions, awards, causes of action, suits, judgments, damages, demands, debts, dues, escrows, contracts, accounts, agreements, liabilities, obligations, representations, rights, setoffs, trespasses, torts, wrongs, losses, expenses, claims and counterclaims of any and all kind or nature whatsoever, whether known or unknown, suspected or unsuspected, which have in the past existed, or which as of this date do exist, or which may exist in the future, arising out of, relating to or in connection with:

(i) The matters contained in the Notice or any claim which could have been asserted against the Releasees, or by any of them, arising out of, relating to or in connection with matters specified in the Notice; and

(ii) Any and all claims or causes of action that could have been alleged against the Releasees, or any of them, in any lawsuit in any court or other forum of competent jurisdiction, whether state, federal or foreign, arising under the laws of the State of California, Delaware, Connecticut or any other state, federal or foreign laws, whether statutory, at common law, equity, civil law or otherwise, whether state, federal or foreign (including claims which may have arisen or accrued prior to the date of this Release, whether related to the Merger, the Merger Agreement, the Original Employment Agreements or the Employment, as well as claims which may arise or accrue subsequent to the date of this Release (whether or not foreseeable), as a result of any form of conduct, behavior, action or omission occurring at any time prior to the date hereof.

(c) Limitations on Release.

Nothing in the foregoing releases shall in any way limit or eliminate the rights and obligations of the parties under this Agreement; the Noncompetition Agreements (as such

agreements are amended pursuant hereto); the Registration Rights Agreement (as such agreement is amended pursuant hereto); the Amended and Restated Employment Agreements (from and after the date hereof); the New Option Letters; the Original Option Grant Documents (as such documents are amended pursuant hereto); the Continuity of Interest Certificate; or any document, instrument or agreement entered into in connection with the secondary public offering of CUC Common Stock effected by certain of the Davidsons in November, 1996 and all rights to indemnification provided by any of the agreements, documents, certificates or instruments referred to in this Section 5(c) (collectively, the "Surviving Agreements"), the Merger Agreement, the Delaware General Corporation Law, the California Corporations Code, the Certificate of Incorporation of CUC or the Articles of Incorporation of Davidson or any other of the organizational documents of CUC or Davidson (however such document may be designated or denominated) or any rights to indemnification under any officers and directors insurance policy of CUC or Davidson (collectively, the "Surviving Agreements and Rights").

6. COVENANT NOT TO SUE.

Except as otherwise specifically provided for herein to enforce the terms of this Agreement and Rights and/or any of the Surviving Agreements and Rights and/or to seek relief including damages or an injunction or other appropriate relief in the event of a breach of this Agreement or any of the Surviving Agreements and Rights (subject to Section 7 hereof), each of the Davidsons, on behalf of himself, herself, itself and his, her or its respective other Releasors, jointly and severally, and CUC, on behalf of itself and its other Releasors, unconditionally, fully and finally covenants forever not to commence, sponsor, assert, file, institute, prosecute or continue, or cooperate with any Person or in any way facilitate or encourage anyone in the commencement, assertion, filing, institution, prosecution, commencement, or continuance of any complaint, suit, legal or equitable proceeding, including proceedings before any federal, state or foreign court, regulatory agency, arbitral tribunal or other forum, wherever located, against the Releasees, or any

of them, for any claim, counterclaim, demand, charge, cause of action, injury, damage, loss, expense, cost or other matter of any and every kind and nature whatsoever with respect to any of the matters addressed by the Release, except to the extent required to provide information or assistance by law or legal process, but only after reasonable advance written notice to CUC or the Davidsons, as the case may be, of such proposed action and only after having received a written opinion of counsel for the providing or assisting party that such action is required by law.

