

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported):

February 19, 1996

CUC INTERNATIONAL INC.

(Exact Name of Registrant as Specified in its Charter)

DELAWARE

1-10308

06-0918165

(State or Other
Jurisdiction
of Incorporation)

(Commission
File Number)

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

707 SUMMER STREET, STAMFORD, CONNECTICUT 06901

(Address of Principal Executive Offices) (Zip Code)

(203) 324-9261

(Registrant's Telephone Number, Including Area Code)

NOT APPLICABLE

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

ITEM 5. OTHER EVENTS

A. Acquisition of Davidson & Associates, Inc.

As previously reported, effective on February 19, 1996, CUC International Inc. (the "Company") and its wholly-owned subsidiary, Stealth Acquisition I Corp. ("Davidson Merger Sub"), entered into an Agreement and Plan of Merger (the "Davidson Merger Agreement") with Davidson & Associates, Inc. ("Davidson"), pursuant to which the Company, Davidson Merger Sub and Davidson have agreed to consummate a merger whereby, upon the terms and subject to the conditions set forth in the Davidson Merger Agreement, Davidson Merger Sub will be merged with and into Davidson with Davidson as the surviving corporation of such merger (the "Davidson Merger"). Pursuant to the Davidson Merger Agreement, among other things, each share of the common stock, \$0.00025 par value, of Davidson (the "Davidson Common Stock") issued and outstanding immediately prior to the effective time of the Davidson Merger (other than shares held by the Company, Davidson Merger Sub or any other subsidiary of the Company or by any subsidiary of Davidson, or shares as to which dissenters' rights are granted and properly exercised under applicable California law) will, by virtue of the Davidson Merger, be converted into 0.85 of a share of the common stock, \$0.01 par value, of the Company. Consummation of the Davidson Merger is subject to certain customary closing conditions, including the expiration of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act") and the approval of the holders of Davidson Common Stock.

Effective on February 19, 1996, the Company and certain holders (which include Davidson's Chairman and Chief Executive Officer, and President, respectively, and certain trusts for which such persons serve as fiduciaries) of approximately 75% of the outstanding Davidson Common Stock, entered into a shareholders agreement (the "Davidson Shareholders Agreement"), pursuant to which such holders have agreed to vote their shares at the meeting of holders of Davidson Common Stock (the "Davidson Shareholders Meeting") for adoption of the Davidson Merger Agreement and against certain other transactions which could impede or delay consummation of the Davidson Merger. The affirmative vote of the holders of a majority of the outstanding Davidson Common Stock is necessary to adopt the Merger Agreement. Accordingly, assuming that the aforementioned shareholders vote for adoption of the Davidson Merger Agreement at the Davidson Shareholders Meeting, such adoption would be assured irrespective of the votes cast by any other shareholder of Davidson.

B. Acquisition of Sierra On-Line, Inc.

As previously reported, effective on February 19, 1996, the Company and its wholly-owned subsidiary, Larry Acquisition Corp. ("Sierra Merger Sub"), entered into an Agreement and Plan of Merger (the "Sierra Merger Agreement") with Sierra On-Line, Inc. ("Sierra") pursuant to which, upon the terms and subject to the conditions set forth in the Sierra Merger Agreement, the Company, Sierra Merger Sub and Sierra have agreed to consummate a merger whereby, upon the terms and subject to the conditions of the Sierra Merger Agreement, Sierra Merger Sub will be merged with and into Sierra with Sierra as the surviving corporation of such merger (the "Sierra Merger"). Pursuant to the Sierra Merger Agreement, among other things, each share of the common stock, \$0.01 par value, of Sierra (the "Sierra Common Stock") issued and outstanding immediately prior to the effective time of the Sierra Merger (other than shares held by the Company, Sierra Merger Sub or any other subsidiary of the Company or by any subsidiary of Sierra) will, by virtue of the Sierra Merger, be converted into 1.225 shares of the common stock, \$0.01 par value, of the Company. Consummation of the Sierra Merger is subject to certain customary closing conditions, including the expiration of any applicable waiting period under the HSR Act and the approval of the holders of Sierra Common Stock.

Effective on February 19, 1996, the Company and certain holders (which include the Chairman and Chief Executive Officer, and a director, respectively, of Sierra) of approximately 8% of the outstanding Sierra Common Stock entered into a shareholders' agreement (the "Sierra Shareholders Agreement"), pursuant to which such holders have agreed to vote their shares at the meeting of holders of Sierra Common Stock for adoption of the Sierra Merger Agreement and against certain other transactions which would impede or delay consummation of the Sierra Merger. The affirmative vote of the holders of a majority of the outstanding Sierra Common Stock is necessary to adopt the Merger Agreement.

A lawsuit styled: Meridian Capital Funding, Inc. v. Sierra

On-Line, Inc. et. al. (Civil Action No. 14848) has been filed in the Court of

Chancery for the State of Delaware. The class action lawsuit was brought on behalf of the public shareholders of Sierra and names Sierra, each of Sierra's individual directors and CUC International as party defendants. The lawsuit alleges various violations of such directors' fiduciary duties to Sierra's shareholders in connection with the proposed Sierra Merger. The plaintiffs, among other things, are seeking to enjoin consummation of the proposed Sierra Merger and other forms of equitable relief and, in the event of such consummation, monetary damages in an unspecified amount.

Consummation of the Davidson Merger is not conditioned upon consummation of the Sierra Merger, and consummation of the Sierra Merger is not conditioned upon consummation of the Davidson Merger.

The foregoing descriptions of the Davidson Merger Agreement, the Sierra Merger Agreement, the Davidson Shareholders Agreement and the Sierra Shareholders Agreement are qualified in their entirety by reference to the complete texts of such agreements which are filed herewith as Exhibits 2(a), 2(b), 10(a) and

10(b), respectively, to this Current Report on Form 8-K, and which texts are incorporated herein by reference.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits

2(a) 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.

2(b) 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.

10(a) Shareholders Agreement, dated as of February 19, 1996, by and among CUC International Inc. and each of the other parties signature thereto.

10(b) Shareholders Agreement, dated as of February 19, 1996, by and among CUC International Inc. and each of the other parties signature thereto.

SIGNATURE

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

CUC INTERNATIONAL INC.

By: /s/ E. Kirk Shelton

Name: E. Kirk Shelton
Title: President and Chief
Operating Officer

Dated: March 11, 1996

EXHIBIT INDEX

Exhibit No. -----	Page No. -----
2(a)	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.
2(b)	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.
10(a)	Shareholders Agreement, dated as of February 19, 1996, by and among CUC International Inc. and each of the other parties signature thereto.
10(b)	Shareholders Agreement, dated as of February 19, 1996, by and among CUC International Inc. and each of the other parties signature thereto.

Exhibit 2(a)

AGREEMENT AND PLAN OF MERGER

DATED AS OF FEBRUARY 19, 1996
AMONG
DAVIDSON & ASSOCIATES, INC.,
CUC INTERNATIONAL INC.
AND
STEALTH ACQUISITION II CORP.

TABLE OF CONTENTS

ARTICLE 1	THE MERGER	2
SECTION 1.1.	The Merger	2
SECTION 1.2.	Effective Time	2
SECTION 1.3.	Closing of the Merger	2
SECTION 1.4.	Effects of the Merger	2
SECTION 1.5.	Articles of Incorporation and Bylaws	3
SECTION 1.6.	Directors	3
SECTION 1.7.	Officers	3
SECTION 1.8.	Conversion of Shares	3
SECTION 1.9.	Shares of Dissenting Holders	4
SECTION 1.10.	Exchange of Certificates	4
SECTION 1.11.	Stock Options	6
ARTICLE 2	REPRESENTATIONS AND WARRANTIES OF THE COMPANY	8
SECTION 2.1.	Organization and Qualification; Subsidiaries	8
SECTION 2.2.	Capitalization of the Company and its Subsidiaries	9
SECTION 2.3.	Authority Relative to this Agreement; Consents and Approvals	11
SECTION 2.4.	SEC Reports; Financial Statements	11
SECTION 2.5.	Information Supplied	12
SECTION 2.6.	Consents and Approvals; No Violations	13
SECTION 2.7.	No Default	14
SECTION 2.8.	No Undisclosed Liabilities; Absence of Changes	14
SECTION 2.9.	Litigation	14
SECTION 2.10.	Compliance with Applicable Law	15
SECTION 2.11.	Employee Plans	15
SECTION 2.12.	Environmental Laws and Regulations	15
SECTION 2.13.	Tax Matters	16
SECTION 2.14.	Intangible Property	16
SECTION 2.15.	Opinion of Financial Adviser	17
SECTION 2.16.	Brokers	17
SECTION 2.17.	Accounting Matters	17
SECTION 2.18.	Material Contracts	17
SECTION 2.19.	Disclosure	18

ARTICLE 3	REPRESENTATIONS AND WARRANTIES	
	OF PARENT AND ACQUISITION	19
SECTION 3.1.	Organization	19
SECTION 3.2.	Capitalization of Parent and its Subsidiaries	19
SECTION 3.3.	Authority Relative to this Agreement	20
SECTION 3.4.	SEC Reports; Financial Statements	21
SECTION 3.5.	Information Supplied	22
SECTION 3.6.	Consents and Approvals; No Violations	22
SECTION 3.7.	No Default	23
SECTION 3.8.	No Undisclosed Liabilities; Absence of Changes	23
SECTION 3.9.	Litigation	24
SECTION 3.10.	Compliance with Applicable Law	24
SECTION 3.11.	Employee Plans	24
SECTION 3.12.	Environmental Laws and Regulations	25
SECTION 3.13.	Tax Matters	25
SECTION 3.14.	No Prior Activities	25
SECTION 3.15.	Brokers	25
SECTION 3.16.	Accounting Matters	26
SECTION 3.17.	Disclosure	26
ARTICLE 4	COVENANTS	26
SECTION 4.1.	Conduct of Business of the Company	26
SECTION 4.2.	Conduct of Business of Parent	29
SECTION 4.3.	Preparation of S-4 and the Proxy Statement	31
SECTION 4.4.	Other Potential Acquirors	31
SECTION 4.5.	Letter of the Company's Accountants	32
SECTION 4.6.	Meeting	32
SECTION 4.7.	Stock Exchange Listing	33
SECTION 4.8.	Access to Information	33
SECTION 4.9.	Additional Agreements; Best Efforts	33
SECTION 4.10.	Consents	34
SECTION 4.11.	Public Announcements	34
SECTION 4.12.	Indemnification; Directors' and Officers' Insurance	34
SECTION 4.13.	Notification of Certain Matters	35
SECTION 4.14.	Pooling	36
SECTION 4.15.	Tax-Free Reorganization Treatment	36
SECTION 4.16.	Taxes	36
SECTION 4.17.	Employment and Non-Competition Agreements	37
SECTION 4.18.	Employee Matters	37

SECTION 4.19.	Registration Rights Agreement	38
SECTION 4.20.	Company Affiliates	38
SECTION 4.21.	Election to Parent Board	38
SECTION 4.22.	SEC Filings	39
SECTION 4.23.	Guarantee of Performance	39
SECTION 4.24.	Property	39
SECTION 4.25.	Acquisition	39
ARTICLE 5	CONDITIONS TO CONSUMMATION OF THE MERGER	40
SECTION 5.1.	Conditions to Each Party's Obligations to Effect the Merger	40
SECTION 5.2.	Conditions to the Obligations of the Company	40
SECTION 5.3.	Conditions to the Obligations of Parent and Acquisition	41
ARTICLE 6	TERMINATION; AMENDMENT; WAIVER	43
SECTION 6.1.	Termination	43
SECTION 6.2.	Effect of Termination	45
SECTION 6.3.	Fees and Expenses	45
SECTION 6.4.	Amendment	47
SECTION 6.5.	Extension; Waiver	47
ARTICLE 7	MISCELLANEOUS	47
SECTION 7.1.	Nonsurvival of Representations and Warranties	47
SECTION 7.2.	Entire Agreement; Assignment	47
SECTION 7.3.	Validity	48
SECTION 7.4.	Notices	48
SECTION 7.5.	Governing Law	49
SECTION 7.6.	Descriptive Headings	49
SECTION 7.7.	Parties in Interest	49
SECTION 7.8.	Arbitration	49
SECTION 7.9.	Severability	50
SECTION 7.10.	Specific Performance	50
SECTION 7.11.	Recapitalization	50
SECTION 7.12.	Subsidiaries	50
SECTION 7.13.	Brokers	50
SECTION 7.14.	Counterparts	50

TABLE OF DEFINED TERMS

TERM	CROSS REFERENCE IN AGREEMENT	PAGE
Acquisition	Preamble	1
Affiliate Letter	Recitals	1
Certificates	Section 1.10(b)	5
CGCL	Section 1.1	2
Claim	Section 4.12(a)	36
Closing	Section 1.3	2
Closing Date	Section 1.3	2
Closing Price	Section 1.11(a)	7
Code	Recitals	1
Company	Preamble	1
Company Affiliate	Recitals	1
Company Board	Section 2.3(a)	11
Company Common Stock	Section 1.8(a)	3
Company Disclosure Schedule	Section 2.2(a)	10
Company Dissenting Shares	Section 1.9(a)	4
Company ERISA Plans	Section 2.11	16
Company Permits	Section 2.10	15
Company Plans	Section 1.11(a)	7
Company SEC Reports	Section 2.4(a)	12
Company Securities	Section 2.2(a)	10
Company Stock Option(s)	Section 1.11(a)	7
Condor	Section 4.1(b)	28
Condor Transaction	Section 4.1(b)	28
Contracts	Section 2.18(a)	19
E&Y	Section 4.14	38
Effective Time	Section 1.2	2
Employment Agreement	Section 4.17	39
Environmental Claim	Section 2.12(a)	16
Environmental Laws	Section 2.12(a)	16
ERISA	Section 2.11	16
Exchange Act	Section 2.2(c)	11
Exchange Agent	Section 1.10(a)	4
Exchange Fund	Section 1.10(a)	4
Financial Adviser	Section 2.15	12
First Byte	Section 2.1(b)	8
GAAP	Section 2.4(a)	12
Governmental Entity	Section 2.6	13
HSR Act	Section 2.6	13
Sierra Agreement	Section 4.25	41
Lien	Section 2.2(b)	11
Material Adverse Effect	Sections 2.1(a), 3.1(a)	8, 20
Merger	Section 1.1	2
Merger Agreement	Recitals	1

Merger Consideration	Section 1.8(a)	3
Newco	Recitals	1
NewMedia	Section 2.1(b)	9
NewMedia Agreement	Section 2.2(b)	10
Non-Competition Agreements	Section 4.17	39
NYSE	Section 1.10(f)	6
Parent	Preamble	1
Parent Board	Section 4.21	41
Parent Common Stock	Section 1.8(a)	3
Parent Disclosure Schedule	Section 3.2	20
Parent ERISA Plans	Section 3.11	26
Parent Option	Section 1.11(a)	7
Parent Permits	Section 3.10	25
Parent SEC Reports	Section 3.4(a)	22
Parent Securities	Section 3.2(a)	21
Property	Section 4.24	41
Proxy Statement	Section 2.5	13
Registration Rights Agreement	Section 4.19	40
S-4	Section 2.5	13
SEC	Section 2.4(a)	12
Securities Act	Recitals	1
Shareholders Agreement	Section 1.8(a)	1
Share(s)	Section 1.8(a)	3
Subsidiaries	Section 7.12	53
Surviving Corporation	Section 1.1	2
Taxes	Section 2.13	17
Third Party	Section 6.1(d)	47
Third Party Acquisition	Section 6.1(d)	47

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER, dated as of February 19, 1996, is among DAVIDSON & ASSOCIATES, INC., a California corporation (the "Company"), CUC INTERNATIONAL INC., a Delaware corporation ("Parent"), and STEALTH ACQUISITION II CORP., a Delaware corporation and a direct wholly owned subsidiary of Parent ("Acquisition").

WHEREAS, the Boards of Directors of the Company, Parent and Acquisition each have, in light of and subject to the terms and conditions set forth herein, (i) determined that the Merger (as defined in Section 1.1) is fair to their respective shareholders and in the best interests of such shareholders and (ii) approved the Merger in accordance with this Agreement and an Agreement of Merger in the form attached hereto as Exhibit A (the "Merger Agreement");

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

WHEREAS, concurrently with the execution hereof, certain holders of Shares (as defined in Section 1.8(a)) are entering into the Shareholders Agreement, a copy of which is attached hereto as Exhibit B (the "Shareholders Agreement");

WHEREAS, it is intended that the Merger shall be recorded for accounting purposes as a "pooling-of-interests";

WHEREAS, it is anticipated that, promptly following the execution of this Agreement, Acquisition will assign all of its rights and obligations under this Agreement to a newly-formed direct wholly owned California subsidiary ("Newco") of Parent (whereupon all references in this Agreement to Acquisition shall be deemed to be references to Newco); and

WHEREAS, the Company has delivered to Parent a letter identifying all persons (each, a "Company Affiliate") who are, at the date hereof, "affiliates" of the Company for purposes of Rule 145 under the Securities Act of 1933, as amended (the "Securities Act"), and each Company Affiliate (other than those identified herein) has delivered to Parent a letter (each, an "Affiliate Letter") relating to (i) the transfer, prior to the Effective Time (as defined in Section 1.8(a)), of the Shares beneficially owned by such Company Affiliate on the date hereof, (ii) the transfer of the shares of Parent Common Stock (as defined in Section 1.8(a)) to be received by such Company Affiliate in the Merger and (iii) the obligations of each such

Company Affiliate to deliver to Gibson, Dunn & Crutcher, counsel to the Company, a certificate requested by such firm (if requested).

NOW, THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements herein contained, and intending to be legally bound hereby, the Company, Parent and Acquisition hereby agree as follows:

ARTICLE 1

THE MERGER

SECTION 1.1. The Merger. At the Effective Time and upon

the terms and subject to the conditions of this Agreement and the Merger Agreement and in accordance with the California General Corporation Law (the "CGCL"), Acquisition shall be merged with and into the Company (the "Merger"). Following the Merger, the Company shall continue as the surviving corporation (the "Surviving Corporation") and the separate corporate existence of Acquisition shall cease.

SECTION 1.2. Effective Time. Subject to the terms and

conditions set forth in this Agreement, the Merger Agreement shall be duly executed and acknowledged by Acquisition and the Company and thereafter delivered to the Secretary of State of the State of California for filing pursuant to the CGCL on the Closing Date (as defined in Section 1.3). The Merger shall become effective at such time as a properly executed and certified copy of the Merger Agreement is duly filed by the Secretary of State of the State of California in accordance with the CGCL (the time the Merger becomes effective being referred to herein as the "Effective Time").

SECTION 1.3. Closing of the Merger. The closing of the

Merger (the "Closing") will take place at a time and on a date to be specified by the parties, which shall be no later than the second business day after satisfaction (or waiver) of the conditions set forth in Article 5 (the "Closing Date"), at the offices of Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153, unless another time, date or place is agreed to in writing by the parties hereto.

SECTION 1.4. Effects of the Merger. The Merger shall have

the effects set forth in the CGCL. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, all the properties, rights, privileges, powers and franchises of the Company and Acquisition shall vest in the Surviving Corporation, and all debts, liabilities and

duties of the Company and Acquisition shall become the debts, liabilities and duties of the Surviving Corporation.

SECTION 1.5. Articles of Incorporation and Bylaws. The

Articles of Incorporation of the Company in effect at the Effective Time shall be the Articles of Incorporation of the Surviving Corporation until amended in accordance with applicable law. The Bylaws of the Company in effect at the Effective Time shall be the Bylaws of the Surviving Corporation until amended in accordance with applicable law.

SECTION 1.6. Directors. The directors of Acquisition at

the Effective Time shall be the initial directors of the Surviving Corporation, each to hold office in accordance with the Articles of Incorporation and Bylaws of the Surviving Corporation until such director's successor is duly elected or appointed and qualified.

SECTION 1.7. Officers. The officers of the Company at the

Effective Time shall be the initial officers of the Surviving Corporation, each to hold office in accordance with the Articles of Incorporation and Bylaws of the Surviving Corporation until such officer's successor is duly elected or appointed and qualified.

SECTION 1.8. Conversion of Shares.

(a) At the Effective Time, each share of common stock, par value \$0.00025 per share, of the Company ("Company Common Stock") issued and outstanding immediately prior to the Effective Time (individually a "Share" and collectively, the "Shares") (other than (i) Shares held by any subsidiary of the Company, (ii) Shares held by Parent, Acquisition or any other subsidiary of Parent and (iii) Company Dissenting Shares (as defined in Section 1.9(a)) shall, by virtue of the Merger and without any action on the part of Acquisition, the Company or the holder thereof, be converted into and shall become 0.85 of one fully paid and nonassessable share of common stock, \$0.01 par value per share, of Parent ("Parent Common Stock") (the "Merger Consideration").

(b) At the Effective Time, each outstanding share of the common stock, no par value, of Acquisition shall be converted into one share of common stock, par value \$0.00025 per share, of the Surviving Corporation.

(c) At the Effective Time, each Share held by Parent, Acquisition or any subsidiary of Parent, Acquisition or the Company immediately prior to the Effective Time shall, by virtue of the Merger and without any action on the part of Acquisition, the Company

or the holder thereof, be canceled, retired and cease to exist and no payment shall be made with respect thereto.

SECTION 1.9. Shares of Dissenting Holders.

(a) Notwithstanding anything to the contrary contained in this Agreement, any holder of Shares with respect to which dissenters' rights, if any, are granted by reason of the Merger under the CGCL and who does not vote in favor of the Merger and who otherwise complies with Chapter 13 of the CGCL ("Company Dissenting Shares") shall not be entitled to receive shares of Parent Common Stock pursuant to Section 2.1(c) hereof, unless such holder fails to perfect, effectively withdraws or loses his right to dissent from the Merger under the CGCL. Such holder shall be entitled to receive only the payment provided for by Chapter 13 of the CGCL. If any such holder so fails to perfect, effectively withdraws or loses his or her dissenters' rights under the CGCL, his or her Company Dissenting Shares shall thereupon be deemed to have been converted, as of the Effective Time, into the right to receive shares of Parent Common Stock pursuant to Section 1.8(a).

(b) Any payments relating to Company Dissenting Shares shall be made solely by the Surviving Corporation and no funds or other property have been or will be provided by Acquisition or any of Parent's other direct or indirect subsidiaries for such payment.

SECTION 1.10. Exchange of Certificates.

(a) As of the Effective Time, Parent shall make available to The Bank of Boston or another bank or trust company designated by Parent and reasonably acceptable to the Company (the "Exchange Agent"), for the benefit of the holders of Shares, for exchange in accordance with this Article I, through the Exchange Agent:
(i) certificates representing the appropriate number of shares of Parent Common Stock and (ii) cash to be paid in lieu of fractional shares of Parent Common Stock (such shares of Parent Common Stock and such cash are hereinafter referred to as the "Exchange Fund") issuable pursuant to Section 1.8 in exchange for outstanding Shares.

(b) As soon as reasonably practicable after the Effective Time, the Exchange Agent shall mail to each holder of record of a certificate or certificates which immediately prior to the Effective Time represented outstanding Shares (the "Certificates") whose Shares were converted into the right to receive shares of Parent Common Stock pursuant to Section 1.8 and whose shares are not Company Dissenting Shares: (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent and shall be in such

form and have such other provisions as Parent and the Company may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for certificates representing shares of Parent Common Stock. Upon surrender of a Certificate for cancellation to the Exchange Agent or to such other agent or agents as may be appointed by Parent and Acquisition, together with such letter of transmittal, duly executed, the holder of such Certificate shall be entitled to receive in exchange therefor a certificate representing that number of whole shares of Parent Common Stock and, if applicable, a check representing the cash consideration to which such holder may be entitled on account of a fractional share of Parent Common Stock, which such holder has the right to receive pursuant to the provisions of this Article I, and the Certificate so surrendered shall forthwith be canceled. In the event of a transfer of ownership of Shares which is not registered in the transfer records of the Company, a certificate representing the proper number of shares of Parent Common Stock may be issued to a transferee if the Certificate representing such Shares is presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer and by evidence that any applicable stock transfer taxes have been paid. Until surrendered as contemplated by this Section 1.10, each Certificate shall be deemed at any time after the Effective Time to represent only the right to receive upon such surrender the certificate representing shares of Parent Common Stock and cash in lieu of any fractional shares of Parent Common Stock as contemplated by this Section 1.10.

(c) No dividends or other distributions declared or made after the Effective Time with respect to Parent Common Stock with a record date after the Effective Time shall be paid to the holder of any unsurrendered Certificate with respect to the shares of Parent Common Stock represented thereby and no cash payment in lieu of fractional shares shall be paid to any such holder pursuant to Section 1.10(f) until the holder of record of such Certificate shall surrender such Certificate. Subject to the effect of applicable laws, following surrender of any such Certificate, there shall be paid to the record holder of the certificates representing whole shares of Parent Common Stock issued in exchange therefor, without interest, (i) at the time of such surrender, the amount of any cash payable in lieu of a fractional share of Parent Common Stock to which such holder is entitled pursuant to Section 1.10(f) and the amount of dividends or other distributions with a record date after the Effective Time theretofore paid with respect to such whole shares of Parent Common Stock, and (ii) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to surrender and a payment date subsequent to surrender payable with respect to such whole shares of Parent Common Stock.

(d) In the event that any Certificate for Shares shall have been lost, stolen or destroyed, the Exchange Agent shall issue in exchange therefor, upon the making of an affidavit of that fact by the holder thereof such shares of Parent Common Stock and cash in

lieu of fractional shares, if any, as may be required pursuant to this Agreement; provided, however, that Parent may, in its discretion, require the delivery of a suitable bond or indemnity.

(e) All shares of Parent Common Stock issued upon the surrender for exchange of Shares in accordance with the terms hereof (including any cash paid pursuant to Section 1.10(c) or 1.10(f)) shall be deemed to have been issued in full satisfaction of all rights pertaining to such Shares, and there shall be no further registration of transfers on the stock transfer books of the Surviving Corporation of the Shares which were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Corporation for any reason, they shall be canceled and exchanged as provided in this Article I.

(f) No fractions of a share of Parent Common Stock shall be issued in the Merger, but in lieu thereof each holder of Shares otherwise entitled to a fraction of a share of Parent Common Stock shall, upon surrender of his or her Certificate or Certificates, be entitled to receive an amount of cash (without interest) determined by multiplying the closing price for Parent Common Stock as reported on the New York Stock Exchange (the "NYSE") Composite Transactions on the business day two days prior to the Effective Date by the fractional share interest to which such holder would otherwise be entitled. The parties acknowledge that payment of the cash consideration in lieu of issuing fractional shares was not separately bargained for consideration but merely represents a mechanical rounding off for purposes of simplifying the corporate and accounting problems which would otherwise be caused by the issuance of fractional shares.

(g) Any portion of the Exchange Fund which remains undistributed to the shareholders of the Company for six months after the Effective Time shall be delivered to Parent, upon demand, and any shareholders of the Company who have not theretofore complied with this Article I shall thereafter look only to Parent for payment of their claim for Parent Common Stock, as the case may be, any cash in lieu of fractional shares of Parent Common Stock and any dividends or distributions with respect to Parent Common Stock.

(h) Neither Parent nor the Company shall be liable to any holder of Shares, or Parent Common Stock, as the case may be, for such shares (or dividends or distributions with respect thereto) or cash from the Exchange Fund delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

SECTION 1.11. Stock Options. (a) At the Effective Time,

each outstanding option to purchase shares of Company Common Stock (a "Company Stock Option" or

collectively, "Company Stock Options") issued pursuant to the 1992 Incentive Stock Option Plan of the Company and the 1992 Non-Statutory Stock Option Plan of the Company (collectively, the "Company Plans"), whether vested or unvested, shall be cancelled and, in lieu thereof, Parent shall issue to each holder of a Company Stock Option an option (each, a "Parent Option"), which does not qualify under section 422 of the Code, to acquire, on substantially the same terms and subject to substantially the same conditions as were applicable under such Company Stock Option, the same number of shares of Parent Common Stock as the holder of such Company Stock Option would have been entitled to receive pursuant to the Merger had such holder exercised such option in full immediately prior to the Effective Time, at a price per share equal to (y) the aggregate exercise price for the shares of Company Common Stock otherwise purchasable pursuant to such Company Stock Option divided by (z) the number of full shares of Parent Common Stock deemed purchasable pursuant to such Company Stock Option; provided, however, that the number of shares of Parent Common Stock that may be purchased upon exercise of any such Parent Option shall not include any fractional share and, upon exercise of the Parent Option, a cash payment shall be made for any fractional share based upon the Closing Price (as hereinafter defined) of a share of Parent Common Stock on the trading day immediately preceding the date of exercise. "Closing Price" shall mean, on any day, the last reported sale price of one share of Parent Common Stock on the NYSE. The Company shall use all reasonable efforts to cause all options issued to non-employee directors of the Company pursuant to the Company Plans that are outstanding prior to the Effective Time and that are vested to be exercised by the holders thereof prior to the Effective Time.

(b) As soon as practicable after the Effective Time, Parent shall deliver to the holders of Company Stock Options appropriate notices setting forth such holders' rights pursuant to the respective Company Plans and stating that the holders will receive Parent Options exercisable for shares of Parent Common Stock on substantially the same terms and conditions as their Company Stock Options (subject to the adjustments required by this Section 1.11 after giving effect to the Merger).

(c) Parent shall take all corporate action necessary to reserve for issuance a sufficient number of shares of Parent Common Stock for delivery upon exercise of Parent Options in accordance with this Section 1.11. As soon as practicable after the Effective Time, Parent shall file a registration statement on Form S-3 or Form S-8, as the case may be (or any successor or other appropriate forms), or another appropriate form with respect to the shares of Parent Common Stock subject to the Parent Options and shall use its best efforts to maintain the effectiveness of such registration statement or registration statements (and maintain the current status of the prospectus or prospectuses contained therein) for so long as the Parent Options remain outstanding.

ARTICLE 2

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to each of Parent and Acquisition as follows:

SECTION 2.1. Organization and Qualification; Subsidiaries.

(a) The Company is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its businesses as now being conducted, except where the failure to be so organized, existing and in good standing or to have such power and authority would not have a Material Adverse Effect (as defined below) on the Company. When used in connection with the Company or its subsidiaries (as defined in Section 7.12), the term "Material Adverse Effect" means any change or effect (i) that is or is reasonably likely to be materially adverse to the properties, business, results of operations or condition (financial or otherwise) of the Company and its subsidiaries, taken as whole, other than any change or effect arising out of general economic conditions unrelated to any businesses in which the Company is engaged or (ii) that may impair the ability of the Company to consummate the transactions contemplated hereby.

(b) The Company's direct wholly-owned subsidiary, First Byte, Inc., a California corporation ("First Byte"), is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as now being conducted, except where the failure to be so organized, existing and in good standing or to have such power and authority would not have a Material Adverse Effect on the Company. NewMedia EXPRESS, L.L.C., a Delaware limited liability company the majority of limited liability company interests of which are owned directly by the Company ("NewMedia"), is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation and has all requisite limited liability company power and authority to own, lease and operate its properties and to carry on its business as now being conducted, except where the failure to be so organized, existing and in good standing or to have such power and authority would not have a Material Adverse Effect on the Company. Other than First Byte and NewMedia, the Company has no subsidiaries and, except for (i) 2,000 shares of Series A Preferred Stock and 12,500 Warrants issued by IVI Publishing, Inc. (and any shares of common stock of IVI Publishing, Inc. issuable upon conversion or exercise thereof) and (ii) 6,404 shares of common stock of Sanctuary Woods Multimedia Corporation, does not own,

directly or indirectly, beneficially or of record, any shares of capital stock or other security of any other entity or any other investment in any other entity.

(c) Each of the Company and its subsidiaries is duly qualified or licensed and in good standing to do business in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification or licensing necessary, except in such jurisdictions where the failure to be so duly qualified or licensed and in good standing would not have a Material Adverse Effect on the Company.

(d) The Company has heretofore delivered to Parent accurate and complete copies of the articles of incorporation and by-laws, as currently in effect, of each of the Company and First Byte.

SECTION 2.2. Capitalization of the Company and its

Subsidiaries.

(a) The authorized capital stock of the Company consists of: 100,000,000 shares of Company Common Stock, of which, as of January 31, 1996, 34,967,904 Shares were issued and outstanding, and 1,000,000 shares of preferred stock, without par value, no shares of which are outstanding. All of the issued and outstanding shares of Company Common Stock have been validly issued, and are fully paid, nonassessable and free of preemptive rights. As of January 31, 1996, approximately 2,288,200 shares of Company Common Stock were reserved for issuance and issuable upon or otherwise deliverable in connection with the exercise of outstanding Company Stock Options issued pursuant to the Company Plans. Except as described in the Company SEC Reports (as defined in Section 2.4(a)), as of the date hereof, since January 31, 1996, no shares of the Company's capital stock have been issued other than pursuant to Company Stock Options already in existence on such date, and, since January 31, 1996, no stock options have been granted. Except as set forth above, as of the date hereof, there are outstanding (i) no shares of capital stock or other voting securities of the Company, (ii) no securities of the Company or its subsidiaries convertible into or exchangeable for shares of capital stock or voting securities of the Company, (iii) no options or other rights to acquire from the Company or its subsidiaries, and no obligations of the Company or its subsidiaries to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of the Company, and (iv) no equity equivalents, interests in the ownership or earnings of the Company or its subsidiaries or other similar rights (including stock appreciation rights) (collectively, "Company Securities"). There are no outstanding obligations of the Company or its subsidiaries to repurchase, redeem or otherwise acquire any Company Securities. Except as set forth in Section 2.2(a) of the Disclosure Schedule previously delivered by the Company to Parent (the "Company Disclosure Schedule"), there are no stockholder agreements (other than the Shareholders Agreement), voting trusts or other

agreements or understandings to which the Company is a party or to which it is bound relating to the voting or registration of any shares of capital stock of the Company. The Company has not taken any action that would result in any Company Stock Options that are unvested becoming vested in connection with or as a result of the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby.

(b) All of the outstanding capital stock of First Byte is owned by the Company, directly or indirectly, free and clear of any Lien (as defined below) or any other limitation or restriction (including any restriction on the right to vote or sell the same, except as may be provided as a matter of law). The Company owns 750 "Units" issued by NewMedia, as such term is defined in that certain Amended and Restated Limited Liability Company Agreement of NewMedia, dated as of April 5, 1995, between the Company and Mattel, Inc. (the "NewMedia Agreement"), an accurate and complete copy of which has been provided to Parent. The 750 Units of NewMedia issued to the Company pursuant to the NewMedia Agreement constitute 75% of the issued and outstanding Units issued by NewMedia and are owned by the Company free and clear of any Liens or any other limitation or restriction (including any restriction on the right to vote or sell the same, except as may be provided as a matter of law), except for any limitations, restrictions or encumbrances on such Units provided for in the NewMedia Agreement. Except as contemplated by the NewMedia Agreement with respect to Units of NewMedia, there are no securities of the Company or its subsidiaries convertible into or exchangeable for, no options or other rights to acquire from the Company or its subsidiaries, and no other contract, understanding, arrangement or obligation (whether or not contingent) providing for the issuance or sale, directly or indirectly, of any capital stock or other ownership interests in, or any other securities of, any subsidiary of the Company. There are no outstanding contractual obligations of the Company or its subsidiaries to repurchase, redeem or otherwise acquire any outstanding shares of capital stock or other ownership interests in any subsidiary of the Company. For purposes of this Agreement, "Lien" means, with respect to any asset (including, without limitation, any security) any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset.

(c) The Company Common Stock constitutes the only class of securities of the Company or its subsidiaries registered or required to be registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

SECTION 2.3. Authority Relative to this Agreement; Consents

and Approvals.

(a) The Company has all necessary corporate power and authority to execute and deliver this Agreement and the Merger Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the Merger Agreement and the consummation of the transactions contemplated hereby and thereby have been duly and validly authorized by the Board of Directors of the Company (the "Company Board") and no other corporate proceedings on the part of the Company are necessary to authorize this Agreement or the Merger Agreement or to consummate the transactions contemplated hereby or thereby (other than, with respect to the Merger, the approval and adoption of this Agreement and the Merger Agreement by the holders of a majority of the then outstanding shares of Company Common Stock). This Agreement has been duly and validly executed and delivered by the Company and constitutes a valid, legal and binding agreement of the Company, enforceable against the Company in accordance with its terms.

(b) The Company Board has unanimously and duly and validly approved, and taken all corporate actions required to be taken by the Company Board for the consummation of, the transactions, including the Merger, contemplated hereby and by the Merger Agreement and resolved to recommend that the shareholders of the Company approve and adopt this Agreement and the Merger Agreement; provided, however, that such approval and recommendation may be withdrawn, modified or amended in the event that the Company Board by majority vote determines in its good faith judgment, after consultation with independent legal counsel, that it is necessary to do so in order to comply with its fiduciary duties to shareholders under applicable law. No state takeover statute or similar statute or regulation applies or purports to apply to the Merger, this Agreement or any of the transactions contemplated hereby.

SECTION 2.4. SEC Reports; Financial Statements.

(a) The Company has filed all required forms, reports and documents with the Securities and Exchange Commission (the "SEC") since March 31, 1993, each of which has complied in all material respects with all applicable requirements of the Securities Act and the Exchange Act, each as in effect on the dates such forms, reports and documents were filed. The Company has heretofore delivered to Parent, in the form filed with the SEC (including any amendments thereto), (i) its Annual Reports on Form 10-K for each of the fiscal years ended December 31, 1993 and 1994, (ii) all definitive proxy statements relating to the Company's meetings of shareholders (whether annual or special) held since March 31, 1993 and (iii) all other reports or registration statements filed by the Company with the SEC since March 31, 1993 (the "Company SEC Reports"). None of such forms, reports or documents,

including, without limitation, any financial statements or schedules included or incorporated by reference therein, contained, when filed, any untrue statement of a material fact or omitted to state a material fact required to be stated or incorporated by reference therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The consolidated financial statements of the Company included in the Company SEC Reports complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto and fairly present, in conformity with generally accepted accounting principles applied on a consistent basis ("GAAP") (except as may be indicated in the notes thereto), the consolidated financial position of the Company and its consolidated subsidiary as of the dates thereof and their consolidated results of operations and changes in financial position for the periods then ended (subject, in the case of the unaudited interim financial statements, to normal year-end adjustments and except that, in the case of financial statements included therein which were later restated to account for one or more business combinations accounted for as poolings-of-interests, such original financial statements do not reflect such restatements). Since December 31, 1994, there has not been any change, or any application or request for any change, by the Company or any of its subsidiaries in accounting principles, methods or policies for financial accounting or tax purposes (subject, in the case of the unaudited interim financial statements, to normal year-end adjustments).

(b) The Company has heretofore made available to Parent a complete and correct copy of any material amendments or modifications, which have not yet been filed with the SEC, to agreements, documents or other instruments which previously had been filed by the Company with the SEC pursuant to the Exchange Act.

SECTION 2.5. Information Supplied. None of the information

supplied or to be supplied by the Company for inclusion or incorporation by reference in (i) the registration statement on Form S-4 to be filed with the SEC by Parent in connection with the issuance of shares of Parent Common Stock in the Merger (the "S-4") will, at the time the S-4 is filed with the SEC and at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and (ii) the proxy statement relating to the meeting of the Company's shareholders, and, if required, a meeting of Parent's shareholders, to be held in connection with the Merger (the "Proxy Statement") will, at the date mailed to shareholders and at the times of the meeting or meetings of shareholders to be held in connection with the Merger, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. If at any time prior to the Effective Time any event with respect to the Company, its officers

and directors or any of its subsidiaries should occur which is required to be described in an amendment of, or a supplement to, the S-4 or the Proxy Statement, the Company shall promptly so advise Parent and such event shall be so described, and such amendment or supplement (which Parent shall have a reasonable opportunity to review) shall be promptly filed with the SEC and, as required by law, disseminated to the shareholders of the Company. The Proxy Statement, insofar as it relates to the meeting of the Company's shareholders to vote on the Merger, will comply as to form in all material respects with the provisions of the Exchange Act and the rules and regulations thereunder.

SECTION 2.6. Consents and Approvals; No Violations. Except

for filings, permits, authorizations, consents and approvals as may be required under, and other applicable requirements of, the Securities Act, the Exchange Act, state securities or blue sky laws, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and the filing and recordation of the Merger Agreement as required by the CGCL, no filing with or notice to, and no permit, authorization, consent or approval of, any court or tribunal or administrative, governmental or regulatory body, agency or authority (a "Governmental Entity") is necessary for the execution and delivery by the Company of this Agreement or the Merger Agreement or the consummation by the Company of the transactions contemplated hereby or thereby, except where the failure to obtain such permits, authorizations, consents or approvals or to make such filings or give such notice would not have a Material Adverse Effect on the Company. Neither the execution, delivery and performance of this Agreement or the Merger Agreement by the Company nor the consummation by the Company of the transactions contemplated hereby or thereby will (i) conflict with or result in any breach of any provision of the respective Articles of Incorporation or Bylaws (or similar governing documents) of the Company or any of its subsidiaries, (ii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, amendment, cancellation or acceleration or Lien) under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or obligation to which the Company or any of its subsidiaries is a party or by which any of them or any of their respective properties or assets may be bound, or (iii) violate any order, writ, injunction, decree, law, statute, rule or regulation applicable to the Company or any of its subsidiaries or any of their respective properties or assets, except in the case of (ii) or (iii) for violations, breaches or defaults which would not have a Material Adverse Effect on the Company. The Company has complied in full with all of its obligations under Article III, Section 2.1 of the agreement described in Section 2.6 of the Company Disclosure Schedule, and the other party to such agreement has no further rights under Article III, Section 2.1 thereof.

SECTION 2.7. No Default. None of the Company or its

subsidiaries is in default or violation (and no event has occurred which with notice or the lapse of time or both would constitute a default or violation) of any term, condition or provision of (i) its Articles of Incorporation or Bylaws (or similar governing documents) or the NewMedia Agreement, (ii) any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or obligation to which the Company or either of its subsidiaries is now a party or by which any of them or any of their respective properties or assets may be bound or (iii) any order, writ, injunction, decree, law, statute, rule or regulation applicable to the Company, its subsidiaries or any of their respective properties or assets, except in the case of (ii) or (iii) for violations, breaches or defaults that would not have a Material Adverse Effect on the Company.

SECTION 2.8. No Undisclosed Liabilities; Absence of

Changes. Except as and to the extent publicly disclosed by the

Company in the Company SEC Reports, as of December 31, 1994, none of the Company or its subsidiaries had any liabilities or obligations of any nature, whether or not accrued, contingent or otherwise, and whether due or to become due or asserted or unasserted, which would be required by GAAP to be reflected in, reserved against or otherwise described in the consolidated balance sheet of the Company (including the notes thereto) as of such date or which could reasonably be expected to have a Material Adverse Effect on the Company. Except as publicly disclosed by the Company in the Company SEC Reports, since December 31, 1994, the business of the Company and its subsidiaries has been carried on only in the ordinary and usual course, none of the Company or its subsidiaries has incurred any liabilities of any nature, whether or not accrued, contingent or otherwise, which could reasonably be expected to have, and there have been no events, changes or effects with respect to the Company or its subsidiaries having or which could reasonably be expected to have, a Material Adverse Effect on the Company.

SECTION 2.9. Litigation. Except as publicly disclosed by

the Company in the Company SEC Reports, there is no suit, claim, action, proceeding or investigation pending or, to the knowledge of the Company, threatened against the Company or any of its subsidiaries or any of their respective properties or assets which (a) if adversely determined, could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company or (b) as of the date hereof, questions the validity of this Agreement or any action to be taken by the Company in connection with the consummation of the transactions contemplated hereby or could otherwise prevent or delay the consummation of the transactions contemplated by this Agreement. Except as publicly disclosed by the Company, none of the Company or its subsidiaries is subject to any outstanding order, writ, injunction or decree which, insofar as can be reasonably foreseen in the future, could reasonably be expected to have a Material Adverse Effect on the Company or would prevent or delay the consummation of the transactions contemplated hereby.

SECTION 2.10. Compliance with Applicable Law. Except as

publicly disclosed by the Company in the Company SEC Reports, the Company and its subsidiaries hold all permits, licenses, variances, exemptions, orders and approvals of all Governmental Entities necessary for the lawful conduct of their respective businesses (the "Company Permits"), except for failures to hold such permits, licenses, variances, exemptions, orders and approvals which could not reasonably be expected to have a Material Adverse Effect on the Company. Except as publicly disclosed by the Company in the Company SEC Reports, the Company and its subsidiaries are in compliance with the terms of the Company Permits, except where the failure so to comply could not reasonably be expected to have a Material Adverse Effect on the Company. Except as publicly disclosed by the Company in the Company SEC Reports, the businesses of the Company and its subsidiaries are not being conducted in violation of any law, ordinance or regulation of any Governmental Entity except that no representation or warranty is made in this Section 2.10 with respect to Environmental Laws (as defined in Section 2.12(a)) and except for violations or possible violations which do not, and, insofar as reasonably can be foreseen, in the future will not, have a Material Adverse Effect on the Company. Except as publicly disclosed by the Company in the Company SEC Reports, no investigation or review by any Governmental Entity with respect to the Company or its subsidiaries is pending or, to the best knowledge of the Company, threatened, nor, to the best knowledge of the Company, has any Governmental Entity indicated an intention to conduct the same, other than, in each case, those which the Company reasonably believes will not have a Material Adverse Effect on the Company.

SECTION 2.11. Employee Plans. Except as disclosed in

Section 2.11 of the Company Disclosure Schedule, there are no "employee benefit plans" as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), maintained or contributed to by the Company or its subsidiaries ("Company ERISA Plans"). The Company ERISA Plans are in compliance with the applicable provisions of ERISA, the Code and other applicable law, except for instances of non-compliance that could not reasonably be expected to have a Material Adverse Effect on the Company. A complete and correct copy of each Company Benefit Plan has been provided to Parent.

SECTION 2.12. Environmental Laws and Regulations.

(a) Except as publicly disclosed by the Company in the Company SEC Reports, (i) each of the Company and its subsidiaries is in compliance with all applicable federal, state and local laws and regulations relating to pollution or protection of human health or the environment (including, without limitation, ambient air, surface water, ground water, land surface or subsurface strata) (collectively, "Environmental Laws"), except for non-compliance that could not reasonably be expected to have a Material Adverse Effect on the

Company, which compliance includes, but is not limited to, the possession by the Company and its subsidiaries of all material permits and other governmental authorizations required under applicable Environmental Laws, and compliance with the terms and conditions thereof; (ii) none of the Company or its subsidiaries has received written notice of, or, to the best knowledge of the Company, is the subject of, any action, cause of action, claim, investigation, demand or notice by any person or entity alleging liability under or non-compliance with any Environmental Law (an "Environmental Claim") that could reasonably be expected to have a Material Adverse Effect on the Company; and (iii) to the best knowledge of the Company, there are no circumstances that are reasonably likely to prevent or interfere with such material compliance in the future.

(b) Except as publicly disclosed by the Company in the Company SEC Reports, there are no Environmental Claims which could reasonably be expected to have a Material Adverse Effect on the Company that are pending or, to the best knowledge of the Company, threatened against the Company or its subsidiaries or, to the best knowledge of the Company, against any person or entity whose liability for any Environmental Claim the Company or any of its subsidiaries has or may have retained or assumed either contractually or by operation of law.

SECTION 2.13. Tax Matters. The Company and its

subsidiaries have accurately prepared and duly filed with the appropriate federal, state, local and foreign taxing authorities all tax returns, information returns and reports required to be filed with respect to the Company and its subsidiaries and have paid in full or made adequate provision for the payment of all Taxes (as defined below). Neither the Company nor any of its subsidiaries is delinquent in the payment of any Taxes. As used herein, the term "Taxes" means all federal, state, local and foreign taxes, including, without limitation, income, profits, franchise, employment, transfer, withholding, property, excise, sales and use taxes (including interest penalties thereon and additions thereto).

SECTION 2.14. Intangible Property.

The Company and its subsidiaries own or possess adequate licenses or other valid rights to use all material patents, patent rights, trademarks, trademark rights, trade names, trade name rights, copyrights, service marks, trade secrets, applications for trademarks and for service marks, know-how and other proprietary rights and information used or held for use in connection with the business of the Company and its subsidiaries as currently conducted or as contemplated to be conducted, and the Company is unaware of any assertion or claim challenging the validity of any of the foregoing which, individually or in the aggregate, would have a Material Adverse Effect on the Company. The conduct of the business of the Company

and its subsidiaries as heretofore and currently conducted has not and does not conflict in any way with any patent, patent right, license, trademark, trademark right, trade name, trade name right, service mark or copyright of any third party that, individually or in the aggregate, would have a Material Adverse Effect on the Company. To the best knowledge of the Company, there are no infringements of any proprietary rights owned by or licensed by or to the Company or any subsidiary which, individually or in the aggregate, would have a Material Adverse Effect on the Company.

SECTION 2.15. Opinion of Financial Adviser. Smith Barney

Inc. (the "Financial Adviser") has delivered to the Company Board its written opinion, dated the date of this Agreement, to the effect that, as of such date, the Merger Consideration is fair to the holders of Shares from a financial point of view, a signed, true and complete copy of which opinion has been delivered to Parent, and such opinion has not been modified in any material respect or withdrawn.

SECTION 2.16. Brokers. No broker, finder or investment

banker (other than Smith Barney and Kerlin Capital Group, LLC, a true and correct copy of whose engagement agreements have been provided to Acquisition or Parent) is entitled to any brokerage, finder's or other fee or commission or expense reimbursement in connection with the transactions contemplated by this Agreement based upon arrangements made by and on behalf of the Company or any of its affiliates or shareholders (including the Company Affiliates). The Company shall be responsible for all such fees and expenses, except as otherwise provided in Section 6.3.

SECTION 2.17. Accounting Matters. Neither the Company nor,

to the best of its knowledge, any of its affiliates or shareholders (including the Company Affiliates), has taken or agreed to take any action that would prevent Parent from accounting for the business combination to be effected by the Merger as a "pooling-of-interests." The Company has not failed to bring to the attention of Parent any actions, or agreements or understandings, whether written or oral, to act that would be reasonably likely to prevent Parent from accounting for the Merger as a "pooling-of-interests."

SECTION 2.18. Material Contracts.

(a) The Company has delivered or otherwise made available to Parent true, correct and complete copies of all contracts and agreements (and all amendments, modifications and supplements thereto and all side letters to which the Company is a party affecting the obligations of any party thereunder) to which the Company or any of its subsidiaries is a party or by which any of its properties or assets are bound that are material to

the business, properties or assets of the Company and its subsidiaries taken as a whole, including, without limitation, all: (i) employment, consulting, non-competition, severance, golden parachute or indemnification contracts (including, without limitation, any contract to which the Company is a party involving employees of the Company); (ii) material licensing, merchandising or distribution agreements; (iii) contracts granting a right of first refusal or first negotiation; (iv) partnership or joint venture agreements; (v) agreements for the acquisition, sale or lease of material properties or assets of the Company (by merger, purchase or sale of assets or stock or otherwise) entered into since January 1, 1993; (vi) contracts or agreements with any Governmental Entity; (vii) all agreements described in Section 2.2(a) of the Company Disclosure Schedule; and (viii) all commitments and agreements to enter into any of the foregoing (collectively, together with any such contracts entered into in accordance with Section 4.1 hereof, the "Contracts").

(b) Except as set forth in Section 2.18(b) of the Company Disclosure Schedule:

(i) There is no default under any Contract either by the Company or, to the knowledge of the Company, by any other party thereto, and no event has occurred that with the lapse of time or the giving of notice or both would constitute a default thereunder by the Company or, to the knowledge of the Company, any other party, in any such case in which such default or event could reasonably be expected to have a Material Adverse Effect on the Company.

(ii) No party to any such Contract has given notice to the Company of or made a claim against the Company with respect to any breach or default thereunder, in any such case in which such breach or default could reasonably be expected to have a Material Adverse Effect on the Company.

SECTION 2.19. Disclosure. No representation or warranty by

the Company contained in this Agreement and no statement contained in any certificate delivered by the Company to Acquisition or Parent pursuant to this Agreement contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein or therein not misleading when taken together in light of the circumstances in which they were made.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES
OF PARENT AND ACQUISITION

Parent and Acquisition hereby represent and warrant to the Company as follows:

SECTION 3.1. Organization.

(a) Each of Parent and its subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its businesses as now being conducted, except where the failure to be so organized, existing and in good standing or to have such power and authority would not have a Material Adverse Effect (as defined below) on Parent. When used in connection with Parent or Acquisition, the term "Material Adverse Effect" means any change or effect that is (i) materially adverse to the properties, business, results of operations or condition (financial or otherwise) of Parent and its subsidiaries, taken as a whole, other than any change or effect arising out of general economic conditions unrelated to any businesses in which Parent and its subsidiaries are engaged or (ii) that may impair the ability of Parent and/or Acquisition to consummate the transactions contemplated hereby.

(b) Parent has heretofore delivered to the Company accurate and complete copies of the certificate or articles of incorporation and bylaws, as currently in effect, of Parent and Acquisition. Each of Parent and its subsidiaries is duly qualified or licensed and in good standing to do business in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification or licensing necessary, except in such jurisdictions where the failure to be so duly qualified or licensed and in good standing would not have a Material Adverse Effect on Parent.

SECTION 3.2. Capitalization of Parent and its Subsidiaries.

(a) The authorized capital stock of Parent consists of (i) 400,000,000 shares of Parent Common Stock, of which, as of January 31, 1996, approximately 189,000,000 shares of Parent Common Stock were issued and outstanding and 3,000,000 shares of Parent Common Stock were held in treasury and (ii) 1,000,000 shares of preferred stock, \$.01 par value per share, none of which is issued or outstanding. All of the shares of Parent Common Stock have been validly issued, and are fully paid, nonassessable and free of preemptive rights. As of January 31, 1996, approximately 29.7 million shares of Parent Common Stock were

reserved for issuance and issuable upon or otherwise deliverable in connection with the exercise of outstanding options. Except as described in the Parent SEC Reports (as defined in Section 3.4(a)) and except as set forth in Section 3.2 of the Disclosure Schedule previously delivered by Parent to the Company (the "Parent Disclosure Schedule"), as of the date hereof, since January 31, 1996, no shares of Parent's capital stock have been issued other than pursuant to stock options already in existence on January 31, 1996, and no stock options have been granted. Except (i) as described in the Parent SEC Reports, and (ii) as set forth above, as of the date hereof, there are outstanding (A) no shares of capital stock or other voting securities of Parent, (B) no securities of Parent or its subsidiaries convertible into or exchangeable for shares of capital stock or voting securities of Parent, (C) except as provided in the Sierra Agreement or as disclosed in Section 3.2 of the Parent Disclosure Schedule, no options or other rights to acquire from Parent or its subsidiaries, and no obligations of Parent or its subsidiaries to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of Parent, and (D) no equity equivalents, interests in the ownership or earnings of Parent or its subsidiaries or other similar rights (including stock appreciation rights) (collectively, "Parent Securities"). There are no outstanding obligations of Parent or any of its subsidiaries to repurchase, redeem or otherwise acquire any Parent Securities. Except as set forth in the Parent SEC Reports, there are no stockholder agreements, voting trusts or other agreements or understandings to which Parent is a party or to which it is bound relating to the voting of any shares of capital stock of Parent.

(b) All of the outstanding capital stock of Parent's subsidiaries (including Acquisition) is owned by Parent, directly or indirectly, free and clear of any Lien or any other limitation or restriction (including any restriction on the right to vote or sell the same, except as may be provided as a matter of law). There are no securities of Parent or its subsidiaries convertible into or exchangeable for, no options or other rights to acquire from Parent or its subsidiaries, and no other contract, understanding, arrangement or obligation (whether or not contingent) providing for the issuance or sale, directly or indirectly, of any capital stock or other ownership interests in, or any other securities of, any subsidiary of Parent. There are no outstanding contractual obligations of Parent or its subsidiaries to repurchase, redeem or otherwise acquire any outstanding shares of capital stock or other ownership interests in any subsidiary of Parent.

(c) The Parent Common Stock constitutes the only class of equity securities of Parent or its subsidiaries registered or required to be registered under the Exchange Act.