7. AGREEMENT TO ARBITRATE

(a) Notwithstanding anything to the contrary contained in this Agreement or the Surviving Agreements and Rights, any controversy, dispute or claim arising out of or relating to this Agreement or any of the Surviving Agreements and Rights or the breach hereof or thereof which cannot be settled by mutual agreement shall be finally settled by binding arbitration in accordance with the Federal Arbitration Act (or if not applicable, the applicable state arbitration law) as follows: Any party who is aggrieved shall deliver a notice to the other party (or parties) setting forth the specific points in dispute. Any points remaining in dispute twenty (20) days after the giving of such notice may be submitted to arbitration in New York, New York, or Los Angeles, California, whichever the complaining party may choose, to Jams/Endispute, before a single arbitrator appointed in accordance with the arbitration rules of Jams/Endispute, modified only as herein expressly provided. After the aforesaid twenty (20) days, either party (or parties), upon ten (10) days notice to the other(s), may so submit the points in dispute to arbitration. The arbitrator may enter a default decision against any party who fails to participate in the arbitration proceedings.

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

(c) Except as otherwise provided in this Agreement or any of the Surviving Agreements and Rights, the arbitrator will be authorized to apportion its fees and expenses and the reasonable attorneys fees and expenses of any such party as

the arbitrator deems appropriate. In the absence of any such apportionment, the fees and expenses of the arbitrator will be borne equally by each party (or, as applicable, group of related parties), and each party will bear the fees and expenses of its own attorney.

(d) The parties agree that this Section has been included to rapidly and inexpensively resolve any disputes between them with respect to this Agreement or any of the Surviving Agreements and Rights, and that this Section shall be grounds for dismissal of any court action commenced by any party with respect to this Agreement or any of the Surviving Agreements and Rights, other than post-arbitration actions seeking to enforce an arbitrator award.

(e) The parties shall keep confidential, and shall not disclose to any person, other than to the arbitrator in the normal course of any proceeding in this Section 7, or except as may be required by law, the existence of any controversy hereunder, the referral of any such controversy to arbitration or the status or resolution thereof.

Section 2. ADDITIONAL COVENANTS.

(a) Employment of Anne Weber. From the date hereof until December 31, 1997 (the "Loan Out Period"), Anne Weber, a long term employee of Davidson, shall be available to Janice G. Davidson full time to provide such secretarial and administrative assistance as Janice G. Davidson shall request. At all times during the Loan Out Period and the Supplemental Loan Out Period (hereinafter defined), Anne Weber shall remain an employee of Davidson and shall continue to receive all benefits to which she is entitled as an employee. During the Loan Out Period, the Davidsons will reimburse Davidson in an amount equal to 50% of Ms. Weber's salary plus an allocation of direct taxes and benefits on the same basis as applicable to other Davidson employees of her category ("Anne Weber Employment Cost"). From and after January 1, 1998 and to (but not after) June 30, 1998 (the "Supplemental Loan Out Period"), Anne Weber shall be available to Janice G. Davidson as and to the extent from time to time requested by Janice G. Davidson. During the Supplemental Loan Out Period the Davidsons will reimburse Davidson for 100% of Anne Weber Employment Cost for each business day or part thereof on which Ms. Weber is so employed by Janice G. Davidson.

(b) Personal Likeness or Endorsement of Janice G.

Davidson.

CUC agrees that neither it nor Davidson will use the personal name, likeness or endorsement of Janice G. Davidson in connection with any products, packaging, promotions or activities of CUC or Davidson or in any other way that exploits Janice G. Davidson's name or image. Janice G. Davidson hereby agrees that CUC and the CUC Affiliates may (until December 31, 1997) exhaust any and all existing inventory of products, packaging and promotional materials on hand at the date of this Agreement which contain Janice G. Davidson's personal name, likeness or endorsement (or any variation or derivative thereof) (the "Existing Davidson Inventory"). CUC shall provide to Janice G. Davidson monthly status reports in reasonable detail concerning such Existing Davidson Inventory at least monthly during the period commencing June 1, 1997 and ending December 31, 1997.

(c) Davidson Name and Trademark. CUC further agrees

that it will not use the "Davidson" name or trademark on software of a type which would be rated "R" or "NC-17" under the standards of the Motion Picture Association of America, Inc., or "x", in each case relating to films (which, for the purpose of the Agreement, shall be, mean and include all forms of software), as in effect on the date hereof, a copy of which standards are attached hereto and made a part hereof as Exhibit E. Nothing herein shall limit or restrict CUC's or Davidson's right to use the "Davidson" trademark (or any variation or derivative thereof) in any way except as specifically set forth in the preceding sentence.

(d) Confidentiality.

Each party hereto agrees that it shall keep in confidence the financial terms of this Agreement and shall not, without the consent of each other party hereto, disclose the same to any Person except its own counsel or accountants or as required by applicable law (after consultation with counsel).

Section 3. REPRESENTATIONS OF THE DAVIDSONS.

(a) Authority.

The Davidsons hereby represent and warrant to CUC that they have requisite legal capacity, power and authority to execute, deliver and perform the provisions of this Agreement and that this Agreement is a valid and binding obligation of the

Davidsons enforceable against them in accordance with its terms.

(b) No Agreements with Employees.

Each of Janice G. Davidson and Robert M. Davidson hereby represents and warrants to CUC that neither Janice G. Davidson nor Robert M. Davidson has entered into any agreement, understanding or arrangement with any employee of CUC or any of the CUC Affiliates pertaining to any business in which Janice G. Davidson or Robert M. Davidson has participated or plans to participate, or to the employment, engagement or compensation of any such employee.

(c) Validity of Restrictive Covenants.

Janice G. Davidson and Robert M. Davidson agree that they shall not contest, challenge or call into question, or cause or permit any other Person to contest, challenge or call into question, in any way the validity or enforceability of any of the restrictive covenants contained in the Non-Competition Agreements, as amended by this Agreement (the "Restrictive Covenants") (whether as an affirmative claim or cause of action or as a defense to an action by CUC or any CUC Affiliate), in any judicial or arbitral forum. Nothing herein shall prevent either of Janice G. Davidson or Robert M. Davidson from asserting that she or he has not violated the terms of any of such Restrictive Covenants in defending a claim to that effect brought by CUC or any CUC Affiliate.

(d) Ownership of Stock by the Davidsons.

Each of the Davidsons hereby represents and warrants that with the possible exception of minor differences, none of which is material, and which collectively are not material, the Davidsons own beneficially and of record the number of shares of CUC Common Stock set forth opposite each Davidson's name on Exhibit F hereto, free and clear of any lien, pledge, claim, charge or encumbrance.

(e) No Interest in Competitors. Each of Janice G.

Davidson and Robert M. Davidson hereby represents and warrants that she or he does not own or hold (or have the right to acquire), directly or indirectly, as a member of a "group" (within the meaning of Section 13(d)(3) of the Exchange Act, or otherwise, any proprietary interest in a Competitor (as defined in Section 2(a) of the Noncompetition Agreements (as such agreements are amended pursuant hereto)).

(f) No Basis for Claims. Each of Janice G. Davidson

and Robert M. Davidson hereby represents and warrants that

neither she nor he knows of any basis for any claim or cause of action that could be alleged against any of the CUC Releasees as of the date hereof arising out of, relating to or in connection with matters other than those contained or specified in the Notice.

Section 4. REPRESENTATIONS OF CUC.

(a) Authority. CUC hereby represents and warrants to the Davidsons that it has the requisite legal capacity, power and authority to execute, deliver and perform the provisions of this Agreement and that this Agreement is a valid and binding obligation of CUC enforceable against it in accordance with its terms.

(b) No Basis for Claims. CUC hereby represents and warrants that it does not know of, and to the best knowledge of CUC none of the CUC Affiliates knows of, any basis for any claim or cause of action that could be alleged against any of the Davidson Releasees as of the date hereof arising out of, related to or in connection with matters other than those contained or specified in the Notice.

Section 5. CONSTRUCTION.

All of the parties to this Agreement were represented by counsel and this document was negotiated by counsel, and no party may rely on any drafts of this Agreement in any interpretation of this Agreement. Each party and counsel for each party to this Agreement has reviewed this Agreement and has participated in its drafting and, accordingly, no party shall attempt to invoke the rule of construction to the effect that ambiguities are to be resolved against the drafting party in any interpretation of this Agreement.