SECTION 3.3. Authority Relative to this Agreement. Each of

Parent and Acquisition has all necessary corporate power and authority to execute and deliver this Agreement and the Merger Agreement and to consummate the transactions contemplated

hereby. The execution and delivery of this Agreement and the Merger Agreement and the consummation of the transactions contemplated hereby and thereby have been duly and validly authorized by the boards of directors of Parent and Acquisition and by Parent as the sole shareholder of Acquisition, and no other corporate proceedings (including any meeting of Parent's shareholders) on the part of Parent or Acquisition are necessary to authorize this Agreement or the Merger Agreement or to consummate the transactions contemplated hereby or thereby. This Agreement has been duly and validly executed and delivered by each of Parent and Acquisition and constitutes a valid, legal and binding agreement of each of Parent and Acquisition, enforceable against each of Parent and Acquisition in accordance with its terms.

SECTION 3.4. SEC Reports; Financial Statements.

(a) Parent has filed all required forms, reports and documents with the SEC since February 1, 1993, each of which has complied in all material respects with all applicable requirements of the Securities Act and the Exchange Act, each as in effect on the dates such forms, reports and documents were filed. Parent has heretofore delivered to the Company, in the form filed with the SEC (including any amendments thereto), (i) its Annual Reports on Form 10-K for each of the fiscal years ended January 31, 1993, 1994 and 1995, (ii) all definitive proxy statements relating to Parent's meetings of shareholders (whether annual or special) held since February 1, 1993 and (iii) all other reports or registration statements filed by Parent with the SEC since February 1, 1993 (the "Parent SEC Reports"). None of such forms, reports or documents, including, without limitation, any financial statements or schedules included or incorporated by reference therein, contained, when filed, any untrue statement of a material fact or omitted to state a material fact required to be stated or incorporated by reference therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The consolidated financial statements of Parent included in the Parent SEC Reports complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto and fairly present, in conformity with generally accepted accounting principles applied on a consistent basis (except as may be indicated in the notes thereto), the consolidated financial position of Parent and its consolidated subsidiaries as of the dates thereof and their consolidated results of operations and changes in financial position for the periods then ended (subject, in the case of the unaudited interim financial statements, to normal year-end adjustments and except that, in the case of financial statements included therein which were later restated to account for one or more business combinations accounted for as poolings-of-interests, such original financial statements do not reflect such restatements). Since January 31, 1995, there has not been any change, or any application or request for any change,

by Parent or any of its subsidiaries in accounting principles, methods or policies for financial accounting or tax purposes.

(b) Parent has heretofore made available to the Company a complete and correct copy of any material amendments or modifications, which have not yet been filed with the SEC, to agreements, documents or other instruments which previously had been filed by Parent with the SEC pursuant to the Exchange Act.

SECTION 3.5. Information Supplied. None of the information

supplied or to be supplied by Parent or Acquisition (including information with respect to Sierra (as defined in Section 4.25)) for inclusion or incorporation by reference in (i) the S-4 will, at the time the S-4 is filed with the SEC and at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and (ii) the Proxy Statement will, at the date mailed to shareholders and at the times of the meeting of shareholders of the Company to be held in connection with the Merger, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. If at any time prior to the Effective Time any event with respect to Parent, its officers and directors or any of its subsidiaries should occur which is required to be described in an amendment of, or a supplement to, the S-4 or the Proxy Statement, Parent shall promptly so advise the Company and such event shall be so described, and such amendment or supplement (which the Company shall have a reasonable opportunity to review) shall be promptly filed with the SEC. The S-4 will comply as to form in all material respects with the provisions of the Securities Act and the rules and regulations thereunder.

SECTION 3.6. Consents and Approvals; No Violations. Except

for filings, permits, authorizations, consents and approvals as may be required under, and other applicable requirements of, the Securities Act, the Exchange Act, state securities or blue sky laws, the HSR Act, and the filing and recordation of the Merger Agreement as required by the CGCL, no filing with or notice to, and no permit, authorization, consent or approval of, any Governmental Entity is necessary for the execution and delivery by Parent or Acquisition of this Agreement or the Merger Agreement or the consummation by Parent or Acquisition of the transactions contemplated hereby or thereby, except where the failure to obtain such permits, authorizations, consents or approvals or to make such filings or give such notice would not have a Material Adverse Effect on Parent. Except as set forth in Section 4.2(f) of the Parent Disclosure Schedule, neither the execution, delivery and performance of this Agreement or the Merger Agreement by Parent or Acquisition nor the consummation by Parent or Acquisition of the transactions contemplated hereby or thereby will (i) conflict with or result in any breach of

any provision of the respective certificate or articles of incorporation or bylaws (or similar governing documents) of Parent or Acquisition or any of Parent's subsidiaries, (ii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, amendment, cancellation or acceleration or Lien) under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or obligation to which Parent or Acquisition or any of Parent's subsidiaries is a party or by which any of them or any of their respective properties or assets may be bound or (iii) violate any order, writ, injunction, decree, law, statute, rule or regulation applicable to Parent or Acquisition or any of Parent's subsidiaries or any of their respective properties or assets, except in the case of (ii) or (iii) for violations, breaches or defaults which would not have a Material Adverse Effect on Parent.

SECTION 3.7. No Default. None of Parent or any of its

subsidiaries is in default or violation (and no event has occurred which with notice or the lapse of time or both would constitute a default or violation) of any term, condition or provision of (i) its Certificate of Incorporation or Bylaws (or similar governing documents), (ii) any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or obligation to which Parent or any of its subsidiaries is now a party or by which any of them or any of their respective properties or assets may be bound or (iii) any order, writ, injunction, decree, law, statute, rule or regulation applicable to Parent, its subsidiaries or any of their respective properties or assets, except in the case of (ii) or (iii) for violations, breaches or defaults that would not have a Material Adverse Effect on Parent.

SECTION 3.8. No Undisclosed Liabilities; Absence of

Changes. Except as and to the extent publicly disclosed by Parent, as

of January 31, 1995, none of Parent or its subsidiaries had any liabilities or obligations of any nature, whether or not accrued, contingent or otherwise, and whether due or to become due or asserted or unasserted, which would be required by GAAP to be reflected in, reserved against or otherwise described in the consolidated balance sheet of Parent and its consolidated subsidiaries (including the notes thereto) as of such date or which could reasonably be expected to have a Material Adverse Effect on Parent. Except as publicly disclosed by Parent in the Parent SEC Reports, since January 31, 1995, the business of Parent and its subsidiaries has been carried on only in the ordinary and usual course, none of Parent or its subsidiaries has incurred any liabilities of any nature, whether or not accrued, contingent or otherwise, and whether due or to become due or asserted or unasserted, which could reasonably be expected to have, and there have been no events, changes or effects with respect to Parent or its subsidiaries having or which could reasonably be expected to have, a Material Adverse Effect on Parent.

SECTION 3.9. Litigation. Except as publicly disclosed by

Parent in the Parent SEC Reports, there is no suit, claim, action, proceeding or investigation pending or, to the knowledge of Parent, threatened against Parent or any of its subsidiaries or any of their respective properties or assets which (a) if adversely determined, could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Parent or (b) as of the date hereof, questions the validity of this Agreement or any action to be taken by Parent in connection with the consummation of the transactions contemplated hereby or could otherwise prevent or delay the consummation of the transactions contemplated by this Agreement. Except as publicly disclosed by Parent in the Parent SEC Reports, none of Parent or its subsidiaries is subject to any outstanding order, writ, injunction or decree which, insofar as can be reasonably foreseen in the future, could reasonably be expected to have a Material Adverse Effect on Parent or would prevent or delay the consummation of the transactions contemplated hereby.

SECTION 3.10. Compliance with Applicable Law. Except as

publicly disclosed by Parent in the Parent SEC Reports, Parent and its subsidiaries hold all permits, licenses, variances, exemptions, orders and approvals of all Governmental Entities necessary for the lawful conduct of their respective businesses (the "Parent Permits"), except for failures to hold such permits, licenses, variances, exemptions, orders and approvals which could not reasonably be expected to have a Material Adverse Effect on Parent. Except as publicly disclosed by Parent in the Parent SEC Reports, Parent and its subsidiaries are in compliance with the terms of the Parent Permits, except where the failure so to comply could not reasonably be expected to have a Material Adverse Effect on Parent. Except as publicly disclosed by Parent in the Parent SEC Reports, the businesses of Parent and its subsidiaries are not being conducted in violation of any law, ordinance or regulation of any Governmental Entity except that no representation or warranty is made in this Section 3.10 with respect to Environmental Laws and except for violations or possible violations which do not, and, insofar as reasonably can be foreseen, in the future will not, have a Material Adverse Effect on Parent. Except as publicly disclosed by Parent in the Parent SEC Reports, no investigation or review by any Governmental Entity with respect to Parent or its subsidiaries is pending or, to the best knowledge of Parent, threatened, nor, to the best knowledge of Parent, has any Governmental Entity indicated an intention to conduct the same, other than, in each case, those which Parent reasonably believes will not have a Material Adverse Effect on Parent.

SECTION 3.11. Employee Plans. All "employee benefit plans"

as defined in Section 3(3) of ERISA, maintained or contributed to by Parent and its subsidiaries ("Parent ERISA Plans") are in compliance with the applicable provisions of ERISA and the Code, except for instances of non-compliance that could not reasonably be expected to have a Material Adverse Effect on Parent.

SECTION 3.12. Environmental Laws and Regulations.

(a) Except as publicly disclosed by Parent in the Parent SEC Reports, (i) each of Parent and its subsidiaries is in compliance with all Environmental Laws, except for non-compliance that could not reasonably be expected to have a Material Adverse Effect on Parent, which compliance includes, but is not limited to, the possession by Parent and its subsidiaries of all material permits and other governmental authorizations required under applicable Environmental Laws, and compliance with the terms and conditions thereof; (ii) none of Parent or its subsidiaries has received written notice of, or, to the best knowledge of Parent, is the subject of, any Environmental Claim that could reasonably be expected to have a Material Adverse Effect on Parent; and (iii) to the best knowledge of Parent, there are no circumstances that are reasonably likely to prevent or interfere with such material compliance in the future.

(b) Except as publicly disclosed by Parent in the Parent SEC Reports, there are no Environmental Claims which could reasonably be expected to have a Material Adverse Effect on Parent that are pending or, to the best knowledge of Parent, threatened against Parent or any of its subsidiaries or, to the best knowledge of Parent, against any person or entity whose liability for any Environmental Claim Parent or its subsidiaries has or may have retained or assumed either contractually or by operation of law.

SECTION 3.13. Tax Matters. Parent and its subsidiaries

have accurately prepared and duly filed with the appropriate federal, state, local and foreign taxing authorities all tax returns, information returns and reports required to be filed with respect to Parent and its subsidiaries and have paid in full or made adequate provision for the payment of all Taxes. Neither Parent nor any of its subsidiaries is delinquent in the payment of any Taxes.

SECTION 3.14. No Prior Activities. Except for obligations

incurred in connection with its incorporation or organization or the negotiation and consummation of this Agreement and the transactions contemplated hereby, Acquisition has neither incurred any obligation or liability nor engaged in any business or activity of any type or kind whatsoever or entered into any agreement or arrangement with any person or entity.

SECTION 3.15. Brokers. No broker, finder or investment

banker (other than Goldman, Sachs & Co.) is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by and on behalf of Parent or Acquisition.

SECTION 3.16. Accounting Matters. Neither Parent nor, to

the best of its knowledge, any of its affiliates, has taken or agreed to take any action that would prevent Parent from accounting for the business combination to be effected by the Merger as a "pooling-of-interests." Parent has not failed to bring to the attention of the Company any actions, or agreements or understandings, whether written or oral, to act that would be reasonably likely to prevent Parent from accounting for the Merger as a "pooling-of-interests."

SECTION 3.17. Disclosure. No representation or warranty by

Parent contained in this Agreement and no statement contained in any certificate delivered by Acquisition or Parent to the Company pursuant to this Agreement contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein or therein not misleading when taken together in light of the circumstances in which they were made.

ARTICLE 4

COVENANTS

SECTION 4.1. Conduct of Business of the Company. Except as

contemplated by this Agreement, during the period from the date hereof to the Effective Time, the Company will, and will cause each of its subsidiaries to, conduct its operations in the ordinary course of business consistent with past practice and, to the extent consistent therewith, with no less diligence and effort than would be applied in the absence of this Agreement, seek to preserve intact its current business organizations, keep available the service of its current officers and employees and preserve its relationships with customers, suppliers and others having business dealings with it to the end that goodwill and ongoing businesses shall be unimpaired at the Effective Time. Without limiting the generality of the foregoing, and except as otherwise expressly provided in this Agreement, prior to the Effective Time, neither the Company nor any of its subsidiaries will, without the prior written consent of Parent:

(a) amend its certificate or articles of incorporation or bylaws (or other similar governing instrument);

(b) authorize for issuance, issue, sell, deliver or agree or commit to issue, sell or deliver (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase or otherwise) any stock of any class or any other securities or equity equivalents (including, without limitation, any stock options or stock appreciation rights), except for (i) the issuance of shares of Company Common Stock having a market value of up to \$5.5 million in connection with the proposed agreement by the Company to acquire

Condor, Inc. ("Condor") (the "Condor Transaction"), (ii) the grant of options to acquire up to 200,000 shares of Company Common Stock to employees of Condor who become employees of the Company in connection with the Condor Transaction and (iii) the grant of options to purchase up to 100,000 shares of Company Common Stock to employees under the Company Plans and the issuance or sale of shares of Company Common Stock pursuant to options granted to employees under the Company Plans (in each case, in the ordinary course of business and consistent with past practice);

(c) split, combine or reclassify any shares of its capital stock, declare, set aside or pay any dividend or other distribution (whether in cash, stock or property or any combination thereof) in respect of its capital stock, make any other actual, constructive or deemed distribution in respect of any shares of its capital stock or otherwise make any payments to stockholders in their capacity as such, or redeem or otherwise acquire any of its securities or any securities of any of its subsidiaries;

(d) adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of the Company or any of its subsidiaries (other than the Merger);

(e) alter through merger, liquidation, reorganization, restructuring or in any other fashion the corporate structure or ownership of any subsidiary;

(f) (i) incur or assume any long-term or short-term debt or issue any debt securities except for borrowings under existing lines of credit in the ordinary course of business and in amounts not material to the Company and its subsidiaries taken as a whole; (ii) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other person except in connection with the Condor Transaction, except in the ordinary course of business consistent with past practice and in amounts not material to the Company and its subsidiaries, taken as a whole, except for obligations of the wholly owned subsidiaries of the Company and except for guarantees by the Company of the payment of certain obligations of NewMedia pursuant to the provisions of the NewMedia Agreement; (iii) except for the Condor Transaction, make any loans, advances or capital contributions to, or investments in, any other person (other than to the wholly owned subsidiaries of the Company or customary loans or advances to employees in the ordinary course of business consistent with past practice and in amounts not material to the maker of such loan or advance); (iv) pledge or otherwise encumber shares of capital stock of the Company or its subsidiaries; or (v) mortgage or pledge any of its material assets, tangible or intangible, or create or suffer to exist any material Lien thereupon;

(g) except as may be required by law or as contemplated by this Agreement, enter into, adopt or amend or terminate any bonus, profit sharing, compensation, severance, termination, stock option, stock appreciation right, restricted stock, performance unit, stock equivalent, stock purchase agreement, pension, retirement, deferred compensation, employment, severance or other employee benefit agreement, trust, plan, fund, award or other arrangement for the benefit or welfare of any director, officer or employee in any manner, or (except for the grant of options in connection with the Condor Transaction and except for normal increases in the ordinary course of business consistent with past practice that, in the aggregate, do not result in a material increase in benefits or compensation expense to the Company, and as required under existing agreements or in the ordinary course of business generally consistent with past practice) increase in any manner the compensation or fringe benefits of any director, officer or employee or pay any benefit not required by any plan and arrangement as in effect as of the date hereof (including, without limitation, the granting of stock appreciation rights or performance units);

(h) except in connection with the Condor Transaction (which shall be effected, in all material respects, only on the terms described in Section 4.1(h) of the Company Disclosure Schedule), acquire, sell, lease or dispose of any assets outside the ordinary course of business or any assets which in the aggregate are material to the Company and its subsidiaries taken as a whole, or enter into any commitment or transaction outside the ordinary course of business consistent with past practice;

(i) except as may be required as a result of a change in law or in generally accepted accounting principles, change any of the accounting principles or practices used by it;

(j) revalue in any material respect any of its assets, including, without limitation, writing down the value of inventory or writing-off notes or accounts receivable other than in the ordinary course of business;

(k) except in connection with the Condor Transaction, (i) acquire (by merger, consolidation, or acquisition of stock or assets) any corporation, partnership or other business organization or division thereof or any equity interest therein; (ii) enter into any contract or agreement, other than in the ordinary course of business consistent with past practice or amend any of the Contracts or the agreements referred to in Section 2.18; (iii) authorize any new capital expenditure or expenditures which, individually, is in excess of \$500,000 or, in the aggregate, are in excess of \$5 million; provided, that none of the foregoing shall limit any capital expenditure already included in the Company's 1996 capital expenditure budget provided to Parent prior to the date hereof; or (iv) enter into or amend any contract,

agreement, commitment or arrangement providing for the taking of any action that would be prohibited hereunder;

(l) make or revoke any tax election or settle or compromise any tax liability material to the Company and its subsidiaries taken as a whole or change (or make a request to any taxing authority to change) any material aspect of its method of accounting for tax purposes;

(m) pay, discharge or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction in the ordinary course of business of liabilities reflected or reserved against in, or contemplated by, the consolidated financial statements (or the notes thereto) of the Company and its subsidiaries or incurred in the ordinary course of business consistent with past practice;

(n) settle or compromise any pending or threatened suit, action or claim relating to the transactions contemplated hereby; or

(o) take, propose to any Third Party to take or agree in writing or otherwise to take, any of the actions described in Sections 4.1(a) through 4.1(n) or any action which would make any of the representations or warranties of the Company contained in this Agreement untrue or incorrect.

SECTION 4.2. Conduct of Business of Parent. Except as

contemplated by this Agreement, during the period from the date hereof to the Effective Time, Parent will, and will cause each of its subsidiaries to, conduct its operations in the ordinary course of business consistent with past practice and, to the extent consistent therewith, with no less diligence and effort than would be applied in the absence of this Agreement, seek to preserve intact its current business organizations, keep available the service of its current officers and employees and preserve its relationships with customers, suppliers and others having business dealings with it to the end that goodwill and ongoing businesses shall be unimpaired at the Effective Time. Without limiting the generality of the foregoing, and except as otherwise expressly provided in this Agreement, prior to the Effective Time, Parent will not, without the prior written consent of the Company, which consent shall not be unreasonably withheld:

(a) amend its certificate of incorporation (other than to increase the number of authorized shares of Parent Common Stock) or bylaws;

(b) split, combine or reclassify any shares of its capital stock; declare, set aside or pay any dividend or other distribution (whether in cash, stock or property or any

combination thereof) in respect of its capital stock; make any other actual, constructive or deemed distribution in respect of any shares of its capital stock or otherwise make any payments to stockholders in their capacity as such; or redeem or otherwise acquire any of its securities;

(c) adopt a plan of complete or partial liquidation, dissolution, restructuring, recapitalization or other reorganization of Parent;

(d) authorize for issuance, issue, sell, deliver or agree or commit to issue, sell or deliver (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase or otherwise) any Parent Common Stock or any preferred stock or any other securities or equity equivalents (including, without limitation, any stock options or stock appreciation rights) totaling, or exercisable for or convertible into shares of Parent Common Stock totaling, in the aggregate, more than 30% of the total number of shares of Parent Common Stock outstanding on the date hereof, except for the grant of options to purchase shares of Parent Common Stock to employees under Parent's employee stock option plans and the issuance or sale of shares of Parent Common Stock pursuant to options granted to employees under Parent's employee stock option plans (in each case, in the ordinary course of business and consistent with past practice) and except for the issuance of shares of Parent Common Stock and options pursuant to the Sierra Agreement or as contemplated by Item 4 set forth in Section 3.2 of the Parent Disclosure Schedule;

(e) grant options to purchase, or make restricted stock grants with respect to, in excess of 1,000,000 shares of Parent Common Stock under Parent's employee stock option plans or stock purchase plans, except in connection with any acquisition (by merger, consolidation, or acquisition of stock or assets) of any corporation, partnership or other business organization or division thereof or any equity interest therein (including, without limitation, in connection with the transactions contemplated by the Sierra Agreement);

(f) except as set forth in Section 4.2(f) of the Parent Disclosure Schedule, incur or assume any long-term or short-term debt or issue any debt securities except for borrowings under existing lines of credit in the ordinary course of business and in amounts not material to Parent and its subsidiaries taken as a whole and except for other indebtedness not exceeding \$100,000,000 in the aggregate; or

(g) take, or agree in writing or otherwise to take, any of the actions described in Sections 4.2(a) through 4.2(f).

SECTION 4.3. Preparation of S-4 and the Proxy Statement.

Parent will, as promptly as practicable, prepare and, following receipt of notification from the SEC that it has no further comments on the Proxy Statement, file with the SEC the S-4, containing a proxy statement/prospectus and a form of proxy, in connection with the registration under the Securities Act of the shares of Parent Common Stock issuable upon conversion of the Shares and the other transactions contemplated hereby. The Company will, as promptly as practicable (but in any event not later than 45 days after this Agreement), prepare and file with the SEC the Proxy Statement that will be the same proxy statement/prospectus contained in the S-4 and a form of proxy, in connection with the vote of the Company's stockholders with respect to the Merger. Parent will cooperate with the Company in such preparation and filing and will provide the Company with all financial and other data (including pro forma financial statements and financial and other data regarding Sierra) as is necessary in order to enable the Company to comply with the foregoing time schedule. Parent and the Company will, and will cause their accountants and lawyers to, use their best efforts to have or cause the S-4 declared effective as promptly as practicable, including, without limitation, causing their accountants to deliver necessary or required instruments such as opinions, consents and certificates, and will take any other action required or necessary to be taken under federal or state securities laws or otherwise in connection with the registration process, it being understood and agreed that Gibson, Dunn & Crutcher, counsel to the Company, will render the tax opinion referred to in Section 5.2(d) not later than the date the S-4 is required to be filed with the SEC and (ii) the date the S-4 is filed with the SEC. The Company will use its best efforts to cause the Proxy Statement to be mailed to its shareholders at the earliest practicable date.

SECTION 4.4. Other Potential Acquirors. The Company, its

affiliates and their respective officers, directors, employees, representatives and agents shall immediately cease any existing discussions or negotiations, if any, with any parties conducted heretofore with respect to any acquisition of all or any material portion of the assets of, or any equity interest in, the Company or its subsidiaries or any business combination with the Company or its subsidiaries. The Company may, directly or indirectly, furnish information and access, in each case only in response to unsolicited requests therefor, to any corporation, partnership, person or other entity or group pursuant to confidentiality agreements, and may participate in discussions and negotiate with such entity or group concerning any merger, sale of assets, sale of shares of capital stock or similar transaction involving the Company or any subsidiary or division of the Company, if such entity or group has submitted a written proposal to the Company Board relating to any such transaction and the Company Board by a majority vote determines in its good faith judgment, after consultation with independent legal counsel, that it is necessary to do so to comply with its fiduciary duties to shareholders under applicable law. The Company Board shall (i) provide a copy of any such written proposal and a summary of any oral proposal to Parent or Acquisition immediately after receipt thereof (and shall specify

the material terms and conditions of such proposal and identify the person making such proposal), (ii) afford Parent a reasonable opportunity to respond to such proposal and (iii) keep Parent and Acquisition promptly advised of any development with respect thereto. Except as set forth above, neither the Company nor any of its affiliates shall, nor shall the Company authorize or permit any of its or their respective officers, directors, employees, representatives or agents to directly or indirectly, encourage, solicit, participate in or initiate discussions or negotiations with, or provide any information to, any corporation, partnership, person or other entity or group (other than Parent and Acquisition, any affiliate or associate of Parent and Acquisition or any designees of Parent and Acquisition) concerning any merger, sale of assets, sale of shares of capital stock or similar transaction involving the Company or any subsidiary or division of the Company; provided, however, that nothing herein shall prevent the Company Board from taking, and disclosing to the Company's shareholders, a position contemplated by Rules 14d-9 and 14e-2 promulgated under the Exchange Act with regard to any tender offer; provided, further, that nothing herein shall prevent the Company Board from making such disclosure to the Company's shareholders as, in the good faith judgment of the Company Board, after consultation with independent legal counsel, is necessary to comply with its fiduciary duties to shareholders under applicable law.

SECTION 4.5. Letter of the Company's Accountants. The

Company shall use its best efforts to cause to be delivered to Parent a letter of KPMG Peat Marwick, the Company's independent auditors, dated a date within two business days before the date on which the S-4 shall become effective and addressed to Parent, in form and substance reasonably satisfactory to Parent and customary in scope and substance for letters delivered by independent public accountants in connection with registration statements similar to the S-4.

SECTION 4.6. Meeting. The Company shall call a meeting of

its shareholders to be held as promptly as practicable for the purpose of voting upon this Agreement and related matters. The Company and Acquisition will, through their respective Boards of Directors recommend to their respective shareholders approval of such matters; provided, however, that the Company Board may withdraw its recommendation if the Company Board by a majority vote determines in its good faith judgment, after consultation with independent legal counsel, that it is necessary to do so to comply with its fiduciary duties to shareholders under applicable law. Notwithstanding the foregoing (but without limiting the provisions of Section 6.1(c)(iv)), the Company Board may not withdraw its recommendation because of the trading price of Parent Common Stock between the date hereof and the date of the Company's shareholders' meeting. The Company and Parent shall coordinate and cooperate with respect to the timing of such meeting and, subject to Section 4.25(c), the Company shall use its best efforts to hold such meeting as soon as practicable after the date hereof.

SECTION 4.7. Stock Exchange Listing. Parent shall use all

reasonable efforts to cause the shares of Parent Common Stock to be issued in the Merger and the shares of Parent Common Stock to be reserved for issuance upon exercise of Company Stock Options to be approved for listing on the NYSE, subject to official notice of issuance, prior to the Closing Date.

SECTION 4.8. Access to Information.

(a) Between the date hereof and the Effective Time, the Company will give Parent and Acquisition and their authorized representatives reasonable access to all employees, plants, offices, warehouses and other facilities and to all books and records of the Company and its subsidiaries, will permit Parent and Acquisition to make such inspections as Parent and Acquisition may reasonably require and will cause the Company's officers and those of its subsidiaries to furnish Parent and Acquisition with such financial and operating data and other information with respect to the business, properties and personnel of the Company and its subsidiaries as Parent or Acquisition may from time to time reasonably request, provided that no investigation pursuant to this Section 4.8(a) shall affect or be deemed to modify any of the representations or warranties made by the Company.

(b) Between the date hereof and the Effective Time, the Company shall furnish to Parent and Acquisition within 25 business days after the end of each calendar month (commencing with January 1996), an unaudited balance sheet of the Company as of the end of such month and the related statements of earnings, stockholders' equity (deficit) and, within 25 business days after the end of each calendar quarter, cash flows for the quarter then ended, each prepared in accordance with GAAP in conformity with the practices consistently applied by the Company with respect to its monthly financial statements. All the foregoing shall be in accordance with the books and records of the Company and fairly present the financial position of the Company (taking into account the differences between the monthly and quarterly statements prepared by the Company in conformity with its past practices) as of the last day of the period then ended.

(c) Each of Parent and Acquisition will hold and will cause its consultants and advisors to hold in confidence all documents and information concerning the Company and its subsidiaries furnished to Parent or Acquisition in connection with the transactions contemplated by this Agreement pursuant to the terms of that certain Confidentiality Agreement entered into between the Company and Parent dated September 17, 1995.

SECTION 4.9. Additional Agreements; Best Efforts. Subject

to the terms and conditions herein provided, each of the parties hereto agrees to use best efforts to take, or

cause to be taken, all action, and to do, or cause to be done, all things reasonably necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement, including, without limitation, (i) cooperation in the preparation and filing of the Proxy Statement and the S-4, any filings that may be required under the HSR Act, and any amendments to any thereof; (ii) the taking of all action reasonably necessary, proper or advisable to secure any necessary consents under existing debt obligations of the Company and its subsidiaries or amend the notes, indentures or agreements relating thereto to the extent required by such notes, indentures or agreements or redeem or repurchase such debt obligations; (iii) contesting any legal proceeding relating to the Merger; and (iv) the execution of any additional instruments, including the Merger Agreement, necessary to consummate the transactions contemplated hereby. Subject to the terms and conditions of this Agreement, Parent and Acquisition agree to use all reasonable efforts to cause the Effective Time to occur as soon as practicable after the shareholder vote with respect to the Merger. In case at any time after the Effective Time any further action is necessary to carry out the purposes of this Agreement, the proper officers and directors of each party hereto shall take all such necessary action.