Section 6. VOLUNTARY SIGNING OF AGREEMENT AND RIGHT TO REVOKE.

The Davidsons acknowledge that before entering into this Agreement, they consulted with attorneys and other advisors of their choice. They further acknowledge that they have entered into this Agreement of their own free will, and that no promises or representations have been made to them by any person to induce them to enter into this Agreement other than the express terms set forth herein. The Davidsons further acknowledge that they have read this Agreement and understand all of its terms, including the waiver and release of claims set forth in



Section 5. Janice G. Davidson and Robert M. Davidson each acknowledges that she or he, as the case may be, may take up to 21 calendar days from the date she or he, as the case may be, was given this Agreement to consider, sign and return this Agreement. In addition, Janice G. Davidson and Robert M. Davidson each acknowledges that she or he, as the case may be, may revoke the Agreement after signing it, but only by delivering a signed revocation notice to CUC during the Revocation Period. For purposes of this Agreement the "Revocation Period" shall mean the period which is seven (7) calendar days following the execution of this Agreement by Janice G. Davidson and Robert M. Davidson.

Section 7. MISCELLANEOUS.

(a) Notices.

All notices under this Agreement shall be in writing and shall be deemed to have been duly given upon receipt of hand delivery or facsimile transmission with confirmation of receipt, as follows:

CUC International Inc.  
707 Summer Street  
Stamford, Connecticut 06901  
(203) 324-9261 (phone)  
(203) 348-1982 (fax)  
Attention: Amy N. Lipton, Esq.  
Senior Vice President and  
General Counsel

with a copy to:

Weil, Gotshal & Manges LLP  
767 Fifth Avenue  
New York, New York 10153  
Attention: Greg A. Danilow, Esq.  
(212) 310-8000 (phone)  
(212) 310-8007 (fax)

If to the Davidsons, to:

The Davidson Group  
Union Bank Tower, Suite 960  
Del Amo Financial Center  
21515 Hawthorne Boulevard  
Torrance, CA 90503  
Attention: Janice G. Davidson  
and  
Robert M. Davidson  
(310) 540-2740 (phone)  
(310) 540-2804 (fax)

with a copy to:

Jones, Day, Reavis & Pogue  
555 West Fifth Street  
Suite 4600  
Los Angeles, CA 90013-1025  
Attention: Bertram R. Zweig, Esq.  
Gerald W. Palmer, Esq.  
(213) 489-3939 (phone)  
(213) 243-2539 (fax)

Such names and addresses may be changed by written notice to each Person listed above.

(a) Governing Law.

Except as provided for in Section 7, this Agreement and all disputes arising hereunder or related hereto, shall be governed by, construed and interpreted in accordance with the internal laws of the State of Delaware, applicable to instruments made, delivered and performed entirely in such state; provided, however, that the Surviving Agreements and Rights shall continue to be governed by, construed and interpreted in accordance with the laws of the jurisdiction to the extent specifically selected in each such Surviving Agreement, or, in the case of the Rights, the laws of the state of incorporation of the relevant corporation, or other laws selected in the instrument creating such Rights, as the case may be.

(b) Counterparts.

This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same original instrument.

(c) Interpretation.

Whenever a reference is made in this Agreement to a particular Section or Exhibit, such reference shall be to a Section of or an Exhibit to this Agreement unless otherwise indicated. The headings contained in the provisions of this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of the provisions of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation."

(d) Entire Agreement; Severability;

Reformation. This Agreement, including the Exhibits hereto and the Surviving Agreements, embodies the entire agreement and understanding of the parties hereto in respect of the subject matter contained herein and supersedes all prior and contemporaneous agreements and understandings (whether written or oral) among the parties hereto with respect to such subject matter. If any provision of this Agreement is determined to be invalid or unenforceable, in whole or in part, it is the parties' desire and intention that such determination shall not be held to affect the validity or enforceability of any other provision of this Agreement, which provisions shall otherwise remain in full force and effect.

(e) Amendment and Modification.

This Agreement may be amended or modified only by the duly executed written agreement of the parties hereto.