SECTION 4.10. Consents. Parent, Acquisition and the

Company each will use all reasonable efforts to obtain consents of all third parties and Governmental Entities necessary, proper or advisable for the consummation of the transactions contemplated by this Agreement.

SECTION 4.11. Public Announcements. Parent, Acquisition

and the Company, as the case may be, will consult with one another before issuing any press release or otherwise making any public statements with respect to the transactions contemplated by this Agreement, including, without limitation, the Merger, and shall not issue any such press release or make any such public statement prior to such consultation, except as may be required by applicable law or by obligations pursuant to any listing agreement with the NYSE or the Nasdaq Stock Market, as determined by Parent, Acquisition or the Company, as the case may be.

SECTION 4.12. Indemnification; Directors' and Officers'

Insurance.

(a) Parent and Acquisition agree that all rights to indemnification or exculpation now existing in favor of the directors, officers, employees and agents of the Company and its subsidiaries as provided in their respective charters or bylaws (or other similar governing instruments) or otherwise in effect as of the date hereof with respect to matters occurring prior to the Effective Time shall survive the Merger and shall continue in full force and effect for a period of six (6) years from the Effective Time; provided, however, that all rights to indemnification in respect of any claim (a "Claim") asserted or made within such period shall

continue until the disposition of such Claim. To the maximum extent permitted by the CGCL, such indemnification shall be mandatory rather than permissive and the Surviving Corporation shall advance expenses in connection with such indemnification to the fullest extent permitted under applicable law, provided that the person to whom expenses are advanced provides an undertaking to repay such advances if it is ultimately determined that such person is not entitled to indemnification); provided, however, the indemnification provided hereunder shall not be greater than the indemnification permissible pursuant to the Company's or its subsidiaries' respective charters and bylaws (or other similar governing instruments), as in effect as of the date hereof.

(b) Parent shall cause the Surviving Corporation to maintain in effect for not less than three years from the Effective Time the policies of the directors' and officers' liability and fiduciary insurance currently maintained by the Company with respect to matters occurring prior to the Effective Time to cover the types of actions and omissions currently covered by such policies (provided that (i) the Surviving Corporation may substitute therefor policies of substantially the same coverage containing terms and conditions which are no less advantageous, in any material respect, to the beneficiaries thereof so long as such substitution does not result in gaps or lapses in coverage and (ii) the Surviving Corporation shall not be required to pay an annual premium for such insurance in excess of \$250,000, but in such case shall purchase as much coverage as possible for such amount).

SECTION 4.13. Notification of Certain Matters. The Company

shall give prompt notice to Parent and Acquisition, and Parent and Acquisition shall give prompt notice to the Company, of (i) the occurrence or nonoccurrence of any event the occurrence or nonoccurrence of which would be likely to cause any representation or warranty contained in this Agreement to be untrue or inaccurate in any material respect at or prior to the Effective Time, (ii) any material failure of the Company, Parent or Acquisition, as the case may be, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder, (iii) any notice of, or other communication relating to, a default or event which, with notice or lapse of time or both, would become a default, received by it or any of its subsidiaries subsequent to the date of this Agreement and prior to the Effective Time, under any contract or agreement material to the financial condition, properties, businesses or results of operations of it and its subsidiaries taken as a whole to which it or any of its subsidiaries is a party or is subject, (iv) any notice or other communication from any third party alleging that the consent of such third party is or may be required in connection with the transactions contemplated by this Agreement, or (v) any material adverse change in their respective financial condition, properties, businesses, results of operations or prospects, taken as a whole, other than changes resulting from general economic conditions; provided, however, that the delivery of any notice pursuant to this Section 4.13 shall not cure such breach or non-

compliance or limit or otherwise affect the remedies available hereunder to the party receiving such notice.

SECTION 4.14. Pooling. The Company and Parent each agrees

that it will not take any action which could prevent the Merger from being accounted for as a "pooling-of-interests" for accounting purposes and the Company will bring to the attention of Parent, and Parent will bring to the attention of the Company, any actions, or agreements or understandings, whether written or oral, that could be reasonably likely to prevent Parent from accounting for the Merger as a "pooling-of-interests." Parent shall use commercially reasonable efforts to cause Ernst & Young LLP ("E&Y") to deliver to Parent a letter to the effect that pooling-of-interests accounting is appropriate for the Merger if it is closed and consummated in accordance with the terms of this Agreement, and the Company shall use commercially reasonable efforts to cause KPMG Peat Marwick to cooperate fully with E&Y (including, without limitation, sharing information, analysis and work product, engaging in active discussions and delivering to the Company a letter substantially similar to E&Y's letter to Parent) in connection with E&Y's delivery of such letter. The Company will cause KPMG Peat Marwick to inform all Company Affiliates and other relevant employees as to those actions that should or should not be taken by such persons so that the Merger will be accounted for as a "pooling-of-interests."

SECTION 4.15. Tax-Free Reorganization Treatment. The

Company, and Parent and Acquisition shall execute and deliver to Gibson, Dunn & Crutcher, counsel to the Company, certificates substantially in the form attached hereto as Exhibits C-1 and C-2, respectively, at such time or times as reasonably requested by such law firm in connection with its delivery of an opinion with respect to the transactions contemplated hereby, and the Company and Parent shall each provide a copy thereof to the other parties hereto. Prior to the Effective Time, none of the Company, Parent or Acquisition shall take or cause to be taken any action which would cause to be untrue (or fail to take or cause not to be taken any action which would cause to be untrue) any of the representations in Exhibits C-1 or C-2.

SECTION 4.16. Taxes. In respect of income Tax returns of

the Company or any subsidiary not required to be filed prior to the date hereof, the Company shall, to the extent permitted by law without any penalty, delay (and cause its subsidiaries to delay) the filing of any such Tax returns until after the Effective Time; provided, however, that the Company shall notify Parent of its intention to delay (or cause any subsidiary to delay) any such filing and shall not so delay the filing of a Tax return if Parent and the Company agree that so delaying the filing of such Tax return is not in the best interests of either the Company or Parent. If any such Tax return is required to be filed on or prior to the Effective Time, the Company or its subsidiaries, as the case may be, shall prepare and timely file such Tax return

in a manner consistent with prior years and all applicable laws and regulations; provided, however, that Parent shall be notified and given an opportunity to review and to comment, prior to the filing thereof, on any such Tax return (a) which relates to a Tax which is based upon or measured by income, (b) which is not regularly filed by the Company or a subsidiary thereof in connection with the conduct of its business in the ordinary course, or (c) for which Parent requests such opportunity, although neither Parent's approval nor consent shall be required prior to the filing of any such Tax return.

SECTION 4.17. Employment and Non-Competition Agreements.

The Company and Parent shall, as of or prior to the Effective Time, enter into employment agreements and non-competition agreements with Robert M. Davidson and Janice G. Davidson on substantially the terms set forth in the forms of Employment Agreement and Non-Competition Agreement agreed to as of the date hereof (respectively, the "Employment Agreements" and the "Non-Competition Agreements").

SECTION 4.18. Employee Matters.

(a) Employees of the Company and its subsidiaries shall be treated after the Merger no less favorably under the Parent ERISA Plans than other similarly situated employees of Parent and its subsidiaries.

(b) For a period of one year following the Merger, Parent shall and shall cause its subsidiaries to maintain with respect to their employees who had been employed by the Company or any of its subsidiaries (i) base salary or regular hourly wage rates for each such employee at not less than the rate applicable immediately prior to the Merger to such employee, and (ii) employee benefits (as defined for purposes of Section 3(3) of ERISA), other than stock option plans) which are substantially comparable in the aggregate to such employee benefits provided by the Company and its subsidiaries immediately prior to the Merger.

(c) Parent and its subsidiaries shall credit employees of the Company and its subsidiaries for purposes of determining eligibility to participate or vesting under the Parent ERISA Plans with their service prior to the Merger with the Company and its subsidiaries to the same extent such service was counted under similar benefit plans of the Company prior to the Merger.

(d) Nothing contained herein shall be construed as requiring Parent or the Surviving Corporation to continue any specific plans or to continue the employment of any specific person.

SECTION 4.19. Registration Rights Agreement. Parent agrees

at the Closing to enter into a Registration Rights Agreement with the parties to the Shareholders Agreement (other than Parent and the Company) in substantially the form attached to this Agreement as Exhibit D (the "Registration Rights Agreement").

SECTION 4.20. Company Affiliates. The Company has

identified to Parent each Company Affiliate and, except as set forth in Section 4.20 of the Company Disclosure Schedule, each Company Affiliate has delivered to Parent on or prior to the date hereof, a written agreement (i) that such Company Affiliate will not sell, pledge, transfer or otherwise dispose of any shares of Parent Common Stock issued to such Company Affiliate pursuant to the Merger, except in compliance with Rule 145 promulgated under the Securities Act or an exemption from the registration requirements of the Securities Act and (ii) that on or prior to the earlier of (x) the mailing of the Proxy Statement/Prospectus or (y) the thirtieth day prior to the Effective Time such Company Affiliate will not thereafter sell or in any other way reduce such Company Affiliate's risk relative to any shares of Parent Common Stock received in the Merger (within the meaning of the SEC's Financial Reporting Release No. 1, "Codification of Financing Reporting Policies," Section 201.01 47 F.R. 21028 (April 15, 1982)), until such time as financial results (including combined sales and net income) covering at least 30 days of post-merger operations have been published, except as permitted by Staff Accounting Bulletin No. 76 issued by the SEC. The Company will use its best efforts to cause the Company Affiliate listed in Section 4.20 of the Company Disclosure Schedule to execute and deliver the Affiliate Letter as promptly as practicable (and, in all events, prior to the Effective Time).

SECTION 4.21. Election to Parent Board. Effective as of

the Closing Date, Parent shall increase the size of its Board of Directors (the "Parent Board") by two directors and shall cause Robert M. Davidson and Janice G. Davidson to be appointed to the Parent Board to fill the vacancies created, for initial terms expiring two years and one year, respectively, following the date of Parent's first annual meeting of shareholders following the date hereof, and shall cause Robert M. Davidson to be elected to the position of Vice Chairman of the Parent Board. From and after the Closing Date, and for so long as the parties to the Shareholders Agreement (other than Parent and the Company) collectively beneficially own (as such term is defined in Section 13 of the Exchange Act and the rules and regulations thereunder) 25% of the shares of Parent Common Stock received by them in the Merger, Parent shall cause at least one of Robert M. Davidson and Janice G. Davidson to be included in the slate of nominees for election to the Parent Board at each annual meeting of shareholders of Parent and at any special meeting of shareholders of Parent at which directors are to be elected (unless one of them is then a member of a director class whose term does not expire at such meeting).

SECTION 4.22. SEC Filings. Each of Parent and the Company

shall promptly provide the other party (or its counsel) with copies of all filings made by the other party or any of its subsidiaries with the SEC or any other state or federal Governmental Entity in connection with this Agreement and the transactions contemplated hereby.

SECTION 4.23. Guarantee of Performance. Parent hereby

guarantees the performance by Acquisition of its obligations under this Agreement and the indemnification obligations of the Surviving Corporation pursuant to Section 4.12(a) hereof.

SECTION 4.24. Property. At the Closing, Parent will

purchase, or cause an affiliate to purchase, the real property described in Section 4.24 of the Company Disclosure Schedule (the "Property") from the owners thereof in accordance with the terms of the letter agreement, dated the date hereof, between Parent and such owners.

SECTION 4.25. Acquisition. (a) The Company hereby

acknowledges that it has been advised by Parent that Parent is, substantially simultaneously with the execution and delivery of this Agreement, entering into an Agreement and Plan of Merger (the "Sierra Agreement"), dated as of the date hereof, among Parent, Sierra Acquisition Corp. ("Merger Sub") and Sierra On-Line, Inc. ("Sierra") pursuant to which Merger Sub will merge with and into Sierra and Sierra will become a wholly-owned subsidiary of Parent (the "Sierra Merger") and the shareholders and stock option holders of Sierra will receive, respectively, shares of Parent Common Stock and options to purchase shares of Parent Common Stock in the Sierra Merger.

(b) The parties hereto expressly acknowledge and agree that it shall not be a condition to the respective obligations of any party hereto to effect the Merger that the transactions contemplated by the Sierra Agreement shall have been approved by the shareholders of Parent or Sierra or that such transactions shall have been consummated.

(c) Notwithstanding anything to the contrary contained herein (including, without limitation, in Sections 4.3, 4.6 and 4.9 hereof), the Company will cooperate with all reasonable requests of Parent to coordinate the timing of the shareholders meetings with respect to the transactions contemplated by this Agreement and the Sierra Agreement; provided, however, that the Company shall not be

required to agree to a material delay of its shareholders meeting for any reason related to the timing of the Sierra shareholders meeting or any other matters related to the Sierra transaction. In addition, the Company will provide Parent with all financial and other data regarding the Company as may be reasonably requested by Parent in connection with the preparation of the proxy statement and Form S-4 relating to the Sierra Merger.

ARTICLE 5

CONDITIONS TO CONSUMMATION OF THE MERGER

SECTION 5.1. Conditions to Each Party's Obligations to

Effect the Merger. The respective obligations of each party hereto to effect the Merger are subject to the satisfaction at or prior to the Effective Time of the following conditions:

(a) this Agreement shall have been approved and adopted by the requisite vote of the shareholders of the Company;

(b) no statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or enforced by any United States court or United States governmental authority which prohibits, restrains, enjoins or restricts the consummation of the Merger;

(c) any waiting period applicable to the Merger under the HSR Act shall have terminated or expired, and any other governmental or regulatory notices or approvals required with respect to the transactions contemplated hereby shall have been either filed or received;

(d) the S-4 shall have become effective under the Securities Act and shall not be the subject of any stop order or proceedings seeking a stop order and Parent shall have received all state securities laws or "blue sky" permits and authorizations necessary to issue shares of Parent Common Stock in exchange for the Shares in the Merger;

(e) Parent shall have received a letter from E&Y stating that the Merger will be accounted for under GAAP as a "pooling-of-interests," and such opinion shall not have been withdrawn or modified in any material respect; and

(f) Parent or an affiliate shall have purchased the Property as contemplated by Section 4.24 hereof.

SECTION 5.2. Conditions to the Obligations of the Company.

The obligation of the Company to effect the Merger is subject to the satisfaction at or prior to the Effective Time of the following conditions:

(a) the representations of Parent and Acquisition contained in this Agreement or in any other document delivered pursuant hereto shall be true and correct in all material respects at and as of the Effective Time with the same effect as if made at and as of the Effective Time, and at the Closing Parent and Acquisition shall have delivered to the Company a certificate to that effect;

(b) each of the obligations of Parent and Acquisition to be performed at or before the Effective Time pursuant to the terms of this Agreement shall have been duly performed in all material respects at or before the Effective Time and at the Closing Parent and Acquisition shall have delivered to the Company a certificate to that effect;

(c) the shares of Parent Common Stock issuable to the Company shareholders pursuant to this Agreement and such other shares required to be reserved for issuance in connection with the Merger shall have been authorized for listing on the NYSE upon official notice of issuance;

(d) the opinion of Gibson, Dunn & Crutcher, counsel to the Company, addressed to the Company and its shareholders to the effect that the Merger will be treated for Federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code shall have been delivered and such opinion shall not have been withdrawn or modified in any material respect;

(e) Parent shall have obtained the consent or approval of each person whose consent or approval shall be required in connection with the transactions contemplated hereby under any loan or credit agreement, note, mortgage, indenture, lease or other agreement or instrument, except those for which failure to obtain such consents and approvals would not, in the reasonable opinion of the Company, individually or in the aggregate, have a Material Adverse Effect on Parent; and

(f) there shall have been no events, changes or effects with respect to Parent or its subsidiaries having or which could reasonably be expected to have a Material Adverse Effect on Parent, and at the Closing Parent shall have delivered to the Company a certificate to that effect.

SECTION 5.3. Conditions to the Obligations of Parent and Acquisition. The respective obligations of Parent and Acquisition to effect the Merger are subject to the satisfaction at or prior to the Effective Time of the following conditions:

(a) the representations of the Company contained in this Agreement or in any other document delivered pursuant hereto shall be true and correct in all material respects at and as of the Effective Time with the same effect as if made at and as of the Effective Time, and at the Closing the Company shall have delivered to Parent and Acquisition a certificate to that effect;

(b) each of the obligations of the Company to be performed at or before the Effective Time pursuant to the terms of this Agreement shall have been duly performed in all material respects at or before the Effective Time and at the Closing the Company shall have delivered to Parent and Acquisition a certificate to that effect;

(c) each Company Affiliate and each shareholder which is a party to the Shareholders Agreement shall have performed his or its respective obligations under the applicable Affiliate Letter and/or the Shareholders Agreement (if applicable), and Parent shall have received a certificate signed by each of them to such effect;

(d) the Company shall have obtained the consent or approval of each person whose consent or approval shall be required in order to permit the succession by the Surviving Corporation pursuant to the Merger to any obligation, right or interest of the Company or any subsidiary of the Company under any loan or credit agreement, note, mortgage, indenture, lease or other agreement or instrument, except for those for which failure to obtain such consents and approvals would not, in the reasonable opinion of Parent, individually or in the aggregate, have a Material Adverse Effect on the Company;

(e) the number of Company Dissenting Shares as of the Effective Time shall not exceed 5% of the then issued and outstanding shares;

(f) there shall have been no events, changes or effects with respect to the Company or its subsidiaries having or which could reasonably be expected to have, a Material Adverse Effect on the Company and at the Closing the Company shall have delivered to Parent a certificate to that effect;

(g) the Employment Agreements shall be in full force and effect, and each of Robert M. Davidson and Janice G. Davidson shall be in good physical and mental health and capable of performing his or her obligations under their respective Employment Agreements;

(h) the Non-Competition Agreements shall be in full force and effect; and

(i) the Company Affiliate listed in Section 4.20 of the Company Disclosure Schedule shall have executed an Affiliate Letter.

ARTICLE 6

TERMINATION; AMENDMENT; WAIVER

SECTION 6.1. Termination. This Agreement may be terminated

and the Merger may be abandoned at any time, but prior to the Effective Time:

(a) by mutual written consent of Parent, Acquisition and the Company;

(b) by Parent and Acquisition or the Company if (i) any court of competent jurisdiction in the United States or other United States governmental authority shall have issued a final order, decree or ruling or taken any other final action restraining, enjoining or otherwise prohibiting the Merger and such order, decree, ruling or other action is or shall have become nonappealable or (ii) the Merger has not been consummated by September 30, 1996; provided that no party may terminate this Agreement pursuant to this clause (ii) if such party's failure to fulfill any of its obligations under this Agreement shall have been the reason that the Effective Time shall not have occurred on or before said date;

(c) by the Company if (i) there shall have been a breach of any representation or warranty on the part of Parent or Acquisition set forth in this Agreement, or if any representation or warranty of Parent or Acquisition shall have become untrue, in either case such that the conditions set forth in Section 5.2(a) would be incapable of being satisfied by September 30, 1996 (or as otherwise extended), (ii) there shall have been a breach by Parent or Acquisition of any of their respective covenants or agreements hereunder having a Material Adverse Effect on the Parent or materially adversely affecting (or materially delaying) the consummation of the Merger, and Parent or Acquisition, as the case may be, has not cured such breach within twenty business days after notice by the Company thereof, provided that the Company has not breached any of its obligations hereunder, (iii) the Company Board by a majority vote determines in its good faith judgment, after consultation with independent legal counsel, that it is necessary to do so to comply with its fiduciary duties to shareholders, provided that such termination under this clause (iii) shall not be effective unless at the time of such determination the Company has received a bona fide proposal to effect a Third Party Acquisition that had not been withdrawn as of the time of such termination and until payment of the fee required by Section 6.3(a) hereof, or (iv) prior to the meeting of shareholders of the Company, the Average Stock Price (as defined below) is less than \$29.00. The term "Average Stock Price" means a fraction, the numerator of which is the sum of the Closing Price (as

hereinafter defined) for each trading day during the 15 consecutive trading days ending on the first trading day that is at least 10 calendar days prior to the scheduled date of such meeting of shareholders of the Company and the denominator of which is 15. For purposes hereof, with respect to any trading day, the Closing Price shall be equal to the per share closing price on the NYSE of Parent Common Stock on such day, as reported in the New York Stock Exchange Composite Transactions; or

(d) by Parent and Acquisition if (i) there shall have been a breach of any representation or warranty on the part of the Company set forth in this Agreement, or if any representation or warranty of the Company shall have become untrue, in either case such that the conditions set forth in Section 5.3(a) would be incapable of being satisfied by September 30, 1996 (or as otherwise extended), (ii) there shall have been a breach by the Company of its covenants or agreements hereunder having a Material Adverse Effect on the Company or materially adversely affecting (or materially delaying) the consummation of the Merger, and the Company has not cured such breach within twenty business days after notice by Parent or Acquisition thereof, provided that neither Parent nor Acquisition has breached any of their respective obligations hereunder, (iii) the Company shall engage in negotiations with any entity or group (other than Parent or Acquisition) that has proposed a Third Party Acquisition (as defined below) and such negotiations shall have continued for more than 15 business days after the Company has first furnished information to such entity or group or commenced negotiations with such party (whichever is earlier), (iv) the Company Board shall have withdrawn, modified or changed its approval or recommendation of this Agreement or the Merger, shall have recommended to the Company's shareholders a Third Party Acquisition or shall have failed to call, give notice of, convene or hold a shareholders' meeting to vote upon the Merger, or shall have adopted any resolution to effect any of the foregoing, or (v) the Company shall have convened a meeting of its shareholders to vote upon the Merger and shall have failed to obtain the requisite vote of its shareholders.

"Third Party Acquisition" means the occurrence of any of the following events (i) the acquisition of the Company by merger or otherwise by any person (which includes a "person" as such term is defined in Section 13(d)(3) of the Exchange Act) or entity other than Parent, Acquisition or any affiliate thereof (a "Third Party"); (ii) the acquisition by a Third Party of more than 30% of the total assets of the Company and its subsidiaries, taken as a whole; or (iii) the acquisition by a Third Party of 30% or more of the outstanding shares of Company Common Stock. "Significant Acquisition" means the acquisition by the Company or any subsidiary, by merger, purchase of stock or assets, joint venture or otherwise, of a direct or indirect ownership interest or investment in any business whose annual revenues, net income or assets is equal to or greater than 40% of the annual revenues, net income or assets of the Company.

SECTION 6.2. Effect of Termination. In the event of the

termination and abandonment of this Agreement pursuant to Section 6.1, this Agreement shall forthwith become void and have no effect, without any liability on the part of any party hereto or its affiliates, directors, officers or shareholders, other than the provisions of this Section 6.2 and Sections 4.8(c), 6.3, 7.5, 7.8, 7.10 and 7.13 hereof. Nothing contained in this Section 6.2 shall relieve any party from liability for any breach of this Agreement.

SECTION 6.3. Fees and Expenses.

(a) In the event that this Agreement shall be terminated pursuant to:

(i) Section 6.1(c)(iii);

(ii) Sections 6.1(d)(i) or (ii) as a result of a willful breach of any representation, warranty, covenant or agreement of the Company and, within twelve months thereafter, the Company enters into an agreement with respect to a Third Party Acquisition or a Significant Acquisition, or a Third Party Acquisition or a Significant Acquisition occurs, involving any party (or any affiliate thereof) (x) with whom the Company (or its agents) had negotiations with a view to a Third Party Acquisition or a Significant Acquisition, (y) to whom the Company (or its agents) furnished information with a view to a Third Party Acquisition or a Significant Acquisition or (z) who had submitted a proposal or expressed an interest in a Third Party Acquisition or a Significant Acquisition, in the case of each of clauses (x), (y) and (z) after the date hereof and prior to such termination;

(iii) Section 6.1(d)(iii) and, within twelve months thereafter, the Company enters into an agreement with respect to a Third Party Acquisition or a Significant Acquisition, or a Third Party Acquisition or a Significant Acquisition occurs, involving any party (or any affiliate thereof) (x) with whom the Company (or its agents) had negotiations with a view to a Third Party Acquisition or a Significant Acquisition, (y) to whom the Company (or its agents) furnished information with a view to a Third Party Acquisition or a Significant Acquisition or (z) who had submitted a proposal or expressed an interest in a Third Party Acquisition or a Significant Acquisition, in the case of each of clauses (x), (y) and (z) after the date hereof and prior to such termination; or

(iv) Section 6.1(d)(iv) (in the absence of an event or circumstance described in Section 5.2(f)); or

(v) Section 6.1(d)(v);

Parent and Acquisition would suffer direct and substantial damages, which damages cannot be determined with reasonable certainty. To compensate Parent and Acquisition for such damages, the Company shall pay to Parent the amount of \$25 million as liquidated damages (A) in the case of Sections 6.3(a)(i), (iv) and (v), immediately upon such a termination and (B) in the case of Sections 6.3(a)(iii) and (iv), simultaneously with the earlier of entering into or consummating the Third Party Acquisition or Significant Transaction referred to therein. It is specifically agreed that the amount to be paid pursuant to this Section 6.3(a) represents liquidated damages and not a penalty.

(b) Upon the termination of this Agreement pursuant to Sections 6.1(d)(i), (ii), (iii), (iv) or (v), the Company shall reimburse Parent, Acquisition and their affiliates (not later than ten business days after submission of statements therefor) for all actual documented out-of-pocket fees and expenses, not to exceed \$2,500,000 (unless such termination is not covered by Section 3(a)), actually and reasonably incurred by any of them or on their behalf in connection with the Merger and the consummation of all transactions contemplated by this Agreement (including, without limitation, fees payable to investment bankers, counsel to any of the foregoing, and accountants). If Parent or Acquisition shall submit a request for reimbursement hereunder, Parent or Acquisition will provide the Company in due course with invoices or other reasonable evidence of such expenses upon request. The Company shall in any event pay the amount requested (not to exceed \$2,500,000, except as provided above) within ten business days of such request, subject to the Company's right to demand a return of any portion as to which invoices are not received in due course.

(c) Upon the termination of this Agreement pursuant to Sections 6.1(c)(i) or (ii), Parent shall reimburse the Company and their affiliates (not later than ten business days after submission of statements therefor) for all actual documented out-of-pocket fees and expenses actually and reasonably incurred by any of them or on their behalf in connection with the Merger and the consummation of all transactions contemplated by this Agreement (including, without limitation, fees payable to investment bankers, counsel to any of the foregoing, and accountants). If the Company shall submit a request for reimbursement hereunder, the Company will provide Parent in due course with invoices or other reasonable evidence of such expenses upon request. Parent shall in any event pay the amount requested within ten business days of such request, subject to Parent's right to demand a return of any portion as to which invoices are not received in due course.

(d) Except as specifically provided in this Section 6.3, each party shall bear its own expenses in connection with this Agreement and the transactions contemplated hereby. The cost of printing the S-4 and the Proxy Statement shall be borne equally by the Company and Parent.

SECTION 6.4. Amendment. This Agreement may be amended by

action taken by the Company, Parent and Acquisition at any time before or after approval of the Merger by the shareholders of the Company (if required by applicable law) but, after any such approval, no amendment shall be made which requires the approval of such shareholders under applicable law without such approval. This Agreement may not be amended except by an instrument in writing signed on behalf of the parties hereto.

SECTION 6.5. Extension; Waiver. At any time prior to the

Effective Time, each party hereto (for these purposes, Parent and Acquisition shall together be deemed one party and the Company shall be deemed the other party) may (i) extend the time for the performance of any of the obligations or other acts of the other party, (ii) waive any inaccuracies in the representations and warranties of the other party contained herein or in any document, certificate or writing delivered pursuant hereto or (iii) waive compliance by the other party with any of the agreements or conditions contained herein. Any agreement on the part of either party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of either party hereto to assert any of its rights hereunder shall not constitute a waiver of such rights.

ARTICLE 7

MISCELLANEOUS

SECTION 7.1. Nonsurvival of Representations and Warranties.

The representations and warranties made herein shall not survive beyond the Effective Time or a termination of this Agreement.

SECTION 7.2. Entire Agreement; Assignment. This Agreement

(a) constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all other prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof and (b) shall not be assigned by operation of law or otherwise; provided, however, that Acquisition may assign any or all of its rights and obligations under this Agreement to any subsidiary of Parent, but no such assignment shall relieve Acquisition of its obligations hereunder if such assignee does not perform such obligations.

SECTION 7.3. Validity. If any provision of this Agreement,

or the application thereof to any person or circumstance, is held invalid or unenforceable, the remainder of this Agreement, and the application of such provision to other persons or circumstances, shall not be affected thereby, and to such end, the provisions of this Agreement are agreed to be severable.

SECTION 7.4. 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 given upon receipt) by delivery in person, by cable, telegram, facsimile or telex, or by registered or certified mail (postage prepaid, return receipt requested), to the other party as follows:

if to Parent or Acquisition: CUC International Inc.
707 Summer Street
Stamford, CT 06901
Attention: Amy N. Lipton, Esq.
Facsimile: (203) 348-1982

with a copy to: Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, NY 10153
Attention: Howard Chatzinoff, Esq.
Facsimile: (212) 310-8007

if to the Company to: Davidson & Associates, Inc.
19840 Pioneer Avenue
Torrance, CA 90503
Attention: Robert M. Davidson
Facsimile: (310) 793-0601

with a copy to: Gibson, Dunn & Crutcher
333 South Grand Avenue, 48th Floor
Los Angeles, CA 90071
Attention: Peter F. Ziegler, Esq.
Facsimile: (213) 229-7520

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

SECTION 7.5. Governing Law. This Agreement shall be

governed by and construed in accordance with the laws of the State of California, without regard to the principles of conflicts of law thereof.

SECTION 7.6. Descriptive Headings. The descriptive

headings herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

SECTION 7.7. Parties in Interest. This Agreement shall be

binding upon and inure solely to the benefit of each party hereto and its successors and permitted assigns, and except as provided in Sections 4.12 and 7.2, nothing in this Agreement, express or implied, is intended to or shall confer upon any other person any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

SECTION 7.8. Arbitration. Any controversy, dispute or

claim arising out of or relating to this Agreement or the breach hereof which cannot be settled by mutual agreement (except for actions by Parent or the Company seeking equitable, injunctive or other relief under Section 7.10) shall be finally settled by arbitration as follows: Any party who is aggrieved shall deliver a notice to other party setting forth the specific points in dispute. Any points remaining in dispute twenty (20) days after the giving of such notice shall be submitted to arbitration in New York, New York, or Los Angeles, California, whichever the complaining party may choose, to Endispute, before a single arbitrator appointed in accordance with Endispute's Arbitration Rules, modified only as herein expressly provided. The arbitrator may enter a default decision against any party who fails to participate in the arbitration proceedings. 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. The arbitrator will be authorized to apportion its fees and expenses and the reasonable attorney's fees and expenses of Parent and the Company as the arbitrator deems appropriate. In the absence of any such apportionment, the fees and expense of the arbitrator will be borne equally by each party, and each party will bear the fees and expenses of its own attorney. The parties agree that this clause has been included to rapidly and inexpensively resolve any disputes between them with respect to this Agreement, and that this clause shall be grounds for dismissal of any court action commenced by either party with respect to this Agreement, other than post-arbitration actions seeking to enforce an arbitration award. The parties shall keep confidential, and shall not disclose to any person, except as may be required by law, the existence of any controversy hereunder, the referral of any such controversy to arbitration or the status or resolution thereof.

SECTION 7.9. Severability. If any term or other provision

of this Agreement is invalid, illegal or unenforceable, all other provisions of this Agreement shall remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party.

SECTION 7.10. Specific Performance. The parties hereto

acknowledge that irreparable damage would result if this Agreement were not specifically enforced, and they therefore consent that the rights and obligations of the parties under this Agreement may be enforced by a decree of specific performance issued by a court of competent jurisdiction. Such remedy shall, however, not be exclusive and, subject to Section 7.8, shall be in addition to any other remedies, including arbitration, which any party may have under this Agreement or otherwise.

SECTION 7.11. Recapitalization. Whenever (a) the number of

outstanding shares of Parent Common Stock is changed by reason of a subdivision or combination of shares, whether effected by a reclassification of shares or otherwise or (b) Parent pays a cash or stock dividend or makes a similar distribution, each specified number of shares referred to in this Agreement and each specified per share amount (other than par values) shall be adjusted accordingly.

SECTION 7.12. Subsidiaries. The term "subsidiary" shall

mean, when used with reference to any entity, any entity more than fifty percent (50%) of the outstanding voting securities or interests (including membership interests) of which are owned directly or indirectly by such former entity.

SECTION 7.13. Brokers. Except as otherwise provided in

Section 6.3, the Company agrees to indemnify and hold harmless Parent and Acquisition, and Parent and Acquisition agree to indemnify and hold harmless the Company, from and against any and all liability to which Parent and Acquisition, on the one hand, or the Company, on the other hand, may be subjected by reason of any brokers, finders or similar fees or expenses with respect to the transactions contemplated by this Agreement to the extent such similar fees and expenses are attributable to any action undertaken by or on behalf of the Company, or Parent or Acquisition, as the case may be.

SECTION 7.14. Counterparts. This Agreement may be executed

in one or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement.

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be duly executed on its behalf as of the day and year first above written.

DAVIDSON & ASSOCIATES, INC.

ATTEST: By: /s/ Robert M. Davidson

Name: Robert M. Davidson
Title: Chairman and Chief Executive Officer

By: /s/ Janice G. Davidson

Name: Janice G. Davidson
Title: President

CUC INTERNATIONAL INC.

ATTEST: By: /s/ E. Kirk Shelton

Name: E. Kirk Shelton
Title: President

By: /s/ Amy N. Lipton

Name: Amy N. Lipton
Title: Assistant Secretary

STEALTH ACQUISITION II CORP.

ATTEST: By: /s/ E. Kirk Shelton

Name: E. Kirk Shelton
Title: President

By: /s/ Amy N. Lipton

Name: Amy N. Lipton
Title: Secretary

AGREEMENT AND PLAN OF MERGER

DATED AS OF FEBRUARY 19, 1996

AMONG

SIERRA ON-LINE, INC.
CUC INTERNATIONAL INC.

AND

LARRY ACQUISITION CORP.

TABLE OF CONTENTS

ARTICLE 1 THE MERGER	2
SECTION 1.1. The Merger	2
SECTION 1.2. Effective Time	2
SECTION 1.3. Closing of the Merger	2
SECTION 1.4. Effects of the Merger	2
SECTION 1.5. Certificate of Incorporation and Bylaws	2
SECTION 1.6. Directors	3
SECTION 1.7. Officers	3
SECTION 1.8. Conversion of Shares	3
SECTION 1.9. Exchange of Certificates	3
SECTION 1.10. Stock Options	6
ARTICLE 2 REPRESENTATIONS AND WARRANTIES OF THE COMPANY	8
SECTION 2.1. Organization and Qualification; Subsidiaries	8
SECTION 2.2. Capitalization of the Company and its Subsidiaries	9
SECTION 2.3. Authority Relative to this Agreement; Consents and Approvals	11
SECTION 2.4. SEC Reports; Financial Statements	11
SECTION 2.5. Information Supplied	12
SECTION 2.6. Consents and Approvals; No Violations	13
SECTION 2.7. No Default	14
SECTION 2.8. No Undisclosed Liabilities; Absence of Changes	14
SECTION 2.9. Litigation	15
SECTION 2.10. Compliance with Applicable Law	15
SECTION 2.11. Employee Plans	16
SECTION 2.12. Environmental Laws and Regulations	16
SECTION 2.13. Tax Matters	17
SECTION 2.14. Intangible Property	17
SECTION 2.15. Opinion of Financial Advisor	18
SECTION 2.16. Brokers	18
SECTION 2.17. Accounting Matters	18
SECTION 2.18. Material Contracts	18
SECTION 2.19. Disclosure	19
ARTICLE 3 REPRESENTATIONS AND WARRANTIES OF PARENT AND ACQUISITION.	20
SECTION 3.1. Organization	20
SECTION 3.2. Capitalization of Parent and its Subsidiaries	21
SECTION 3.3. Authority Relative to this Agreement	22
SECTION 3.4. SEC Reports; Financial Statements	22
SECTION 3.5. Information Supplied	23
SECTION 3.6. Consents and Approvals; No Violations	24
SECTION 3.7. No Default	25

SECTION 3.8.	No Undisclosed Liabilities; Absence of Changes	25
SECTION 3.9.	Litigation	25
SECTION 3.10.	Compliance with Applicable Law	26
SECTION 3.11.	Employee Plans	26
SECTION 3.12.	Environmental Laws and Regulations	27
SECTION 3.13.	Tax Matters	27
SECTION 3.14.	No Prior Activities	27
SECTION 3.15.	Brokers	28
SECTION 3.16.	Accounting Matters	28
SECTION 3.17.	Disclosure	28
ARTICLE 4	COVENANTS	28
SECTION 4.1.	Conduct of Business of the Company	28
SECTION 4.2.	Conduct of Business of Parent	32
SECTION 4.3.	Preparation of S-4 and the Proxy Statement	33
SECTION 4.4.	Other Potential Acquirors	33
SECTION 4.5.	Letter of the Company's Accountants	35
SECTION 4.6.	Meetings	35
SECTION 4.7.	Stock Exchange Listing	36
SECTION 4.8.	Access to Information	36
SECTION 4.9.	Additional Agreements; Reasonable Best Efforts	37
SECTION 4.10.	Consents	37
SECTION 4.11.	Public Announcements	37
SECTION 4.12.	Indemnification; Directors' and Officers' Insurance	38
SECTION 4.13.	Notification of Certain Matters	39
SECTION 4.14.	Pooling	40
SECTION 4.15.	Tax-Free Reorganization Treatment	41
SECTION 4.16.	Taxes	41
SECTION 4.17.	Employment and Other Agreements	42
SECTION 4.18.	Employee Matters	42
SECTION 4.19.	Company Affiliates	42
SECTION 4.20.	Election to Parent Board	43
SECTION 4.21.	SEC Filings	43
SECTION 4.22.	Guarantee of Performance	43
SECTION 4.23.	Acquisition	43
ARTICLE 5	CONDITIONS TO CONSUMMATION OF THE MERGER	44
SECTION 5.1.	Conditions to Each Party's Obligations to Effect the Merger	44
SECTION 5.2.	Conditions to the Obligations of the Company	45
SECTION 5.3.	Conditions to the Obligations of Parent and Acquisition	46

ARTICLE 6 TERMINATION; AMENDMENT; WAIVER	47
SECTION 6.1. Termination	47
SECTION 6.2. Effect of Termination	49
SECTION 6.3. Fees and Expenses	49
SECTION 6.4. Amendment	51
SECTION 6.5. Extension; Waiver	51
ARTICLE 7 MISCELLANEOUS	52
SECTION 7.1. Nonsurvival of Representations and Warranties . .	52
SECTION 7.2. Entire Agreement; Assignment	52
SECTION 7.3. Validity	52
SECTION 7.4. Notices	52
SECTION 7.5. Governing Law	53
SECTION 7.6. Descriptive Headings	53
SECTION 7.7. Parties in Interest	53
SECTION 7.8. Arbitration	54
SECTION 7.9. Severability	54
SECTION 7.10. Specific Performance	54
SECTION 7.11. Recapitalization	55
SECTION 7.12. Subsidiaries	55
SECTION 7.13. Brokers	55
SECTION 7.14. Counterparts	55

TABLE OF DEFINED TERMS

TERM	CROSS REFERENCE IN AGREEMENT	PAGE
Acquisition	Preamble	1
Affiliate Letter	Recitals	1
Certificates	Section 1.9(b)	4
Closing	Section 1.3	2
Closing Date	Section 1.3	2
Code	Recitals	1
Company	Preamble	1
Company Affiliate	Recitals	1
Company Board	Section 2.3(a)	10
Company Disclosure Schedule	Section 2.2(a)	9
Company Plans	Section 1.10(a)	6
Company SEC Reports	Section 2.4(a)	1
Company Stock Option(s)	Section 1.10(a)	6
DGCL	Section 1.1	2
Effective Time	Section 1.2	2
Environmental Claim	Section 2.12(a)	15
Environmental Laws	Section 2.12(a)	15
ERISA	Section 2.11	15
ESPP	Section 2.2(d)	9
Exchange Act	Section 2.2(c)	10
Exchange Agent	Section 1.9(a)	4
Financial Advisor	Section 2.15	16
GAAP	Section 2.4(a)	11
Governmental Entity	Section 2.6	12
HSR Act	Section 2.6	12
Lien	Section 2.2(b)	10
Material Adverse Effect	Sections 2.1(a), 3.1(a)	8, 19
Merger	Section 1.1	2
Merger Consideration	Section 1.8(a)	3
Notice of Superior Proposal	Section 4.4(b)	32
NYSE	Section 1.9(f)	6
Parent	Preamble	1
Parent Common Stock	Section 1.8(a)	3
Parent Disclosure Schedule	Section 1.11(a)	20
Parent Option	Section 1.10(a)	6
Parent Permits	Section 3.10	24
Parent SEC Reports	Section 3.4(a)	21
Proxy Statement	Section 2.5	12
S-4	Section 2.5	12
SEC	Section 2.4(a)	11
Securities Act	Recitals	1
Shareholders Agreement	Recitals	1
Share(s)	Section 1.8(a)	3
Subsidiaries	Section 7.12	52
Superior Proposal	Section 4.4(b)	32
Surviving Corporation	Section 1.1	2
Taxes	Section 2.13	16
Third Party Acquisition	Section 6.1(d)	45

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER, dated as of February 19, 1996, is among SIERRA ON-LINE, INC., a Delaware corporation (the "Company"), CUC INTERNATIONAL INC., a Delaware corporation ("Parent"), and LARRY ACQUISITION CORP., a Delaware corporation and a direct wholly owned subsidiary of Parent ("Acquisition").

WHEREAS, the Boards of Directors of the Company, Parent and Acquisition each have, in light of and subject to the terms and conditions set forth herein, (i) determined that the Merger (as defined in Section 1.1) is fair to their respective shareholders and in the best interests of such shareholders and (ii) approved the Merger in accordance with this Agreement;

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

WHEREAS, concurrently with the execution hereof, certain holders of Shares (as defined in Section 1.8(a)) are entering into the Shareholders Agreement, a copy of which is attached hereto as Exhibit A (the "Shareholders Agreement");

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

WHEREAS, the Company has delivered to Parent a letter identifying all persons (each, a "Company Affiliate") who are, at the date hereof, "affiliates" of the Company for purposes of Rule 145 under the Securities Act of 1933, as amended (the "Securities Act"), and each Company Affiliate has delivered to Parent a letter (each, an "Affiliate Letter") relating to (i) the transfer, prior to the Effective Time (as defined in Section 1.8(a)), of the Shares beneficially owned by such Company Affiliate on the date hereof and (ii) the transfer of the shares of Parent Common Stock (as defined in Section 1.8(a)) to be received by such Company Affiliate in the Merger.

NOW, THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements herein contained, and intending to be legally bound hereby, the Company, Parent and Acquisition hereby agree as follows:

ARTICLE 1

THE MERGER

SECTION 1.1. The Merger. At the Effective Time and upon

the terms and subject to the conditions of this Agreement and in accordance with the Delaware General Corporation Law (the "DGCL"), Acquisition shall be merged with and into the Company (the "Merger"). Following the Merger, the Company shall continue as the surviving corporation (the "Surviving Corporation") and the separate corporate existence of Acquisition shall cease.

SECTION 1.2. Effective Time. Subject to the provisions of

this Agreement, Parent, Acquisition and the Company shall cause the Merger to be consummated by filing an appropriate Certificate of Merger or other appropriate documents (the "Certificate of Merger") with the Secretary of State of the State of Delaware in such form as required by, and executed in accordance with, the relevant provisions of the DGCL, as soon as practicable on or after the Closing Date (as defined in Section 1.3). The Merger shall become effective upon such filing or at such time thereafter as is provided in the Certificate of Merger (the "Effective Time").

SECTION 1.3. Closing of the Merger. The closing of the

Merger (the "Closing") will take place at a time and on a date to be specified by the parties, which shall be no later than the second business day after satisfaction or waiver of the conditions set forth in Article 5 (the "Closing Date"), at the offices of Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153, unless another time, date or place is agreed to in writing by the parties hereto.

SECTION 1.4. Effects of the Merger. The Merger shall have

the effects set forth in the DGCL. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, all the properties, rights, privileges, powers and franchises of the Company and Acquisition shall vest in the Surviving Corporation, and all debts, liabilities and duties of the Company and Acquisition shall become the debts, liabilities and duties of the Surviving Corporation.

SECTION 1.5. Certificate of Incorporation and Bylaws. The

Restated Certificate of Incorporation of the Company in effect at the Effective Time shall be the articles of incorporation of the Surviving Corporation until amended in accordance with applicable law. The Bylaws of the Company in

effect at the Effective Time shall be the bylaws of the Surviving Corporation until amended in accordance with applicable law.

SECTION 1.6. Directors. The directors of the Company at

the Effective Time shall be the initial directors of the Surviving Corporation, each to hold office in accordance with the Articles of Incorporation and Bylaws of the Surviving Corporation until such director's successor is duly elected or appointed and qualified.

SECTION 1.7. Officers. The officers of the Company at the

Effective Time shall be the initial officers of the Surviving Corporation, each to hold office in accordance with the Articles of Incorporation and Bylaws of the Surviving Corporation until such officer's successor is duly elected or appointed and qualified.

SECTION 1.8. Conversion of Shares.

(a) At the Effective Time, each share of common stock, par value \$0.01 per share, of the Company ("Company Common Stock") issued and outstanding immediately prior to the Effective Time (individually a "Share" and collectively, the Shares") (other than (i) Shares held by any subsidiary of the Company and (ii) Shares held by Parent, Acquisition or any other subsidiary of Parent) shall, by virtue of the Merger and without any action on the part of Acquisition, the Company or the holder thereof, be converted into and shall become 1.225 fully paid and nonassessable shares of common stock, par value \$0.01 per share, of Parent ("Parent Common Stock") (the "Merger Consideration").

(b) At the Effective Time, each outstanding share of the common stock, par value \$0.01 per share, of Acquisition shall be converted into one share of common stock, par value \$0.01 per share, of the Surviving Corporation.

(c) At the Effective Time, each Share held by Parent, Acquisition or any subsidiary of Parent, Acquisition or the Company immediately prior to the Effective Time shall, by virtue of the Merger and without any action on the part of Acquisition, the Company or the holder thereof, be canceled, retired and cease to exist and no payment shall be made with respect thereto.

SECTION 1.9. Exchange of Certificates.

(a) As of the Effective Time, Parent shall make available to The Bank of Boston or another bank or trust company designated by Parent and reasonably acceptable to the Company

(the "Exchange Agent"), for the benefit of the holders of Shares, for exchange in accordance with this Article I, through the Exchange Agent: (i) certificates representing the appropriate number of shares of Parent Common Stock and (ii) cash to be paid in lieu of fractional shares of Parent Common Stock (such shares of Parent Common Stock and such cash are hereinafter referred to as the "Exchange Fund") issuable pursuant to Section 1.8 in exchange for outstanding Shares.

(b) As soon as reasonably practicable after the Effective Time, the Exchange Agent shall mail to each holder of record of a certificate or certificates which immediately prior to the Effective Time represented outstanding Shares (the "Certificates") whose Shares were converted into the right to receive shares of Parent Common Stock pursuant to Section 1.8: (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent and shall be in such form and have such other provisions as Parent and the Company may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for certificates representing shares of Parent Common Stock. Upon surrender of a Certificate for cancellation to the Exchange Agent or to such other agent or agents as may be appointed by Parent and Acquisition, together with such letter of transmittal, duly executed, the holder of such Certificate shall be entitled to receive in exchange therefor a certificate representing that number of whole shares of Parent Common Stock and, if applicable, a check representing the cash consideration to which such holder may be entitled on account of a fractional share of Parent Common Stock, which such holder has the right to receive pursuant to the provisions of this Article I, and the Certificate so surrendered shall forthwith be canceled. In the event of a transfer of ownership of Shares which is not registered in the transfer records of the Company, a certificate representing the proper number of shares of Parent Common Stock may be issued to a transferee if the Certificate representing such Shares is presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer and by evidence that any applicable stock transfer taxes have been paid. Until surrendered as contemplated by this Section 1.9, each Certificate shall be deemed at any time after the Effective Time to represent only the right to receive upon such surrender the certificate representing shares of Parent Common Stock and cash in lieu of any fractional shares of Parent Common Stock as contemplated by this Section 1.9.

(c) No dividends or other distributions declared or made after the Effective Time with respect to Parent Common Stock with a record date after the Effective Time shall be paid to the holder of any unsurrendered Certificate with respect to the shares of Parent Common Stock represented thereby and no cash payment in lieu of fractional shares shall be paid to any such holder pursuant to Section 1.9(f) until the holder of record of such Certificate shall surrender such Certificate. Subject to the effect of applicable laws, following surrender of any such Certificate, there shall be paid to the record holder of the certificates representing whole shares of Parent Common Stock issued in exchange therefor, without interest, (i) at the time of such surrender, the amount of any cash payable in lieu of a fractional share of Parent Common Stock to which such holder is entitled pursuant to Section 1.9(f) and the amount of dividends or other distributions with a record date after the Effective Time theretofore paid with respect to such whole shares of Parent Common Stock, and (ii) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to surrender and a payment date subsequent to surrender payable with respect to such whole shares of Parent Common Stock.

(d) In the event that any Certificate for Shares shall have been lost, stolen or destroyed, the Exchange Agent shall issue in exchange therefor, upon the making of an affidavit of that fact by the holder thereof such shares of Parent Common Stock and cash in lieu of fractional shares, if any, as may be required pursuant to this Agreement; provided, however, that Parent may, in its discretion, require the delivery of a suitable bond or indemnity.

(e) All shares of Parent Common Stock issued upon the surrender for exchange of Shares in accordance with the terms hereof (including any cash paid pursuant to Section 1.9(c) or 1.9(f)) shall be deemed to have been issued in full satisfaction of all rights pertaining to such Shares, and there shall be no further registration of transfers on the stock transfer books of the Surviving Corporation of the Shares which were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Corporation for any reason, they shall be canceled and exchanged as provided in this Article I.

(f) No fractions of a share of Parent Common Stock shall be issued in the Merger, but in lieu thereof each holder of Shares otherwise entitled to a fraction of a share of Parent Common Stock shall, upon surrender of his or her Certificate or

Certificates, be entitled to receive an amount of cash (without interest) determined by multiplying the closing price for Parent Common Stock as reported on the New York Stock Exchange (the "NYSE") Composite Transactions on the business day two days prior to the Effective Date by the fractional share interest to which such holder would otherwise be entitled. The parties acknowledge that payment of the cash consideration in lieu of issuing fractional shares was not separately bargained for consideration but merely represents a mechanical rounding off for purposes of simplifying the corporate and accounting problems which would otherwise be caused by the issuance of fractional shares.

(g) Any portion of the Exchange Fund which remains undistributed to the shareholders of the Company for six months after the Effective Time shall be delivered to Parent, upon demand, and any shareholders of the Company who have not theretofore complied with this Article I shall thereafter look only to Parent for payment of their claim for Parent Common Stock, as the case may be, any cash in lieu of fractional shares of Parent Common Stock and any dividends or distributions with respect to Parent Common Stock.

(h) Neither Parent nor the Company shall be liable to any holder of Shares, or Parent Common Stock, as the case may be, for such shares (or dividends or distributions with respect thereto) or cash from the Exchange Fund delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

SECTION 1.10. Stock Options. (a) At the Effective Time,

each outstanding option to purchase shares of Company Common Stock (a "Company Stock Option" or collectively, "Company Stock Options") issued pursuant to the (i) 1987 Stock Option Plan of the Company and the 1995 Stock Option and Award Plan (the "1995 Plan") of the Company and the Papyrus Design Group, Inc. 1992 Stock Option Plan (collectively, the "Company Plans") and (ii) the Sierra On-Line, Inc. 1993 Stock Option Grant Agreement with Kenneth A. Williams and the Sierra On-Line, Inc., 1994 Stock Option Grant Agreement with Walter A. Forbes (collectively, the "Non-Plan Option Agreements"), whether vested or unvested, shall be cancelled and, in lieu thereof, Parent shall issue to each holder of a Company Stock Option an option (each, a "Parent Option"), to acquire, on substantially the same terms and subject to substantially the same conditions as were applicable under such Company Stock Option, including, without limitation term, exercisability, vesting schedule, status as an "incentive stock option" under section 422 of the Code (except as hereinafter provided), acceleration and termination provisions, the same

number of shares of Parent Common Stock as the holder of such Company Stock Option would have been entitled to receive pursuant to the Merger had such holder exercised such option in full immediately prior to the Effective Time, at a price per share equal to (y) the aggregate exercise price for the shares of Company Common Stock otherwise purchasable pursuant to such Company Stock Option divided by (z) the number of full shares of Parent Common Stock deemed purchasable pursuant to such Company Stock Option; provided, however, that the

number of shares of Parent Common Stock that may be purchased upon exercise of any such Parent Option shall not include any fractional share and, upon exercise of the Parent Option, a cash payment shall be made for any fractional share based upon the Closing Price (as hereinafter defined) of a share of Parent Common Stock on the trading day immediately preceding the date of exercise. "Closing Price" shall mean, on any day, the last reported sale price of one share of Parent Common Stock on the NYSE. Notwithstanding the foregoing, Parent has advised the Company that Parent may need to obtain the approval of its shareholders in order for the Company Stock Options that qualify under section 422 of the Code to be converted to Parent Options having the same status and Parent agrees to use all reasonable efforts to obtain such approval (if required). If such approval is sought and not obtained, any such Company Stock Options that are so converted shall not qualify under section 422 of the Code. Employment with the Company shall be credited to the optionees for purposes of determining the number of vested shares of Parent Common Stock subject to exercise under converted Company Options after the Effective Time. Parent agrees that the Parent Options issued to a holder of Company Stock Options under the 1995 Plan shall become 100% vested and fully exercisable in the event that, within two years after the Effective Time the holder's employment or services are terminated by Parent or any of its affiliates without Cause or the holder voluntarily terminates his or her employment or services with Good Reason. "Cause" and "Good Reason" shall have the meanings set forth in the 1995 Plan. None of the Company Stock Options that are unvested at the Effective Time shall become vested as a result of the execution and delivery of this Agreement or the consummation of the Merger.

(b) As soon as practicable after the Effective Time, but no later than 30 days thereafter, Parent shall deliver to the holders of Company Stock Options appropriate notices setting forth such holders' rights pursuant to the respective Company Plans and stating that the holders will receive Parent Options exercisable for shares of Parent Common Stock on substantially the same terms and conditions as their Company Stock Options

(subject to the adjustments required by this Section 1.10 after giving effect to the Merger).

(c) Parent shall take all corporate action necessary to reserve for issuance a sufficient number of shares of Parent Common Stock for delivery upon exercise of Parent Options in accordance with this Section 1.10. As soon as practicable after the Effective Time, but no later than 30 days thereafter, Parent shall file a registration statement on Form S-3 or Form S-8, as the case may be (or any successor or other appropriate forms), or another appropriate form with respect to the shares of Parent Common Stock subject to the Parent Options and shall use its best efforts to maintain the effectiveness of such registration statement or registration statements (and maintain the current status of the prospectus or prospectuses contained therein) for so long as the Parent Options remain outstanding.

ARTICLE 2

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to each of Parent and Acquisition as follows:

SECTION 2.1. Organization and Qualification; Subsidiaries.

(a) The Company and each of its subsidiaries (as defined in Section 7.12), is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its businesses as now being conducted, except where the failure to be so organized, existing and in good standing or to have such power and authority would not have a Material Adverse Effect (as defined below) on the Company. When used in connection with the Company or its subsidiaries, the term "Material Adverse Effect" means any change or effect (i) that is or is reasonably likely to be materially adverse to the properties, business, results of operations or condition (financial or otherwise) of the Company and its subsidiaries, taken as whole, other than any change or effect arising out of general economic conditions or conditions generally affecting the consumer software market or the entertainment, education or personal productivity sectors of that market or (ii) that may impair the ability of the Company to consummate the transactions contemplated hereby.