(f) Extension; Waiver.

The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver or deprive that party of the right thereafter to require strict adherence to that term or any other term of this Agreement. No waiver of any breach of this Agreement shall be held to constitute a waiver of any other or subsequent breach. Any waiver must be evidenced in writing and duly executed by the party against whom such waiver may be enforced.

(g) Binding Effect; Benefits.

This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns. Other than as provided for in Section 5 and Section 7, nothing in this Agreement, express or implied, is intended to confer on any Person other than the parties hereto and their respective successors and assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement.

(h) Assignability.

This Agreement is not assignable by any party hereto without the prior written consent of the other parties hereto.

(i) Expenses.

Other than as provided for in Section 4 and Section 7 hereof, each of the parties hereto shall pay all of its own expenses relating to the transactions contemplated by this Agreement, including the fees and expenses of its own financial, legal and tax advisors.

(j) Gender and Certain Definitions.

All words used herein, regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires.

(k) Specific Enforcement.

The parties hereto acknowledge and agree that each would be irreparably damaged in the event that any of the provisions of this Agreement are not fully performed by the other in accordance with their specific terms or are otherwise breached. Subject to Section 7 hereof, it is accordingly hereby agreed that each party shall be entitled to an injunction (or injunctions) to prevent breaches of this Agreement by any other party hereto and to specifically enforce this Agreement and the terms and provisions thereof against any other

party hereto.

(1) No Admission.

This Agreement shall not be construed as an admission by CUC and/or any of the CUC Affiliates, nor by any of the Davidsons or any of the Davidson Control Persons of any liability or wrongdoing, nor shall this Agreement be construed as evidence of such liability or wrongdoing.

IN WITNESS WHEREOF, CUC and the Davidsons have duly executed and delivered this Agreement as of the date first above written.

CUC INTERNATIONAL INC.

By: \_\_\_\_\_  
Name: Walter A. Forbes  
Title: Chairman and Chief  
Executive Officer

ROBERT M. DAVIDSON  
CHARITABLE REMAINDER UNITRUST

\_\_\_\_\_  
Robert M. Davidson, individually

By: \_\_\_\_\_  
Robert M. Davidson, Trustee

\_\_\_\_\_  
Janice G. Davidson, individually

JANICE G. DAVIDSON  
CHARITABLE REMAINDER UNITRUST

ELIZABETH A. DAVIDSON  
IRREVOCABLE TRUST

By: \_\_\_\_\_  
Janice G. Davidson, Trustee

By: \_\_\_\_\_  
Robert M. Davidson, Co-Trustee

By: \_\_\_\_\_  
Janice G. Davidson, Co-Trustee

JOHN R. DAVIDSON  
IRREVOCABLE TRUST

EMILIE A. DAVIDSON  
IRREVOCABLE TRUST

By: \_\_\_\_\_  
Robert M. Davidson, Co-Trustee

By: \_\_\_\_\_  
Robert M. Davidson, Co-Trustee

By: \_\_\_\_\_  
Janice G. Davidson, Co-Trustee

By: \_\_\_\_\_  
Janice G. Davidson, Co-Trustee

JOHN R. DAVIDSON  
CHARITABLE REMAINDER UNITRUST

EMILIE A. DAVIDSON  
CHARITABLE REMAINDER UNITRUST

By: \_\_\_\_\_  
Robert M. Davidson, Co-Trustee

By: \_\_\_\_\_  
Robert M. Davidson, Co-Trustee

By: \_\_\_\_\_  
Janice G. Davidson, Co-Trustee

By: \_\_\_\_\_  
Janice G. Davidson, Co-Trustee

SETTLEMENT AGREEMENT

BY AND AMONG

JANICE G. DAVIDSON;

ROBERT M. DAVIDSON;

THE JANICE G. DAVIDSON CHARITABLE REMAINDER UNITRUST;

THE ROBERT M. DAVIDSON CHARITABLE REMAINDER UNITRUST;  
 THE ELIZABETH A. DAVIDSON IRREVOCABLE TRUST;  
 THE EMILIE A. DAVIDSON IRREVOCABLE TRUST;  
 THE JOHN R. DAVIDSON IRREVOCABLE TRUST;  
 THE EMILIE A. DAVIDSON CHARITABLE REMAINDER UNITRUST;  
 THE JOHN R. DAVIDSON CHARITABLE REMAINDER UNITRUST;  
 AND  
 CUC INTERNATIONAL INC.