(b) Except as set forth in Section 2.1(b) of the Disclosure Schedule previously delivered by the Company to Parent (the "Company Disclosure Schedule"), the Company has no subsidiaries and does not own, directly or indirectly, beneficially or of record, any shares of capital stock or other security of any other entity or any other investment in any other entity.

(c) Each of the Company and its subsidiaries is duly qualified or licensed and in good standing to do business in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification or licensing necessary, except in such jurisdictions where the failure to be so duly qualified or licensed and in good standing would not have a Material Adverse Effect on the Company.

(d) The Company has heretofore delivered to Parent accurate and complete copies of the certificate or articles of incorporation and by-laws, as currently in effect, of each of the Company and each of its subsidiaries.

SECTION 2.2. Capitalization of the Company and its

Subsidiaries.

(a) The authorized capital stock of the Company consists of: 40,000,000 Shares, of which, as of February 12, 1996, approximately 20,014,182 shares were issued and outstanding, and 1,000,000 shares of preferred stock, par value \$0.01 per share, no shares of which are outstanding. All of the issued and outstanding shares of Company Common Stock have been validly issued, and are fully paid, nonassessable and free of preemptive rights. As of February 12, 1996, approximately 2,832,238 shares of Company Common Stock were reserved for issuance and issuable upon or otherwise deliverable in connection with the exercise of outstanding Company Stock Options issued pursuant to the Company Plans and the Non-Plan Option Agreements, 191,981 shares of Company Common Stock were reserved for issuance under the Company's 1995 Employee Stock Purchase Plan (the "ESPP") and 1,668,571 shares of Company Common Stock were reserved for issuance pursuant to the conversion of the Company's 6 1/2 % Convertible Subordinated Notes due 2001 (the "Convertible Notes"). The final purchase by participants under the ESPP will occur no later than the business day immediately preceding the Effective Time. The ESPP will terminate at the Effective Time. Except as described in the Company SEC Reports (as defined in Section 2.4(a)) or in Section 2.2(a) of the Company Disclosure Schedule, as of the date hereof, since February 12, 1996, no

shares of the Company's capital stock have been issued other than pursuant to Company Stock Options already in existence on such date, and, since February 12, 1996, no stock options have been granted. Except as set forth above, as of the date hereof, there are outstanding (i) no shares of capital stock or other voting securities of the Company, (ii) no securities of the Company or its subsidiaries convertible into or exchangeable for shares of capital stock or voting securities of the Company, (iii) no options or other rights to acquire from the Company or its subsidiaries, and no obligations of the Company or its subsidiaries to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of the Company, and (iv) no equity equivalents, interests in the ownership or earnings of the Company or its subsidiaries or other similar rights (including stock appreciation rights) (collectively, "Company Securities"). There are no outstanding obligations of the Company or its subsidiaries to repurchase, redeem or otherwise acquire any Company Securities. Except as set forth in Section 2.2(a) of the Company Disclosure Schedule, there are no stockholder agreements (other than the Shareholders Agreement), voting trusts or other agreements or understandings to which the Company is a party or to which it is bound relating to the voting of any shares of capital stock of the Company.

(b) All of the outstanding capital stock of the Company's subsidiaries is owned by the Company, directly or indirectly, free and clear of any Lien (as defined below) or any other limitation or restriction (including any restriction on the right to vote or sell the same, except as may be provided as a matter of law). There are no securities of the Company or its subsidiaries convertible into or exchangeable for, no options or other rights to acquire from the Company or its subsidiaries, and no other contract, understanding, arrangement or obligation (whether or not contingent) providing for the issuance or sale, directly or indirectly, of any capital stock or other ownership interests in, or any other securities of, any subsidiary of the Company. There are no outstanding contractual obligations of the Company or its subsidiaries to repurchase, redeem or otherwise acquire any outstanding shares of capital stock or other ownership interests in any subsidiary of the Company. For purposes of this Agreement, "Lien" means, with respect to any asset (including, without limitation, any security) any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset.

(c) The Company Common Stock constitutes the only class of securities of the Company or its subsidiaries registered

or required to be registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

SECTION 2.3. Authority Relative to this Agreement; Consents

and Approvals.

(a) The Company has all necessary corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by the Board of Directors of the Company (the "Company Board") and no other corporate proceedings on the part of the Company are necessary to authorize this Agreement or to consummate the transactions contemplated hereby (other than, with respect to the Merger, the approval and adoption of this Agreement by the holders of a majority of the then outstanding shares of Company Common Stock). This Agreement has been duly and validly executed and delivered by the Company and constitutes a valid, legal and binding agreement of the Company, enforceable against the Company in accordance with its terms.

(b) The Company Board has, by unanimous vote of those present, duly and validly approved, and taken all corporate actions required to be taken by the Company Board for the consummation of, the transactions, including the Merger, contemplated hereby and resolved to recommend that the shareholders of the Company approve and adopt this Agreement; provided, however, that such approval and recommendation may be withdrawn, modified or amended in the event that the Company Board by majority vote determines in its good faith judgment, after consultation with and based upon the advice of independent legal counsel, that it is necessary to do so in order to comply with its fiduciary duties to shareholders under applicable law. No state takeover statute or similar statute or regulation applies or purports to apply to the Merger, this Agreement or any of the transactions contemplated hereby.

SECTION 2.4. SEC Reports; Financial Statements.

(a) The Company has filed all required forms, reports and documents with the Securities and Exchange Commission (the "SEC") since January 1, 1993, each of which has complied in all material respects with all applicable requirements of the Securities Act and the Exchange Act, each as in effect on the dates such forms, reports and documents were filed. The Company has heretofore delivered to Parent, in the form filed with the SEC (including any amendments thereto), (i) its Annual Reports on

Form 10-K for each of the fiscal years ended March 31, 1993, 1994 and 1995, (ii) all definitive proxy statements relating to the Company's meetings of shareholders (whether annual or special) held since April 1, 1993 and (iii) all other reports or registration statements filed by the Company with the SEC since April 1, 1993 (the "Company SEC Reports"). None of such forms, reports or documents, including, without limitation, any financial statements or schedules included or incorporated by reference therein, contained, when filed, any untrue statement of a material fact or omitted to state a material fact required to be stated or incorporated by reference therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The consolidated financial statements of the Company included in the Company SEC Reports complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto and fairly present, in conformity with generally accepted accounting principles applied on a consistent basis ("GAAP") (except as may be indicated in the notes thereto), the consolidated financial position of the Company and its consolidated subsidiaries as of the dates thereof and their consolidated results of operations and changes in financial position for the periods then ended (subject, in the case of the unaudited interim financial statements, to normal year-end adjustments and except that, in the case of financial statements included therein which were later restated to account for one or more business combinations accounted for as poolings-of-interests, such original financial statements do not reflect such restatements). Since March 31, 1995, except as set forth in the Company SEC Reports, there has not been any change, or any application or request for any change, by the Company or any of its subsidiaries in accounting principles, methods or policies for financial accounting or tax purposes (subject, in the case of the unaudited interim financial statements, to normal year-end adjustments).

(b) The Company has heretofore made available to Parent a complete and correct copy of any material amendments or modifications, which have not yet been filed with the SEC, to agreements, documents or other instruments which previously had been filed by the Company with the SEC pursuant to the Exchange Act.

SECTION 2.5. Information Supplied. None of the information

supplied or to be supplied by the Company for inclusion or incorporation by reference in (i) the registration statement on Form S-4 to be filed with the SEC by Parent in connection with the issuance of shares of Parent Common Stock in

the Merger (the "S-4") will, at the time the S-4 is filed with the SEC and at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and (ii) the proxy statement relating to the meeting of the Company's shareholders, and, if required, a meeting of Parent's shareholders, to be held in connection with the Merger (the "Proxy Statement") will, at the date mailed to shareholders and at the times of the meeting or meetings of shareholders to be held in connection with the Merger, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. If at any time prior to the Effective Time any event with respect to the Company, its officers and directors or any of its subsidiaries should occur which is required to be described in an amendment of, or a supplement to, the S-4 or the Proxy Statement, the Company shall promptly so advise Parent and such event shall be so described, and such amendment or supplement (which Parent shall have a reasonable opportunity to review) shall be promptly filed with the SEC and, as required by law, disseminated to the shareholders of the Company. The Proxy Statement, insofar as it relates to the meeting of the Company's shareholders to vote on the Merger, will comply as to form in all material respects with the provisions of the Exchange Act and the rules and regulations thereunder.

SECTION 2.6. Consents and Approvals; No Violations. Except

for filings, permits, authorizations, consents and approvals as may be required under, and other applicable requirements of, the Securities Act, the Exchange Act, state securities or blue sky laws, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and the filing and recordation of the Certificate of Merger as required by the DGCL, no filing with or notice to, and no permit, authorization, consent or approval of, any court or tribunal or administrative, governmental or regulatory body, agency or authority (a "Governmental Entity") is necessary for the execution and delivery by the Company of this Agreement or the consummation by the Company of the transactions contemplated hereby, except where the failure to obtain such permits, authorizations, consents or approvals or to make such filings or give such notice would not have a Material Adverse Effect on the Company. Except as set forth in Section 2.6 to the Company Disclosure Schedule, neither the execution, delivery and performance of this Agreement by the Company nor the consummation by the Company of the transactions contemplated hereby will (i)

conflict with or result in any breach of any provision of the respective certificate or articles of incorporation or bylaws (or similar governing documents) of the Company or any of its subsidiaries, (ii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, amendment, cancellation or acceleration or Lien) under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or obligation to which the Company or any of its subsidiaries is a party or by which any of them or any of their respective properties or assets may be bound, or (iii) violate any order, writ, injunction, decree, law, statute, rule or regulation applicable to the Company or any of its subsidiaries or any of their respective properties or assets, except in the case of (ii) or (iii) for violations, breaches or defaults which would not have a Material Adverse Effect on the Company.

SECTION 2.7. No Default. None of the Company or its

subsidiaries is in default or violation (and no event has occurred which with notice or the lapse of time or both would constitute a default or violation) of any term, condition or provision of (i) its certificate or articles of incorporation or bylaws (or similar governing documents), (ii) any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or obligation to which the Company or either of its subsidiaries is now a party or by which any of them or any of their respective properties or assets may be bound or (iii) any order, writ, injunction, decree, law, statute, rule or regulation applicable to the Company, its subsidiaries or any of their respective properties or assets, except in the case of (ii) or (iii) for violations, breaches or defaults that would not have a Material Adverse Effect on the Company.

SECTION 2.8. No Undisclosed Liabilities; Absence of

Changes. Except as and to the extent publicly disclosed by the

Company in the Company SEC Reports, as of December 31, 1995, none of the Company or its subsidiaries had any liabilities or obligations of any nature, whether or not accrued, contingent or otherwise, and whether due or to become due or asserted or unasserted, which would be required by GAAP to be reflected in, reserved against or otherwise described in the consolidated balance sheet of the Company (including the notes thereto) as of such date or which could reasonably be expected to have a Material Adverse Effect on the Company. Except as publicly disclosed by the Company in the Company SEC Reports, since December 31, 1995, the business of the Company and its subsidiaries has been carried on only in the ordinary and usual

course, none of the Company or its subsidiaries has incurred any liabilities of any nature, whether or not accrued, contingent or otherwise, which could reasonably be expected to have, and there have been no events, changes or effects with respect to the Company or its subsidiaries having or which could reasonably be expected to have, a Material Adverse Effect on the Company.

SECTION 2.9. Litigation. Except as publicly disclosed by

the Company in the Company SEC Reports or disclosed in Section 2.9 of the Company Disclosure Schedule, there is no suit, claim, action, proceeding or investigation pending or, to the knowledge of the Company, threatened against the Company or any of its subsidiaries or any of their respective properties or assets which (a) could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company or (b) as of the date hereof, questions the validity of this Agreement or any action to be taken by the Company in connection with the consummation of the transactions contemplated hereby or could otherwise prevent or delay the consummation of the transactions contemplated by this Agreement. Except as publicly disclosed by the Company, none of the Company or its subsidiaries is subject to any outstanding order, writ, injunction or decree which, insofar as can be reasonably foreseen, could reasonably be expected to have a Material Adverse Effect on the Company or would prevent or delay the consummation of the transactions contemplated hereby.

SECTION 2.10. Compliance with Applicable Law. Except as

publicly disclosed by the Company in the Company SEC Reports, the Company and its subsidiaries hold all permits, licenses, variances, exemptions, orders and approvals of all Governmental Entities necessary for the lawful conduct of their respective businesses (the "Company Permits"), except for failures to hold such permits, licenses, variances, exemptions, orders and approvals which could not reasonably be expected to have a Material Adverse Effect on the Company. Except as publicly disclosed by the Company in the Company SEC Reports, the Company and its subsidiaries are in compliance with the terms of the Company Permits, except where the failure so to comply could not reasonably be expected to have a Material Adverse Effect on the Company. Except as publicly disclosed by the Company in the Company SEC Reports, the businesses of the Company and its subsidiaries are not being conducted in violation of any law, ordinance or regulation of any Governmental Entity except that no representation or warranty is made in this Section 2.10 with respect to Environmental Laws (as defined in Section 2.12(a)) and except for violations or possible violations which do not, and, insofar as reasonably can be foreseen, will not, have a Material

Adverse Effect on the Company. Except as publicly disclosed by the Company in the Company SEC Reports or as disclosed in Section 2.10 of the Company Disclosure Schedule, to the best knowledge of the Company no investigation or review by any Governmental Entity with respect to the Company or its subsidiaries is pending or threatened, nor, to the best knowledge of the Company, has any Governmental Entity indicated an intention to conduct the same, other than, in each case, those which the Company reasonably believes will not have a Material Adverse Effect on the Company.

SECTION 2.11. Employee Plans. Except as disclosed in

Section 2.11 of the Company Disclosure Schedule, there are no "employee benefit plans" as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), maintained or contributed to by the Company or its subsidiaries ("Company ERISA Plans"). A complete and correct copy of each Company ERISA Plan has been provided or made available to Parent. The Company ERISA Plans are in compliance with the applicable provisions of ERISA, the Code and other applicable law, except for instances of non-compliance that could not reasonably be expected to have a Material Adverse Effect on the Company.

SECTION 2.12. Environmental Laws and Regulations.

(a) Except as publicly disclosed by the Company in the Company SEC Reports, (i) each of the Company and its subsidiaries is in compliance with all applicable federal, state and local laws and regulations relating to pollution or protection of human health or the environment (including, without limitation, ambient air, surface water, ground water, land surface or subsurface strata) (collectively, "Environmental Laws"), except for non-compliance that could not reasonably be expected to have a Material Adverse Effect on the Company, which compliance includes, but is not limited to, the possession by the Company and its subsidiaries of all material permits and other governmental authorizations required under applicable Environmental Laws, and compliance with the terms and conditions thereof; (ii) none of the Company or its subsidiaries has received written notice of, or, to the best knowledge of the Company, is the subject of, any action, cause of action, claim, investigation, demand or notice by any person or entity alleging liability under or non-compliance with any Environmental Law (an "Environmental Claim") that could reasonably be expected to have a Material Adverse Effect on the Company; and (iii) to the best knowledge of the Company, there are no circumstances that are reasonably likely to prevent or interfere with such material compliance in the future.

(b) Except as publicly disclosed by the Company in the Company SEC Reports, there are no Environmental Claims which could reasonably be expected to have a Material Adverse Effect on the Company that are pending or, to the best knowledge of the Company, threatened against the Company or its subsidiaries or, to the best knowledge of the Company, against any person or entity whose liability for any Environmental Claim the Company or any of its subsidiaries has or may have retained or assumed either contractually or by operation of law.

SECTION 2.13. Tax Matters. The Company and its

subsidiaries have accurately prepared in all material respects and duly filed with the appropriate federal, state, local and foreign taxing authorities all tax returns, information returns and reports that are, individually and in the aggregate, material and are required to be filed with respect to the Company and its subsidiaries and have paid in full or made adequate provision for the payment of all material Taxes (as defined below). Neither the Company nor any of its subsidiaries is delinquent in the payment of any material Taxes. As used herein, the term "Taxes" means all federal, state, local and foreign taxes, including, without limitation, income, profits, franchise, employment, transfer, withholding, property, excise, sales and use taxes (including interest penalties thereon and additions thereto).

SECTION 2.14. Intangible Property. The Company and its

subsidiaries own or possess adequate licenses or other valid rights to use all material patents, patent rights, trademarks, trademark rights, trade names, trade name rights, copyrights, service marks, trade secrets, applications for trademarks and for service marks, know-how and other proprietary rights and information used or held for use in connection with the business of the Company and its subsidiaries as currently conducted or as contemplated to be conducted, and the Company is unaware of any assertion or claim challenging the validity of any of the foregoing which, individually or in the aggregate, would have a Material Adverse Effect on the Company. To the best knowledge of the Company, the conduct of the business of the Company and its subsidiaries as heretofore and currently conducted has not and does not conflict in any way with any patent, patent right, license, trademark, trademark right, trade name, trade name right, service mark or copyright of any third party that, individually or in the aggregate, would have a Material Adverse Effect on the Company. To the best knowledge of the Company, there are no infringements of any proprietary rights owned by or licensed by or to the Company or any subsidiary which, individually or in the aggregate, would have a Material Adverse Effect on the Company.

SECTION 2.15. Opinion of Financial Advisor. Robertson,

Stephens & Company LLC (the "Financial Advisor") has delivered to the Company Board its opinion, dated the date of this Agreement, to the effect that, as of such date, the Merger Consideration is fair to the holders of Shares from a financial point of view, and such opinion has not been withdrawn or modified.

SECTION 2.16. Brokers. No broker, finder or investment

banker (other than the Financial Advisor, a true and correct copy of whose engagement agreement has been provided to Acquisition or Parent) is entitled to any brokerage, finder's or other fee or commission or expense reimbursement in connection with the transactions contemplated by this Agreement based upon arrangements made by and on behalf of the Company or any of its affiliates (including the Company Affiliates). The Company shall be responsible for all such fees and expenses, except as otherwise provided in Section 6.3.

SECTION 2.17. Accounting Matters. Neither the Company nor,

to the best of its knowledge, any of its affiliates or shareholders (including the Company Affiliates), has taken or agreed to take any action that would prevent Parent from accounting for the business combination to be effected by the Merger as a "pooling-of-interests." The Company has not failed to bring to the attention of Parent any actions, or agreements or understandings, whether written or oral, to act that would be reasonably likely to prevent Parent from accounting for the Merger as a "pooling-of-interests."

SECTION 2.18. Material Contracts.

(a) The Company has delivered or otherwise made available to Parent true, correct and complete copies of all contracts and agreements (and all amendments, modifications and supplements thereto and all side letters to which the Company is a party affecting the obligations of any party thereunder) to which the Company or any of its subsidiaries is a party or by which any of its properties or assets are bound that are, material to the business, properties or assets of the Company and its subsidiaries taken as a whole, including, without limitation, to the extent any of the following are, individually or in the aggregate, material to the business, properties or assets of the Company and its subsidiaries taken as a whole, all:
(i) employment, product design or development, personal services, consulting, non-competition, severance, golden parachute or indemnification contracts (including, without limitation, any contract to which the Company is a party involving employees of the Company);
(ii) licensing, publishing, merchandising or

distribution agreements; (iii) contracts granting a right of first refusal or first negotiation; (iv) partnership or joint venture agreements; (v) agreements for the acquisition, sale or lease of material properties or assets of the Company (by merger, purchase or sale of assets or stock or otherwise) entered into since January 1, 1993; (vi) contracts or agreements with any Governmental Entity; and (vii) all commitments and agreements to enter into any of the foregoing (collectively, together with any such contracts entered into in accordance with Section 4.1 hereof, the "Contracts"). Neither the Company nor any of its subsidiaries is a party to or bound by any severance, golden parachute or other agreement with any employee or consultant pursuant to which such person would be entitled to receive any additional compensation or an accelerated payment of compensation as a result of the consummation of the transactions contemplated hereby.

(b) Each of the Contracts is valid and enforceable in accordance with its terms, and there is no default under any Contract so listed either by the Company or, to the knowledge of the Company, by any other party thereto, and no event has occurred that with the lapse of time or the giving of notice or both would constitute a default thereunder by the Company or, to the knowledge of the Company, any other party, in any such case in which such default or event could reasonably be expected to have a Material Adverse Effect on the Company.

(c) No party to any such Contract has given notice to the Company of or made a claim against the Company with respect to any breach or default thereunder, in any such case in which such breach or default could reasonably be expected to have a Material Adverse Effect on the Company.

SECTION 2.19. Disclosure. No representation or warranty by

the Company contained in this Agreement and no statement contained in any certificate delivered by the Company to Acquisition or Parent pursuant to this Agreement contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein or therein not misleading when taken together in light of the circumstances in which they were made.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES
OF PARENT AND ACQUISITION

Parent and Acquisition hereby represent and warrant to the Company as follows:

SECTION 3.1. Organization.

(a) Each of Parent and its subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its businesses as now being conducted, except where the failure to be so organized, existing and in good standing or to have such power and authority would not have a Material Adverse Effect (as defined below) on Parent. When used in connection with Parent or Acquisition, the term "Material Adverse Effect" means any change or effect that is (i) materially adverse to the properties, business, results of operations or condition (financial or otherwise) of Parent and its subsidiaries, taken as a whole, other than any change or effect arising out of general economic conditions unrelated to any businesses in which Parent and its subsidiaries are engaged or (ii) that may impair the ability of Parent and/or Acquisition to consummate the transactions contemplated hereby.

(b) Parent has heretofore delivered to the Company accurate and complete copies of the certificate of incorporation and bylaws, as currently in effect, of Parent and Acquisition. Each of Parent and its subsidiaries is duly qualified or licensed and in good standing to do business in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification or licensing necessary, except in such jurisdictions where the failure to be so duly qualified or licensed and in good standing would not have a Material Adverse Effect on Parent.

(c) Each of Parent and its subsidiaries is duly qualified or licensed and in good standing to do business in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification or licensing necessary, except in such jurisdictions where the failure to be so duly qualified or licensed and in good standing would not have a Material Adverse Effect on Parent.

(d) Parent has heretofore delivered to the Company accurate and complete copies of the certificate of incorporation and by-laws of Parent as currently in effect.

SECTION 3.2. Capitalization of Parent and its Subsidiaries.

(a) The authorized capital stock of Parent consists of (i) 400,000,000 shares of Parent Common Stock, of which, as of January 31, 1996, approximately 189,000,000 shares of Parent Common Stock were issued and outstanding, and 3,000,000 shares of Parent Common Stock were held in treasury and (ii) 1,000,000 shares of preferred stock, \$.01 par value per share, none of which is issued or outstanding. All of the shares of Parent Common Stock have been validly issued, and are fully paid, nonassessable and free of preemptive rights. As of January 31, 1996, approximately 29.7 million shares of Parent Common Stock were reserved for issuance and issuable upon or otherwise deliverable in connection with the exercise of outstanding options. Except as described in the Parent SEC Reports (as defined in Section 3.4(a)) and except as set forth in Section 3.2 of the Disclosure Schedule previously delivered by Parent to the Company (the "Parent Disclosure Schedule"), as of the date hereof, since January 31, 1996, no shares of Parent's capital stock have been issued other than pursuant to stock options already in existence on January 31, 1996, and no stock options have been granted. Except (i) as described in the Parent SEC Reports, and (ii) as set forth above, as of the date hereof, there are outstanding (A) no shares of capital stock or other voting securities of Parent, (B) no securities of Parent or its subsidiaries convertible into or exchangeable for shares of capital stock or voting securities of Parent, (C) except as provided in the Davidson Agreement (as defined in Section 4.23), no options or other rights to acquire from Parent or its subsidiaries, and no obligations of Parent or its subsidiaries to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of Parent, and (D) no equity equivalents, interests in the ownership or earnings of Parent or its subsidiaries or other similar rights (including stock appreciation rights) (collectively, "Parent Securities"). There are no outstanding obligations of Parent or any of its subsidiaries to repurchase, redeem or otherwise acquire any Parent Securities. Except as set forth in the Parent SEC Reports, there are no stockholder agreements, voting trusts or other agreements or understandings to which Parent is a party or to which it is bound relating to the voting of any shares of capital stock of Parent.

(b) All of the outstanding capital stock of Parent's subsidiaries (including Acquisition) is owned by Parent, directly or indirectly, free and clear of any Lien or any other limitation or restriction (including any restriction on the right to vote or sell the same, except as may be provided as a matter of law). There are no securities of Parent or its subsidiaries convertible into or exchangeable for, no options or other rights to acquire from Parent or its subsidiaries, and no other contract, understanding, arrangement or obligation (whether or not contingent) providing for the issuance or sale, directly or indirectly, of any capital stock or other ownership interests in, or any other securities of, any subsidiary of Parent. There are no outstanding contractual obligations of Parent or its subsidiaries to repurchase, redeem or otherwise acquire any outstanding shares of capital stock or other ownership interests in any subsidiary of Parent.

(c) The Parent Common Stock constitutes the only class of equity securities of Parent or its subsidiaries registered or required to be registered under the Exchange Act.

SECTION 3.3. Authority Relative to this Agreement. Each of

Parent and Acquisition has all necessary corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by the boards of directors of Parent and Acquisition and by Parent as the sole shareholder of Acquisition, and no other corporate proceedings on the part of Parent or Acquisition are necessary to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by each of Parent and Acquisition and constitutes a valid, legal and binding agreement of each of Parent and Acquisition, enforceable against each of Parent and Acquisition in accordance with its terms.

SECTION 3.4. SEC Reports; Financial Statements.

(a) Parent has filed all required forms, reports and documents with the SEC since February 1, 1993, each of which has complied in all material respects with all applicable requirements of the Securities Act and the Exchange Act, each as in effect on the dates such forms, reports and documents were filed. Parent has heretofore delivered to the Company, in the form filed with the SEC (including any amendments thereto), (i) its Annual Reports on Form 10-K for each of the fiscal years ended January 31, 1993, 1994 and 1995, (ii) all definitive proxy

statements relating to Parent's meetings of shareholders (whether annual or special) held since February 1, 1993 and (iii) all other reports or registration statements filed by Parent with the SEC since February 1, 1993 (the "Parent SEC Reports"). None of such forms, reports or documents, including, without limitation, any financial statements or schedules included or incorporated by reference therein, contained, when filed, any untrue statement of a material fact or omitted to state a material fact required to be stated or incorporated by reference therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The consolidated financial statements of Parent included in the Parent SEC Reports complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto and fairly present, in conformity with generally accepted accounting principles applied on a consistent basis (except as may be indicated in the notes thereto), the consolidated financial position of Parent and its consolidated subsidiaries as of the dates thereof and their consolidated results of operations and changes in financial position for the periods then ended (subject, in the case of the unaudited interim financial statements, to normal year-end adjustments and except that, in the case of financial statements included therein which were later restated to account for one or more business combinations accounted for as poolings-of-interests, such original financial statements do not reflect such restatements). Since January 31, 1995, there has not been any change, or any application or request for any change, by Parent or any of its subsidiaries in accounting principles, methods or policies for financial accounting or tax purposes.

(b) Parent has heretofore made available to the Company a complete and correct copy of any material amendments or modifications, which have not yet been filed with the SEC, to agreements, documents or other instruments which previously had been filed by Parent with the SEC pursuant to the Exchange Act.

SECTION 3.5. Information Supplied. None of the information

supplied or to be supplied by Parent or Acquisition for inclusion or incorporation by reference in (i) the S-4 will, at the time the S-4 is filed with the SEC and at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and (ii) the Proxy Statement will, at the date mailed to shareholders and at the times of the meeting of shareholders of the Company to be held in connection with the

Merger, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. If at any time prior to the Effective Time any event with respect to Parent, its officers and directors or any of its subsidiaries should occur which is required to be described in an amendment of, or a supplement to, the S-4 or the Proxy Statement, Parent shall promptly so advise the Company and such event shall be so described, and such amendment or supplement (which the Company shall have a reasonable opportunity to review) shall be promptly filed with the SEC. The S-4 will comply as to form in all material respects with the provisions of the Securities Act and the rules and regulations thereunder.

SECTION 3.6. Consents and Approvals; No Violations. Except

for filings, permits, authorizations, consents and approvals as may be required under, and other applicable requirements of, the Securities Act, the Exchange Act, state securities or blue sky laws, the HSR Act, and the filing and recordation of the Certificate of Merger as required by the DGCL, no filing with or notice to, and no permit, authorization, consent or approval of, any Governmental Entity is necessary for the execution and delivery by Parent or Acquisition of this Agreement or the consummation by Parent or Acquisition of the transactions contemplated hereby, except where the failure to obtain such permits, authorizations, consents or approvals or to make such filings or give such notice would not have a Material Adverse Effect on Parent. Except as set forth in Section 3.6 of the Parent Disclosure Schedule, neither the execution, delivery and performance of this Agreement by Parent or Acquisition nor the consummation by Parent or Acquisition of the transactions contemplated hereby will (i) conflict with or result in any breach of any provision of the respective certificate of incorporation or bylaws (or similar governing documents) of Parent or Acquisition or any of Parent's subsidiaries, (ii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, amendment, cancellation or acceleration or Lien) under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or obligation to which Parent or Acquisition or any of Parent's subsidiaries is a party or by which any of them or any of their respective properties or assets may be bound or (iii) violate any order, writ, injunction, decree, law, statute, rule or regulation applicable to Parent or Acquisition or any of Parent's subsidiaries or any of their respective properties or assets,

except in the case of (ii) or (iii) for violations, breaches or defaults which would not have a Material Adverse Effect on Parent.

SECTION 3.7. No Default. None of Parent or any of its

subsidiaries is in default or violation (and no event has occurred which with notice or the lapse of time or both would constitute a default or violation) of any term, condition or provision of (i) its Articles of Incorporation or Bylaws (or similar governing documents), (ii) any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or obligation to which Parent or any of its subsidiaries is now a party or by which any of them or any of their respective properties or assets may be bound or (iii) any order, writ, injunction, decree, law, statute, rule or regulation applicable to Parent, its subsidiaries or any of their respective properties or assets, except in the case of (ii) or (iii) for violations, breaches or defaults that would not have a Material Adverse Effect on Parent.

SECTION 3.8. No Undisclosed Liabilities; Absence of

Changes. Except as and to the extent publicly disclosed by Parent, as

of October 31, 1995, none of Parent or its subsidiaries had any liabilities or obligations of any nature, whether or not accrued, contingent or otherwise, and whether due or to become due or asserted or unasserted, which would be required by GAAP to be reflected in, reserved against or otherwise described in the consolidated balance sheet of Parent and its consolidated subsidiaries (including the notes thereto) as of such date or which could reasonably be expected to have a Material Adverse Effect on Parent. Except as publicly disclosed by Parent in the Parent SEC Reports, since October 31, 1995, the business of Parent and its subsidiaries has been carried on only in the ordinary and usual course, none of Parent or its subsidiaries has incurred any liabilities of any nature, whether or not accrued, contingent or otherwise, and whether due or to become due or asserted or unasserted, which could reasonably be expected to have, and there have been no events, changes or effects with respect to Parent or its subsidiaries having or which could reasonably be expected to have, a Material Adverse Effect on Parent.

SECTION 3.9. Litigation. Except as publicly disclosed by

Parent in the Parent SEC Reports, there is no suit, claim, action, proceeding or investigation pending or, to the knowledge of Parent, threatened against Parent or any of its subsidiaries or any of their respective properties or assets which (a) if adversely determined, could reasonably be expected to have,

individually or in the aggregate, a Material Adverse Effect on Parent or (b) as of the date hereof, questions the validity of this Agreement or any action to be taken by Parent in connection with the consummation of the transactions contemplated hereby or could otherwise prevent or delay the consummation of the transactions contemplated by this Agreement. Except as publicly disclosed by Parent in the Parent SEC Reports, none of Parent or its subsidiaries is subject to any outstanding order, writ, injunction or decree which, insofar as can be reasonably foreseen, could reasonably be expected to have a Material Adverse Effect on Parent or would prevent or delay the consummation of the transactions contemplated hereby.

SECTION 3.10. Compliance with Applicable Law. Except as

publicly disclosed by Parent in the Parent SEC Reports, Parent and its subsidiaries hold all permits, licenses, variances, exemptions, orders and approvals of all Governmental Entities necessary for the lawful conduct of their respective businesses (the "Parent Permits"), except for failures to hold such permits, licenses, variances, exemptions, orders and approvals which could not reasonably be expected to have a Material Adverse Effect on Parent. Except as publicly disclosed by Parent in the Parent SEC Reports, Parent and its subsidiaries are in compliance with the terms of the Parent Permits, except where the failure so to comply could not reasonably be expected to have a Material Adverse Effect on Parent. Except as publicly disclosed by Parent in the Parent SEC Reports, the businesses of Parent and its subsidiaries are not being conducted in violation of any law, ordinance or regulation of any Governmental Entity except that no representation or warranty is made in this Section 3.10 with respect to Environmental Laws and except for violations or possible violations which do not, and, insofar as reasonably can be foreseen, will not, have a Material Adverse Effect on Parent. Except as publicly disclosed by Parent in the Parent SEC Reports, to the best knowledge of Parent, no investigation or review by any Governmental Entity with respect to Parent or its subsidiaries is pending or threatened, nor, to the best knowledge of Parent, has any Governmental Entity indicated an intention to conduct the same, other than, in each case, those which Parent reasonably believes will not have a Material Adverse Effect on Parent.

SECTION 3.11. Employee Plans. All "employee benefit plans"

as defined in Section 3(3) of ERISA, maintained or contributed to by Parent and its subsidiaries are in compliance with the applicable provisions of ERISA, the Code and other applicable law, except for instances of non-compliance that could

not reasonably be expected to have a Material Adverse Effect on Parent.

SECTION 3.12. Environmental Laws and Regulations.

(a) Except as publicly disclosed by Parent in the Parent SEC Reports, (i) each of Parent and its subsidiaries is in compliance with all Environmental Laws, except for non-compliance that could not reasonably be expected to have a Material Adverse Effect on Parent, which compliance includes, but is not limited to, the possession by Parent and its subsidiaries of all material permits and other governmental authorizations required under applicable Environmental Laws, and compliance with the terms and conditions thereof; (ii) none of Parent or its subsidiaries has received written notice of, or, to the best knowledge of Parent, is the subject of, any Environmental Claim that could reasonably be expected to have a Material Adverse Effect on Parent; and (iii) to the best knowledge of Parent, there are no circumstances that are reasonably likely to prevent or interfere with such material compliance in the future.

(b) Except as publicly disclosed by Parent in the Parent SEC Reports, there are no Environmental Claims which could reasonably be expected to have a Material Adverse Effect on Parent that are pending or, to the best knowledge of Parent, threatened against Parent or any of its subsidiaries or, to the best knowledge of Parent, against any person or entity whose liability for any Environmental Claim Parent or its subsidiaries has or may have retained or assumed either contractually or by operation of law.

SECTION 3.13. Tax Matters. Parent and its subsidiaries

have accurately prepared in all material respects and duly filed with the appropriate federal, state, local and foreign taxing authorities all tax returns, information returns and reports that are, individually or in the aggregate, material and are required to be filed with respect to Parent and its subsidiaries and have paid in full or made adequate provision for the payment of all material Taxes. Neither Parent nor any of its subsidiaries is delinquent in the payment of any material Taxes.

SECTION 3.14. No Prior Activities. Except for obligations

incurred in connection with its incorporation or organization or the negotiation and consummation of this Agreement and the transactions contemplated hereby, Acquisition

has neither incurred any obligation or liability nor engaged in any business or activity of any type or kind whatsoever or entered into any agreement or arrangement with any person or entity.

SECTION 3.15. Brokers. No broker, finder or investment

banker (other than Goldman, Sachs & Co.) is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by and on behalf of Parent or Acquisition or any of their affiliates.

SECTION 3.16. Accounting Matters. Neither Parent nor, to

the best of its knowledge, any of its affiliates, has taken or agreed to take any action that would prevent Parent from accounting for the business combination to be effected by the Merger as a "pooling-of-interests." Parent has not failed to bring to the attention of the Company any actions, or agreements or understandings, whether written or oral, to act that would be reasonably likely to prevent Parent from accounting for the Merger as a "pooling-of-interests."

SECTION 3.17. Disclosure. No representation or warranty by

Parent contained in this Agreement and no statement contained in any certificate delivered by Acquisition or Parent to the Company pursuant to this Agreement contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein or therein not misleading when taken together in light of the circumstances in which they were made.

ARTICLE 4

COVENANTS

SECTION 4.1. Conduct of Business of the Company. Except as

contemplated by this Agreement, during the period from the date hereof to the Effective Time, the Company will, and will cause each of its subsidiaries to, conduct its operations in the ordinary course of business consistent with past practice and, to the extent consistent therewith, with no less diligence and effort than would be applied in the absence of this Agreement, seek to preserve intact its current business organizations, seek to keep available the service of its current officers and employees and seek to preserve its relationships with customers, suppliers and others having business dealings with it to the end that goodwill and ongoing businesses shall be unimpaired at the Effective Time. Without limiting the generality of the foregoing, and except as otherwise expressly provided in this Agreement, prior to the Effective Time, neither the Company nor

any of its subsidiaries will, without the prior written consent of Parent, which consent shall not be unreasonably withheld:

(a) amend its certificate or articles of incorporation or bylaws (or other similar governing instrument);

(b) authorize for issuance, issue, sell, deliver or agree or commit to issue, sell or deliver (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase or otherwise) any stock of any class or any other securities or equity equivalents (including, without limitation, any stock options or stock appreciation rights), except for the grant of options to purchase up to 500,000 shares of Company Common Stock to employees under the Company Plans, the sale of up to 191,981 shares of Company Common Stock to employees under the ESPP, the issuance of up to 1,668,571 shares of Company Common Stock pursuant to the conversion of the Convertible Notes in accordance with the terms thereof and the issuance or sale of shares of Company Common Stock pursuant to options granted under the Company Plans or the Non-Plan Option Agreements (in each case, in the ordinary course of business and consistent with past practice);

(c) split, combine or reclassify any shares of its capital stock, declare, set aside or pay any dividend or other distribution (whether in cash, stock or property or any combination thereof) in respect of its capital stock, make any other actual, constructive or deemed distribution in respect of any shares of its capital stock or otherwise make any payments to stockholders in their capacity as such, or redeem or otherwise acquire any of its securities or any securities of any of its subsidiaries;

(d) adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of the Company or any of its subsidiaries (other than the Merger);

(e) alter through merger, liquidation, reorganization, restructuring or in any other fashion the corporate structure or ownership of any subsidiary;

(f) (i) incur or assume any long-term or short-term debt or issue any debt securities except for borrowings under existing lines of credit in the ordinary course of business and in amounts not material to the Company and its subsidiaries taken as a whole; (ii) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or

otherwise) for the obligations of any other person except in the ordinary course of business consistent with past practice and in amounts not material to the Company and its subsidiaries, taken as a whole, and except for obligations of the wholly owned subsidiaries of the Company; (iii) make any loans, advances or capital contributions to, or investments in, any other person (other than to the wholly owned subsidiaries of the Company or customary loans or advances to employees in the ordinary course of business consistent with past practice and in amounts not material to the maker of such loan or advance); (iv) pledge or otherwise encumber shares of capital stock of the Company or its subsidiaries; or (v) mortgage or pledge any of its material assets, tangible or intangible, or create or suffer to exist any material Lien thereupon;

(g) except as may be required by law or as contemplated by this Agreement, enter into, adopt or amend or terminate any bonus, profit sharing, compensation, severance, termination, stock option (except for normal grants to newly hired or current employees, consistent with past practice), stock appreciation right, restricted stock, performance unit, stock equivalent, stock purchase agreement, pension, retirement, deferred compensation, employment, severance or other employee benefit agreement, trust, plan, fund, award or other arrangement for the benefit or welfare of any director, officer or employee in any manner, or (except as set forth in Section 4.1(g) of the Company Disclosure Schedule and except for normal increases in the ordinary course of business consistent with past practice that, in the aggregate, do not result in a material increase in benefits or compensation expense to the Company, and as required under existing agreements or in the ordinary course of business generally consistent with past practice) increase in any manner the compensation or fringe benefits of any director, officer or employee or pay any benefit not required by any plan and arrangement as in effect as of the date hereof (including, without limitation, the granting of stock appreciation rights or performance units);

(h) acquire, sell, lease or dispose of any assets outside the ordinary course of business or any assets which in the aggregate are material to the Company and its subsidiaries taken as a whole, enter into any commitment or transaction outside the ordinary course of business or grant any exclusive distribution rights;

(i) except as may be required as a result of a change in law or in generally accepted accounting principles, change any of the accounting principles or practices used by it;

(j) revalue in any material respect any of its assets, including, without limitation, writing down the value of inventory or writing-off notes or accounts receivable other than in the ordinary course of business or as required by generally accepted accounting principles;

(k) (i) acquire (by merger, consolidation, or acquisition of stock or assets) any corporation, partnership or other business organization or division thereof or any equity interest therein; (ii) enter into any contract or agreement, other than in the ordinary course of business or amend in any material respect any of the Contracts or the agreements referred to in Section 2.18; (iii) authorize any new capital expenditure or expenditures which, individually, is in excess of \$500,000 or, in the aggregate, are in excess of \$5 million; provided, that none of the foregoing shall limit any capital expenditure already included in the Company's fiscal 1997 capital expenditure budget provided to Parent prior to the date hereof; or (iv) enter into or amend any contract, agreement, commitment or arrangement providing for the taking of any action that would be prohibited hereunder;

(l) make or revoke any tax election or settle or compromise any tax liability material to the Company and its subsidiaries taken as a whole or change (or make a request to any taxing authority to change) any material aspect of its method of accounting for tax purposes;

(m) pay, discharge or satisfy any material claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction in the ordinary course of business of liabilities reflected or reserved against in, or contemplated by, the consolidated financial statements (or the notes thereto) of the Company and its subsidiaries or incurred in the ordinary course of business consistent with past practice;

(n) settle or compromise any pending or threatened suit, action or claim relating to the transactions contemplated hereby; or

(o) take (other than to Parent in seeking its consent to the taking of any such action), propose to take, or agree in writing or otherwise to take, any of the actions described in Sections 4.1(a) through 4.1(n) or any action which would make any of the representations or warranties of the Company contained in this Agreement untrue or incorrect in any material respect.

SECTION 4.2. Conduct of Business of Parent. Except as

contemplated by this Agreement, during the period from the date hereof to the Effective Time, Parent will, and will cause each of its subsidiaries to, conduct its operations in the ordinary course of business consistent with past practice and, to the extent consistent therewith, with no less diligence and effort than would be applied in the absence of this Agreement, seek to preserve intact its current business organizations, seek to keep available the service of its current officers and employees and seek to preserve its relationships with customers, suppliers and others having business dealings with it to the end that goodwill and ongoing businesses shall be unimpaired at the Effective Time. Without limiting the generality of the foregoing, and except as otherwise expressly provided in this Agreement, prior to the Effective Time, Parent will not, without the prior written consent of the Company, which consent shall not be unreasonably withheld:

(a) amend its certificate of incorporation (other than to increase the number of authorized shares of Parent Common Stock) or bylaws;

(b) split, combine or reclassify any shares of its capital stock; declare, set aside or pay any dividend or other distribution (whether in cash, stock or property or any combination thereof) in respect of its capital stock; make any other actual, constructive or deemed distribution in respect of any shares of its capital stock or otherwise make any payments to stockholders in their capacity as such; or redeem or otherwise acquire any of its securities;

(c) adopt a plan of complete or partial liquidation, dissolution, restructuring, recapitalization or other reorganization of Parent;

(d) grant options to purchase, or make restricted stock grants with respect to, in excess of 1,000,000 shares of Parent Common Stock under Parent's employee stock option plans or stock purchase plans, except in connection with any acquisition (by merger, consolidation, or acquisition of stock or assets) of any corporation, partnership or other business organization or division thereof or any equity interest therein (including, without limitation, in connection with the transactions contemplated by the Davidson Agreement);

(e) except as set forth in Section 4.2(e) of the Parent Disclosure Schedule, incur or assume any long-term or short-term debt or issue any debt securities except for

borrowings under existing lines of credit in the ordinary course of business and in amounts not material to Parent and its subsidiaries taken as a whole and except for other indebtedness not exceeding \$100,000,000 in the aggregate; or

(f) take, or agree in writing or otherwise to take, any of the actions described in Sections 4.2(a) through 4.2(e).

SECTION 4.3. Preparation of S-4 and the Proxy Statement.

Parent will, as promptly as practicable, prepare, following receipt of notification from the SEC that it has no further comments on the Proxy Statement, and file with the SEC the S-4, containing a proxy statement/prospectus and a form of proxy, in connection with the registration under the Securities Act of the shares of Parent Common Stock issuable upon conversion of the Shares and the other transactions contemplated hereby. The Company will, as promptly as practicable, prepare and file with the SEC the Proxy Statement that will be the same proxy statement/prospectus contained in the S-4 and a form of proxy, in connection with the vote of the Company's stockholders with respect to the Merger. Parent and the Company will, and will cause their accountants and lawyers to, use all reasonable best efforts to have or cause the S-4 declared effective as promptly as practicable, including, without limitation, causing their accountants to deliver necessary or required instruments such as opinions, consents and certificates, and will take any other action required or necessary to be taken under federal or state securities laws or otherwise in connection with the registration process. The Company will use all reasonable best efforts to cause the Proxy Statement to be mailed to its shareholders at the earliest practicable date.

SECTION 4.4. Other Potential Acquirors. (a) The Company,

its affiliates and their respective officers, directors, employees, representatives and agents shall immediately cease any existing discussions or negotiations, if any, with any parties conducted heretofore with respect to any acquisition of all or any material portion of the assets of, or any equity interest in, the Company or its subsidiaries or any business combination with the Company or its subsidiaries. The Company may, directly or indirectly, furnish information and access, in each case only in response to unsolicited requests therefor, to any corporation, partnership, person or other entity or group pursuant to confidentiality agreements, and may participate in discussions and negotiate with such entity or group concerning any merger, sale of assets, sale of shares of capital stock or similar transaction involving the Company or any subsidiary or division of the Company, if such entity or group has submitted a proposal

to the Company (whether or not in writing) relating to any such transaction and the Company Board by a majority vote determines in its good faith judgment, after consultation with and based upon the advice of independent legal counsel, that it is necessary to do so to comply with its fiduciary duties to shareholders under applicable law. The Company Board shall provide a copy of any such written proposal and a summary of any oral proposal to Parent or Acquisition within 24 hours after receipt thereof and thereafter keep Parent and Acquisition promptly advised of any material development with respect thereto. Except as set forth above, neither the Company nor any of its affiliates shall, nor shall the Company authorize or permit any of its or their respective officers, directors, employees, representatives or agents to directly or indirectly, encourage, solicit, participate in or initiate discussions or negotiations with, or provide any information to, any corporation, partnership, person or other entity or group (other than Parent and Acquisition, any affiliate or associate of Parent and Acquisition or any designees of Parent and Acquisition) concerning any merger, sale of assets, sale of shares of capital stock or similar transaction involving the Company or any subsidiary or division of the Company; provided, however, that nothing herein shall prevent the Company Board from taking, and disclosing to the Company's shareholders, a position contemplated by Rules 14d-9 and 14e-2 promulgated under the Exchange Act with regard to any tender offer; provided, further, that nothing herein shall prevent the Company Board from making such disclosure to the Company's shareholders as, in the good faith judgment of the Company Board, after consultation with and based upon the advice of independent legal counsel, is necessary to comply with its fiduciary duties to shareholders under applicable law.

(b) Except as set forth in this Section 4.4, the Company Board shall not approve or recommend, or cause the Company to enter into any agreement with respect to, any Third Party Acquisition (as defined below). Notwithstanding the foregoing, if the Board of Directors of the Company, after consultation with and based upon the advice of independent legal counsel, determines in good faith that it is necessary to do so in order to comply with its fiduciary duties to shareholders under applicable law, the Company Board may approve or recommend a Superior Proposal (as defined below) or cause the Company to enter into an agreement with respect to a Superior Proposal, but in each case only (i) after providing reasonable written notice to Parent (a "Notice of Superior Proposal") advising Parent that the Company Board has received a Superior Proposal, specifying the material terms and conditions of such Superior Proposal and

identifying the person making such Superior Proposal and (ii) if Parent does not make within five days of Parent's receipt of the Notice of Superior Proposal, an offer which the Company Board, after consultation with its financial advisors, determines is superior to such Superior Proposal. For purposes of this Agreement, a "Superior Proposal" means any bona fide proposal to acquire, directly or indirectly, for consideration consisting of cash and/or securities, more than 50% of the shares of Company Common Stock then outstanding or all or substantially all the assets of the Company and otherwise on terms which the Company Board determines in its good faith judgment (based on the advice of a financial advisor of nationally recognized reputation) to be more favorable to the Company's shareholders than the Merger.

SECTION 4.5. Letter of the Company's Accountants. The

Company shall use all reasonable best efforts to cause to be delivered to Parent a letter of Deloitte & Touche LLP, the Company's independent auditors, dated a date within two business days before the date on which the S-4 shall become effective and addressed to Parent, in form and substance reasonably satisfactory to Parent and customary in scope and substance for letters delivered by independent public accountants in connection with registration statements similar to the S-4.

SECTION 4.6. Meetings. The Company shall call a meeting of

its shareholders to be held as promptly as practicable for the purpose of voting upon this Agreement and related matters. The Company and Acquisition will, through their respective Boards of Directors recommend to their respective shareholders approval of such matters; provided, however, that the Company Board may withdraw its recommendation if the Company Board by a majority vote determines in its good faith judgment, after consultation with and based upon the advice of independent legal counsel, that it is necessary to do so to comply with its fiduciary duties to shareholders under applicable law. Notwithstanding the foregoing (but without limiting the provisions of Section 6.1(c)(vi)), the Company Board may not withdraw its recommendation because of the trading price of Parent Common Stock between the date hereof and the date of the Company's shareholder's meeting. The Company and Parent shall coordinate and cooperate with respect to the timing of such meeting and, subject to Section 4.23(c), the Company shall use its best efforts to hold such meeting as soon as practicable after the date hereof; provided, however, that the Company may postpone a previously-scheduled meeting of Company shareholders in the event that the Company Board by majority vote determines in its good faith judgment, after consultation with and based upon the advice of independent legal counsel, that it is

necessary to do so in order to comply with its fiduciary duties to shareholders under applicable law and, at the time of such determination, the Company has received a bona fide proposal to effect a Third Party Acquisition that is a Superior Proposal and that has not been withdrawn.

SECTION 4.7. Stock Exchange Listing. Parent shall use all

reasonable efforts to cause the shares of Parent Common Stock to be issued in the Merger and the shares of Parent Common Stock to be reserved for issuance upon exercise of Company Stock Options to be approved for listing on the NYSE, subject to official notice of issuance, prior to the Effective Time.

SECTION 4.8. Access to Information.

(a) Between the date hereof and the Effective Time, the Company will give Parent and Acquisition and their authorized representatives reasonable access to all employees, plants, offices, warehouses and other facilities and to all books and records of the Company and its subsidiaries, will permit Parent and Acquisition to make such inspections as Parent and Acquisition may reasonably require and will cause the Company's officers and those of its subsidiaries to furnish Parent and Acquisition with such financial and operating data and other information with respect to the business, properties and personnel of the Company and its subsidiaries as Parent or Acquisition may from time to time reasonably request, provided that no investigation pursuant to this Section 4.8(a) shall affect or be deemed to modify any of the representations or warranties made by the Company.

(b) Between the date hereof and the Effective Time, the Company shall furnish to Parent and Acquisition (i) within five business days after the delivery thereof to management, such monthly financial statements and data as are regularly prepared for distribution to Company management and (ii) at the earliest time they are available, such quarterly and annual financial statements as are prepared for the Company's SEC filings, which (in the case of this clause (ii)), shall be in accordance with the books and records of the Company.

(c) Each of Parent and Acquisition will hold and will cause its consultants and advisors to hold in confidence all documents and information concerning the Company and its subsidiaries furnished to Parent or Acquisition in connection with the transactions contemplated by this Agreement pursuant to the terms of that certain Confidentiality Agreement entered into between the Company and Parent dated February 17, 1996.

SECTION 4.9. Additional Agreements; Reasonable Best

Efforts. Subject to the terms and conditions herein provided, each of

the parties hereto agrees to use its reasonable best efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things reasonably necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement, including, without limitation, (i) cooperation in the preparation and filing of the Proxy Statement and the S-4, any filings that may be required under the HSR Act, and any amendments to any thereof; (ii) the taking of all action reasonably necessary, proper or advisable to secure any necessary consents under existing debt obligations of the Company and its subsidiaries or amend the notes, indentures or agreements relating thereto to the extent required by such notes, indentures or agreements or redeem or repurchase such debt obligations; (iii) contesting any legal proceeding relating to the Merger; and (iv) the execution of any additional instruments, including the Certificate of Merger, necessary to consummate the transactions contemplated hereby; provided, however, that the Company may postpone a previously-scheduled meeting of Company shareholders in the event that the Company Board by majority vote determines in its good faith judgment, after consultation with and based upon the advice of independent legal counsel, that it is necessary to do so in order to comply with its fiduciary duties to shareholders under applicable law and, at the time of such determination, the Company has received a bona fide proposal to effect a Third Party Acquisition that is a Superior Proposal and that has not been withdrawn. Subject to the terms and conditions of this Agreement, Parent and Acquisition agree to use all reasonable efforts to cause the Effective Time to occur as soon as practicable after the shareholder vote with respect to the Merger. In case at any time after the Effective Time any further action is necessary to carry out the purposes of this Agreement, the proper officers and directors of each party hereto shall take all such necessary action.

SECTION 4.10. Consents. Parent, Acquisition and the

Company each will use all reasonable efforts to obtain consents of all third parties and Governmental Entities necessary, proper or advisable for the consummation of the transactions contemplated by this Agreement.

SECTION 4.11. Public Announcements. Each of Parent,

Acquisition and the Company will consult with one another before issuing any press release or otherwise making any public statements with respect to the transactions contemplated by this Agreement, including, without limitation, the Merger, and shall

not issue any such press release or make any such public statement prior to such consultation, except as may be required by applicable law or by obligations pursuant to any listing agreement with the NYSE or the Nasdaq Stock Market, as determined by Parent, Acquisition or the Company, as the case may be.

SECTION 4.12. Indemnification; Directors' and Officers'

Insurance.

(a) Indemnification. To the extent, if any, not provided

by an existing right under one of the parties' directors and officers liability insurance policies, from and after the Effective Time, Parent shall, to the fullest extent permitted by applicable law, indemnify, defend and hold harmless each person who is now, or has been at any time prior to the date hereof, or who becomes prior to the Effective Time, a director, officer or employee of the parties hereto or any subsidiary thereof (each an "Indemnified Party" and, collectively, the "Indemnified Parties") against all losses, expenses (including reasonable attorneys' fees and expenses), claims, damages or liabilities or, subject to the proviso of the next succeeding sentence, amounts paid in settlement, arising out of actions or omissions occurring at or prior to the Effective Time and whether asserted or claimed prior to, at or after the Effective Time) that are in whole or in part (i) based on, or arising out of the fact that such person is or was a director, officer or employee of such party or a subsidiary of such party or (ii) based on, arising out of or pertaining to the transactions contemplated by this Agreement. In the event of any such loss, expense, claim, damage or liability (whether or not arising before the Effective Time), (i) Parent shall pay the reasonable fees and expenses of counsel selected by the Indemnified Parties, which counsel shall be reasonably satisfactory to Parent, promptly after statements therefor are received and otherwise advance to such Indemnified Party upon request reimbursement of documented expenses reasonably incurred, in either case to the extent not prohibited by the DGCL and upon receipt of any affirmation and undertaking required by the DGCL, (ii) Parent will cooperate in the defense of any such matter and (iii) any determination required to be made with respect to whether an Indemnified Party's conduct complies with the standards set forth under the DGCL and Parent's certificate of incorporation or bylaws shall be made by independent counsel mutually acceptable to Parent and the Indemnified Party; provided, however, that Parent shall not be liable for any settlement effected without its written consent (which consent shall not be reasonably withheld). The Indemnified Parties as a group may retain only one law firm with respect to each related matter except to the extent there is, in the opinion of counsel

to an Indemnified Party, under applicable standards of professional conduct, a conflict on any significant issue between positions of any two or more Indemnified Parties.