Dated: as of May 27, 1997

TABLE OF CONTENTS

	Page
Section 1. EFFECTIVENESS OF THIS AGREEMENT	3
(a) Obligations of CUC	3
(b) Obligations of the Davidsons	3
Section 2. PAYMENT AND GRANT OF OPTIONS TO CERTAIN OF THE DAVIDSONS	4
Section 3. AMENDMENT OF OTHER AGREEMENTS; WAIVERS	5
(a) Noncompetition Agreements	5
(b) Registration Rights Agreement	9
(c) Merger Agreement - Election to Parent Board; Resignation	14
(d) Continuity of Interest Certificate - Holding Period	14
(e) Employment Agreements; Previously Awarded Stock Options	15
Section 4. PURCHASE OF CERTAIN OF THE DAVIDSONS' CUC COMMON STOCK	16
(a) Proposed Purchase Acquisitions	16
(b) No Obligation	17
(c) Purchase Price	17
(d) Conditions to Purchase	18
(e) Proposed Purchase Notice	19
(f) Acceptance Notice	19
(g) No Offer	20
(h) Deliveries at Closing	21
(i) Fees and Expenses	22
(j) Capital Gains Treatment	22
Section 5. MUTUAL RELEASE	23
(a) Benefit	23
(b) Release	24
(c) Limitations on Release	26
Section 6. COVENANT NOT TO SUE	27
Section 7. AGREEMENT TO ARBITRATE	28
Section 8. ADDITIONAL COVENANTS	30
(a) Employment of Anne Weber	30
(b) Personal Likeness or Endorsement of Janice G. Davidson	31
(c) Davidson Name and Trademark	32
(d) Confidentiality	32
Section 9. REPRESENTATIONS OF THE DAVIDSONS	32
(a) Authority	32
(b) No Agreements with Employees	33
(c) Validity of Restrictive Covenants	33
(d) Ownership of Stock by the Davidsons	34
(e) No Interest in Competitors	34

(f)	No Basis for Claims	34
Section 10.	REPRESENTATIONS OF CUC	35
(a)	Authority	35
(b)	No Basis for Claims	35
Section 11.	CONSTRUCTION	35
Section 12.	VOLUNTARY SIGNING OF AGREEMENT AND RIGHT TO REVOKE	36
Section 13.	MISCELLANEOUS	37
(a)	Notices	37
(b)	Governing Law	38
(c)	Counterparts	38
(d)	Interpretation	39
(e)	Entire Agreement; Severability; Reformation	39
(f)	Amendment and Modification	40
(g)	Extension; Waiver	40
(h)	Binding Effect; Benefits	40
(i)	Assignability	41
(j)	Expenses	41
(k)	Gender and Certain Definitions	41
(l)	Specific Enforcement	41
(m)	No Admission	42

#### EXHIBITS

Exhibit A	Option Letters to each of Janice G. Davidson and Robert M. Davidson
Exhibit B	Resignation Letters of Janice G. Davidson and Robert M. Davidson
Exhibit C	Form of Opinion - Demand Registration/Repurchase
Exhibit D-1	Amended and Restated Employment Agreement of Janice G. Davidson
Exhibit D-2	Amended and Restated Employment Agreement of Robert M. Davidson
Exhibit D-3	Original Option Grant Documents (Janice G. Davidson)
Exhibit D-4	Original Option Grant Documents (Robert M. Davidson)
Exhibit D-5	Amendment to Original Option Grant Documents
Exhibit E	Rating Standards of the Motion Picture Association of America, Inc.
Exhibit F	Ownership of Davidson Stock

1. This number gives effect to the 3-for-2 split, effective October 21, 1996.