(b) Insurance. For a period of three years after the

Effective Time, Parent shall cause to be maintained in effect the policies of directors' and officers' liability insurance maintained by the Company for the benefit of those persons who are covered by such policies at the Effective Time (or Parent may substitute therefor policies of at least the same coverage with respect to matters occurring prior to the Effective Time), to the extent that such liability insurance can be maintained annually at a cost to Parent not greater than 150 percent of the premium for the current Company directors' and officers' liability insurance; provided that if such insurance cannot be so maintained or obtained at such costs, Parent shall maintain or obtain as much of such insurance as can be so maintained or obtained at a cost equal to 150 percent of the current annual premiums of the Company for such insurance.

(c) Successors. In the event Parent or any of its

successors or assigns (i) consolidates with or merges into any other person and shall not be the continuing or surviving corporation or entity or such consolidation or merger or (ii) transfers all or substantially all of its properties and assets to any person, then and in either such case, proper provision shall be made so that the successors and assigns of Parent shall assume the obligations set for in this Section 4.12.

(d) Survival of Indemnification. To the fullest extent

permitted by law, from and after the Effective Time, all rights to indemnification now existing in favor of the employees, agents, directors or officers of the Company and its subsidiaries with respect to their activities as such prior to the Effective Time, as provided in the Company's certificate of incorporation or bylaws, in effect on the date thereof or otherwise in effect on the date hereof, shall survive the Merger and shall continue in full force and effect for a period of not less than six years from the Effective Time.

(e) Benefit. The provisions of this Section 4.12 are

intended to be for the benefit of, and shall be enforceable by, each Indemnified Party, his or her heirs and his or her representatives.

SECTION 4.13. Notification of Certain Matters. The Company

shall give prompt notice to Parent and Acquisition, and Parent and Acquisition shall give prompt notice to the Company,

of (i) the occurrence or nonoccurrence of any event the occurrence or nonoccurrence of which would be likely to cause any representation or warranty contained in this Agreement to be untrue or inaccurate in any material respect at or prior to the Effective Time, (ii) any material failure of the Company, Parent or Acquisition, as the case may be, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder, (iii) any notice of, or other communication relating to, a default or event which, with notice or lapse of time or both, would become a default, received by it or any of its subsidiaries subsequent to the date of this Agreement and prior to the Effective Time, under any contract or agreement material to the financial condition, properties, businesses or results of operations of it and its subsidiaries taken as a whole to which it or any of its subsidiaries is a party or is subject, (iv) any notice or other communication from any third party alleging that the consent of such third party is or may be required in connection with the transactions contemplated by this Agreement, or (v) any material adverse change in their respective financial condition, properties, businesses, results of operations or prospects, taken as a whole, other than changes resulting from general economic conditions; provided, however, that the delivery of any notice pursuant to this Section 4.13 shall not cure such breach or non-compliance or limit or otherwise affect the remedies available hereunder to the party receiving such notice.

SECTION 4.14. Pooling. The Company and Parent each agrees

that it will not take any action which could prevent the Merger from being accounted for as a "pooling-of-interests" for accounting purposes and the Company will bring to the attention of Parent, and Parent will bring to the attention of the Company, any actions, or agreements or understandings, whether written or oral, that could be reasonably likely to prevent Parent from accounting for the Merger as a "pooling-of-interests." Parent shall use commercially reasonable efforts to cause Ernst & Young LLP ("E&Y") to deliver to Parent a letter to the effect that pooling-of-interests accounting is appropriate for the Merger if it is closed and consummated in accordance with the terms of this Agreement, and the Company shall use commercially reasonable efforts to cause Deloitte & Touche LLP to cooperate fully with E&Y (including, without limitation, sharing information, analysis and work product, engaging in active discussions and delivering to the Company a letter substantially similar to E&Y's letter to Parent) in connection with E&Y's delivery of such letter. The Company will cause Deloitte & Touche LLP to inform all Company Affiliates and other relevant employees as to those actions that should or should not be taken by such persons so that the Merger

will be accounted for as a "pooling-of-interests" and will use its best efforts to cause such Company Affiliates and employees to take or not take such actions as Parent may be informed by any Governmental Entity are necessary to be taken or not to be taken so that the Merger will be accounted for as a "pooling-of-interests."

SECTION 4.15. Tax-Free Reorganization Treatment. The

Company, Parent and Acquisition shall execute and deliver to Perkins Coie, counsel to the Company, a certificate substantially in the form agreed to by the parties on or prior to the date hereof (with such changes as reasonably requested by such law firm) at such time or times as reasonably requested by such law firm in connection with its delivery of an opinion with respect to the transactions contemplated hereby, and shall provide a copy thereof to Parent and the Company. Prior to the Effective Time, none of the Company, Parent or Acquisition shall take or cause to be taken any action which would cause to be untrue (or fail to take or cause not to be taken any action which would cause to be untrue) any of the representations in such previously-agreed certificate.

SECTION 4.16. Taxes. In respect of income tax returns of

the Company or any subsidiary not required to be filed prior to the date hereof, the Company shall, to the extent permitted by law without any penalty, extend (and cause its subsidiaries to extend) the filing of any such Tax returns until after the Effective Time; provided, however, that the Company shall notify Parent of its intention to file an extension (or cause any subsidiary to file an extension) any such filing and shall not file an extension for a Tax return if Parent and the Company agree that so extending the filing of such Tax return is not in the best interests of either the Company or Parent. If any income Tax return that has not yet been filed is required to be filed on or prior to the Effective Time, the Company or its subsidiaries, as the case may be, shall prepare and timely file such Tax return in a manner consistent with prior years and all applicable laws and regulations; provided, however, that Parent shall be notified and given an opportunity to review and to comment, prior to the filing thereof, on any such Tax return (a) which relates to a Tax which is based upon or measured by income, (b) which is not regularly filed by the Company or a subsidiary thereof in connection with the conduct of its business in the ordinary course, or (c) for which Parent requests such opportunity, although neither Parent's approval nor consent shall be required prior to the filing of any such Tax return.

SECTION 4.17. Employment and Other Agreements. Parent

shall, as of or prior to the Effective Time, enter into an employment agreement (the "Employment Agreement") with Kenneth A. Williams and non-competition agreements (the "Non-Competition Agreements") with each of Kenneth A. Williams and Roberta L. Williams, in each case in the form agreed to by the parties thereto on or prior to the date hereof. On the date hereof, Roberta L. Williams is entering into a personal services agreement with Parent.

SECTION 4.18. Employee Matters.

(a) Employees of the Company and its subsidiaries shall be treated after the Merger no less favorably under the compensation and benefits programs of Parent than other similarly situated employees of Parent and its subsidiaries.

(b) For a period of one year following the Merger, Parent shall and shall cause its subsidiaries to maintain with respect to their employees who had been employed by the Company or any of its subsidiaries (i) base salary or regular hourly wage rates for each such employee at not less than the rate applicable immediately prior to the Merger to such employee, and (ii) employee benefits (as defined for purposes of Section 3(3) of ERISA), other than employee benefits as to which the employees' interests are based upon the Shares) which are substantially comparable in the aggregate to such employee benefits provided by the Company and its subsidiaries immediately prior to the Merger.

(c) Parent and its subsidiaries shall credit employees of the Company and its subsidiaries with their service prior to the Merger with Company and its subsidiaries to the same extent such service was counted under the Company ERISA Plans for purposes of determining eligibility to participate or vesting under similar benefit plans provided by Parent after the Merger.

(d) Nothing contained herein shall be construed as requiring Parent or the Surviving Corporation to continue any specific plans or to continue the employment of any specific person.

SECTION 4.19. Company Affiliates. The Company has

identified to Parent each Company Affiliate and each Company Affiliate has delivered to Parent on or prior to the date hereof, a written agreement (i) that such Company Affiliate will not sell, pledge, transfer or otherwise dispose of any shares of Parent Common Stock issued to such Company Affiliate pursuant to the Merger, except in compliance with Rule 145 promulgated under

the Securities Act or an exemption from the registration requirements of the Securities Act and (ii) that on or prior to the earlier of (x) the mailing of the Proxy Statement/Prospectus or (y) the thirtieth day prior to the Effective Time such Company Affiliate will not thereafter sell or in any other way reduce such Company Affiliate's risk relative to any shares of Parent Common Stock received in the Merger (within the meaning of the SEC's Financial Reporting Release No. 1, "Codification of Financing Reporting Policies," Section 201.01 47 F.R. 21028 (April 15, 1982)), until such time as financial results (including combined sales and net income) covering at least 30 days of post-merger operations have been published, except as permitted by Staff Accounting Bulletin No. 76 issued by the SEC.

SECTION 4.20. Election to Parent Board. Effective as of

the Closing Date, Parent shall increase the size of its Board of Directors (the "Parent Board") by one director and shall cause Kenneth A. Williams to be appointed to the Parent Board to fill the vacancy created for an initial term expiring on the third anniversary of the date of Parent's first annual meeting of shareholders held following the date hereof.

SECTION 4.21. SEC Filings. Each of Parent and the Company

shall promptly provide the other party (or its counsel) with copies of all filings made by the other party or any of its subsidiaries with the SEC or any other state or federal Governmental Entity in connection with this Agreement and the transactions contemplated hereby.

SECTION 4.22. Guarantee of Performance. Parent hereby

guarantees the performance by Acquisition of its obligations under this Agreement.

SECTION 4.23. Acquisition. (a) The Company hereby

acknowledges that it has been advised by Parent that Parent is, substantially simultaneously with the execution and delivery of this Agreement, entering into an Agreement and Plan of Merger (the "Davidson Agreement"), dated as of the date hereof, among Parent, Stealth Acquisition II Corp. ("Merger Sub") and Davidson & Associates, Inc. ("Davidson") pursuant to which Merger Sub will merge with and into Davidson and Davidson will become a wholly-owned subsidiary of Parent (the "Davidson Merger") and the shareholders and stock option holders of Davidson will receive, respectively, shares of Parent Common Stock and options to purchase shares of Parent Common Stock in the Davidson Merger.

(b) The parties hereto expressly acknowledge and agree that it shall not be a condition to the respective obligations of

any party hereto to effect the Merger that the transactions contemplated by the Davidson Agreement shall have been approved by the shareholders of Parent or Davidson or that such transactions shall have been consummated.

(c) Notwithstanding anything to the contrary contained herein (including, without limitation, in Sections 4.3, 4.6 and 4.9 hereof), the Company will cooperate with all reasonable requests of Parent to coordinate the timing of the shareholders meetings with respect to the transactions contemplated by this Agreement and the Davidson Agreement; provided, however, that the Company may postpone a previously-scheduled meeting of Company shareholders in the event that the Company Board by majority vote determines in its good faith judgment, after consultation with and based upon the advice of independent legal counsel, that it is necessary to do so in order to comply with its fiduciary duties to shareholders under applicable law and, at the time of such determination, the Company has received a bona fide proposal to effect a Third Party Acquisition that is a Superior Proposal and that has not been withdrawn. In addition, the Company will provide Parent with all financial and other data regarding the Company as may be requested by Parent in connection with the preparation of the proxy statement and Form S-4 relating to the Davidson Merger.

ARTICLE 5

CONDITIONS TO CONSUMMATION OF THE MERGER

SECTION 5.1. Conditions to Each Party's Obligations to

Effect the Merger. The respective obligations of each party hereto to

effect the Merger are subject to the satisfaction at or prior to the Effective Time of the following conditions:

(a) this Agreement shall have been approved and adopted by the requisite vote of the shareholders of the Company;

(b) no statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or enforced by any United States court or United States governmental authority which prohibits, restrains, enjoins or restricts the consummation of the Merger;

(c) any waiting period applicable to the Merger under the HSR Act shall have terminated or expired, and any other governmental or regulatory notices or approvals required with respect to the transactions contemplated hereby shall have been either filed or received;

(d) the S-4 shall have become effective under the Securities Act and shall not be the subject of any stop order or proceedings seeking a stop order and Parent shall have received all state securities laws or "blue sky" permits and authorizations necessary to issue shares of Parent Common Stock in exchange for the Shares in the Merger; and

(e) Parent shall have received a letter from E&Y stating that the Merger will be accounted for under GAAP as a "pooling-of-interests," and such opinion shall not have been withdrawn or modified in any material respect.

SECTION 5.2. Conditions to the Obligations of the Company.

The obligation of the Company to effect the Merger is subject to the satisfaction at or prior to the Effective Time of the following conditions:

(a) the representations of Parent and Acquisition contained in this Agreement or in any other document delivered pursuant hereto shall be true and correct in all material respects at and as of the Effective Time with the same effect as if made at and as of the Effective Time, and at the Closing Parent and Acquisition shall have delivered to the Company a certificate to that effect;

(b) each of the obligations of Parent and Acquisition to be performed at or before the Effective Time pursuant to the terms of this Agreement shall have been duly performed in all material respects at or before the Effective Time and at the Closing Parent and Acquisition shall have delivered to the Company a certificate to that effect;

(c) the shares of Parent Common Stock issuable to the Company shareholders pursuant to this Agreement and such other shares required to be reserved for issuance in connection with the Merger shall have been authorized for listing on the NYSE upon official notice of issuance;

(d) the opinion of Perkins Coie, counsel to the Company, addressed to the Company and its shareholders to the effect that (i) the Merger will be treated for Federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code; (ii) each of Parent, Acquisition, the Company will be a party to the reorganization within the meaning of Section 368(b) of the Code; and (iii) no gain or loss will be recognized by a shareholder of the Company as a result of the Merger with respect to Shares converted into shares of Parent Common Stock (other than with respect to cash received in lieu of fractional

shares of Parent Common Stock), dated the Closing Date and, if required in connection with the Proxy Statement, dated on or about the date that is two business days prior to the date the Proxy Statement is first mailed to shareholders of the Company shall have been delivered and such opinion shall not have been withdrawn or modified in any material respect;

(e) Parent shall have obtained the consent or approval of each person whose consent or approval shall be required in connection with the transactions contemplated hereby under any loan or credit agreement, note, mortgage, indenture, lease or other agreement or instrument, except those for which failure to obtain such consents and approvals would not, individually or in the aggregate, have a Material Adverse Effect on Parent; and

(f) there shall have been no events, changes or effects with respect to Parent or its subsidiaries having or which could reasonably be expected to have a Material Adverse Effect on Parent.

SECTION 5.3. Conditions to the Obligations of Parent and Acquisition. The respective obligations of Parent and Acquisition to effect the Merger are subject to the satisfaction at or prior to the Effective Time of the following conditions:

(a) the representations of the Company contained in this Agreement or in any other document delivered pursuant hereto shall be true and correct in all material respects at and as of the Effective Time with the same effect as if made at and as of the Effective Time, and at the Closing the Company shall have delivered to Parent and Acquisition a certificate to that effect;

(b) each of the obligations of the Company to be performed at or before the Effective Time pursuant to the terms of this Agreement shall have been duly performed in all material respects at or before the Effective Time and at the Closing the Company shall have delivered to Parent and Acquisition a certificate to that effect;

(c) each Company Affiliate and each shareholder which is a party to the Shareholders Agreement shall have performed his or its respective obligations under the applicable Affiliate Letter and/or the Shareholders Agreement (if applicable), and Parent shall have received a certificate signed by each of them to such effect;

(d) the Company shall have obtained the consent or approval of each person whose consent or approval shall be required in order to permit the succession by the Surviving Corporation pursuant to the Merger to any obligation, right or interest of the Company or any subsidiary of the Company under any loan or credit agreement, note, mortgage, indenture, lease or other agreement or instrument, except for those for which failure to obtain such consents and approvals would not, individually or in the aggregate, have a Material Adverse Effect on the Company;

(e) there shall have been no events, changes or effects with respect to the Company or its subsidiaries having or which could reasonably be expected to have, a Material Adverse Effect on the Company;

(f) the Employment Agreement and the Services Agreement each shall be in full force and effect; and

(g) the Non-Competition Agreements shall be in full force and effect.

ARTICLE 6

TERMINATION; AMENDMENT; WAIVER

SECTION 6.1. Termination. This Agreement may be terminated

and the Merger may be abandoned at any time, but prior to the Effective Time:

(a) by mutual written consent of Parent, Acquisition and the Company;

(b) by Parent and Acquisition or the Company if (i) any court of competent jurisdiction in the United States or other United States governmental authority shall have issued a final order, decree or ruling or taken any other final action restraining, enjoining or otherwise prohibiting the Merger and such order, decree, ruling or other action is or shall have become nonappealable or (ii) the Merger has not been consummated by September 30, 1996; provided that no party may terminate this Agreement pursuant to this clause (ii) if such party's failure to fulfill any of its obligations under this Agreement shall have been the reason that the Effective Time shall not have occurred on or before said date;

(c) by the Company if (i) there shall have been a breach of any representation or warranty on the part of Parent or Acquisition set forth in this Agreement, or if any representation

or warranty of Parent or Acquisition shall have become untrue, in either case such that the conditions set forth in Section 5.2(a) would be incapable of being satisfied by September 30, 1996 (or as otherwise extended), (ii) there shall have been a breach by Parent or Acquisition of any of their respective covenants or agreements hereunder having a Material Adverse Effect on the Parent or materially adversely affecting (or materially delaying) the consummation of the Merger, and Parent or Acquisition, as the case may be, has not cured such breach within twenty business days after notice by the Company thereof, (iii) the Company enters into a definitive agreement relating to a Superior Proposal in accordance with Section 4.4(b) (provided that such termination shall not be effective until payment of the amount required under Section 6.3(a)), (iv) the Company shall have convened a meeting of its shareholders to vote upon the Merger and shall have failed to obtain the requisite vote of its shareholders, (v) the Company Board by a majority vote determines in its good faith judgment, after consultation with and based upon the advice of independent legal counsel, that it is necessary to do so to comply with its fiduciary duties to shareholders, provided that such termination under this clause (v) shall not be effective unless at the time of such determination the Company has received a bona fide proposal to effect a Third Party Acquisition that is a Superior Proposal and that has not been withdrawn as of the time of such termination (provided that such termination shall not be effective until payment of the amount required under Section 6.3(a)), or (vi) prior to the meeting of shareholders the Company, the Average Stock Price (as defined below) is less than \$29.00. The term "Average Stock Price" means a fraction, the numerator of which is the sum of the Closing Price (as hereinafter defined) for each trading day during the 15 consecutive trading days ending on the first trading day that is at least 10 calendar days prior to the scheduled date of such meeting of shareholders of the Company and the denominator of which is 15. For purposes hereof, with respect to any trading day, the Closing Price shall be equal to the per share closing price on the NYSE of Parent Common Stock on such day, as reported in the New York Stock Exchange Composite Transactions; or

(d) by Parent and Acquisition if (i) there shall have been a breach of any representation or warranty on the part of the Company set forth in this Agreement, or if any representation or warranty of the Company shall have become untrue, in either case such that the conditions set forth in Section 5.3(a) would be incapable of being satisfied by September 30, 1996 (or as otherwise extended), (ii) there shall have been a breach by the Company of its covenants or agreements hereunder having a

Material Adverse Effect on the Company or materially adversely affecting (or materially delaying) the consummation of the Merger, and the Company has not cured such breach within twenty business days after notice by Parent or Acquisition thereof, (iii) the Company Board shall have withdrawn, modified or changed its approval or recommendation of this Agreement or the Merger, shall have recommended to the Company's shareholders a Third Party Acquisition or shall have failed to call, give notice of, convene or hold a shareholders' meeting to vote upon the Merger, or shall have adopted any resolution to effect any of the foregoing, or (iv) the Company shall have convened a meeting of its shareholders to vote upon the Merger and shall have failed to obtain the requisite vote of its shareholders.

"Third Party Acquisition" means the occurrence of any of the following events (i) the acquisition of the Company by merger or otherwise by any person (which includes a "person" as such term is defined in Section 13(d)(3) of the Exchange Act) or entity other than Parent, Acquisition or any affiliate thereof (a "Third Party"); (ii) the acquisition by a Third Party of more than 30% of the total assets of the Company and its subsidiaries, taken as a whole; or (iii) the acquisition by a Third Party of 30% or more of the outstanding shares of Company Common Stock.

SECTION 6.2. Effect of Termination. In the event of the

termination and abandonment of this Agreement pursuant to Section 6.1, this Agreement shall forthwith become void and have no effect, without any liability on the part of any party hereto or its affiliates, directors, officers or shareholders, other than the provisions of this Section 6.2 and Sections 4.8(c), 6.3, 7.5, 7.8, 7.10 and 7.13 hereof. Nothing contained in this Section 6.2 shall relieve any party from liability for any breach of this Agreement.

SECTION 6.3. Fees and Expenses.

(a) In the event that this Agreement shall be terminated pursuant to:

(i) Section 6.1(d)(i) (in the case of a willful breach of representation or warranty) or (ii) and, within twelve months thereafter, the Company enters into an agreement with respect to a Third Party Acquisition (which is consummated within twelve months after such termination), or a Third Party Acquisition occurs, involving any party (or any affiliate thereof) (x) with whom the Company (or its agents) had negotiations with a view to a Third Party Acquisition, (y) to whom the Company (or its agents) furnished information with a

view to a Third Party Acquisition or (z) who had submitted a proposal or expressed an interest in a Third Party Acquisition, in the case of each of clauses (x), (y) and (z) after the date hereof and prior to such termination; or

(ii) Section 6.1(c)(iii) or (v) or 6.1(d)(iii);

Parent and Acquisition would suffer direct and substantial damages, which damages cannot be determined with reasonable certainty. To compensate Parent and Acquisition for such damages, the Company shall pay to Parent the amount of \$25 million as liquidated damages, as follows: (i) in the case of a termination under Section 6.1(d)(i) or (ii), \$12.5 million shall be paid on the date the Company enters into an agreement with respect to a Third Party Acquisition and \$12.5 million shall be paid on the date of consummation of a Third Party Acquisition under the circumstances described in Section 6.3(a)(i) above and (ii) in the case of a termination under Section 6.1(c)(iii) or (v) or Section 6.1(d)(iii), \$12.5 million shall be paid on the date of such termination (except, in the case of a termination under Section 6.1(d)(iii), in which case such \$12.5 million shall be paid within 20 days following such termination) and \$12.5 million shall be paid upon consummation of a Third Party Acquisition involving any party (or any affiliate thereof) (x) with whom the Company (or its agents) had negotiations with a view to a Third Party Acquisition, (y) to whom the Company (or its agents) furnished information with a view to a Third Party Acquisition or (z) who had submitted a proposal or expressed an interest in a Third Party Acquisition, in the case of each of clauses (x), (y) and (z) after the date hereof and prior to such termination. It is specifically agreed that the amount to be paid pursuant to this Section 6.3(a) represents liquidated damages and not a penalty.

(b) Upon the termination of this Agreement pursuant to Sections 6.1(c)(iii) or (v) or 6.1(d)(i), (ii) or (iii), the Company shall reimburse Parent, Acquisition and their affiliates (not later than ten business days after submission of statements therefor) for all actual documented out-of-pocket fees and expenses, not to exceed \$3,000,000, actually and reasonably incurred by any of them or on their behalf in connection with the Merger and the consummation of all transactions contemplated by this Agreement (including, without limitation, fees payable to investment bankers, counsel to any of the foregoing, and accountants). If Parent or Acquisition shall submit a request for reimbursement hereunder, Parent or Acquisition will provide the Company in due course with invoices or other reasonable evidence of such expenses upon request. The Company shall in any

event pay the amount requested (not to exceed \$3,000,000) within ten business days of such request, subject to the Company's right to demand a return of any portion as to which invoices are not received in due course.

(c) Upon the termination of this Agreement pursuant to Sections 6.1(c)(i) or (ii), Parent shall reimburse the Company and their affiliates (not later than ten business days after submission of statements therefor) for all actual documented out-of-pocket fees and expenses, not to exceed \$3,000,000, actually and reasonably incurred by any of them or on their behalf in connection with the Merger and the consummation of all transactions contemplated by this Agreement (including, without limitation, fees payable to investment bankers, counsel to any of the foregoing, and accountants). If the Company shall submit a request for reimbursement hereunder, the Company will provide Parent in due course with invoices or other reasonable evidence of such expenses upon request. Parent shall in any event pay the amount requested (not to exceed \$3,000,000) within ten business days of such request, subject to Parent's right to demand a return of any portion as to which invoices are not received in due course.

(d) Except as specifically provided in this Section 6.3, each party shall bear its own expenses in connection with this Agreement and the transactions contemplated hereby. The cost of printing the S-4 and the Proxy Statement shall be borne equally by the Company and Parent.

SECTION 6.4. Amendment. This Agreement may be amended by

action taken by the Company, Parent and Acquisition at any time before or after approval of the Merger by the shareholders of the Company (if required by applicable law) but, after any such approval, no amendment shall be made which requires the approval of such shareholders under applicable law without such approval. This Agreement may not be amended except by an instrument in writing signed on behalf of the parties hereto.

SECTION 6.5. Extension; Waiver. At any time prior to the

Effective Time, each party hereto (for these purposes, Parent and Acquisition shall together be deemed one party and the Company shall be deemed the other party) may (i) extend the time for the performance of any of the obligations or other acts of the other party, (ii) waive any inaccuracies in the representations and warranties of the other party contained herein or in any document, certificate or writing delivered pursuant hereto or (iii) waive compliance by the other party with any of the agreements or conditions contained herein. Any

agreement on the part of either party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of either party hereto to assert any of its rights hereunder shall not constitute a waiver of such rights.

ARTICLE 7

MISCELLANEOUS

SECTION 7.1. Nonsurvival of Representations and Warranties. -----

The representations and warranties made herein shall not survive beyond the Effective Time or a termination of this Agreement.

SECTION 7.2. Entire Agreement; Assignment. This Agreement -----

(a) constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all other prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof and (b) shall not be assigned by operation of law or otherwise; provided, however, that Acquisition may assign any or all of its rights and obligations under this Agreement to any subsidiary of Parent, but no such assignment shall relieve Acquisition of its obligations hereunder if such assignee does not perform such obligations.

SECTION 7.3. Validity. If any provision of this Agreement, -----

or the application thereof to any person or circumstance, is held invalid or unenforceable, the remainder of this Agreement, and the application of such provision to other persons or circumstances, shall not be affected thereby, and to such end, the provisions of this Agreement are agreed to be severable.

SECTION 7.4. 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 given upon receipt) by delivery in person, by cable, telegram, facsimile or telex, or by registered or certified mail (postage

prepaid, return receipt requested), to the other party as follows:

- if to Parent
or Acquisition: CUC International Inc.
707 Summer Street
Stamford, CT 06901
Attention: Amy N. Lipton, Esq.
Facsimile: (203) 348-1982

- with a copy to: Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, NY 10153
Attention: Howard Chatzinoff, Esq.
Facsimile: (212) 310-8007

- if to the Company to: Sierra On-Line, Inc.
3380 146th Place S.E.
Ste. 300
Bellevue, WA 98007
Attention: Richard K. Thumann, Esq.
Facsimile: (206) 644-7397

- with a copy to: Perkins Coie
1201 Third Avenue
40th Floor
Seattle, WA 98101-3099
Attention: Stephen A. McKeon, Esq.
Facsimile: (206) 583-8500

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

SECTION 7.5. Governing Law. This Agreement shall be governed

by and construed in accordance with the laws of the State of Delaware, without regard to the principles of conflicts of law thereof.

SECTION 7.6. Descriptive Headings. The descriptive headings

herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

SECTION 7.7. Parties in Interest. This Agreement shall be

binding upon and inure solely to the benefit of each party hereto and its successors and permitted assigns, and except as provided in Sections 4.12 and 7.2 and except that Kenneth A. Williams

shall be a third party beneficiary of the provisions of Section 4.20, nothing in this Agreement, express or implied, is intended to or shall confer upon any other person any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

SECTION 7.8. Arbitration. Any controversy, dispute or claim

arising out of or relating to this Agreement or the breach hereof which cannot be settled by mutual agreement (except for actions by Parent or the Company seeking equitable, injunctive or other relief under Section 7.10) shall be finally settled by arbitration as follows: Any party who is aggrieved shall deliver a notice to other party setting forth the specific points in dispute. Any points remaining in dispute twenty (20) days after the giving of such notice shall be submitted to arbitration in New York, New York, to Endispute, before a single arbitrator appointed in accordance with Endispute's Arbitration Rules, modified only as herein expressly provided. The arbitrator may enter a default decision against any party who fails to participate in the arbitration proceedings. 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. The arbitrator will be authorized to apportion its fees and expenses and the reasonable attorney's fees and expenses of Parent and the Company as the arbitrator deems appropriate. In the absence of any such apportionment, the fees and expense of the arbitrator will be borne equally by each party, and each party will bear the fees and expenses of its own attorney. The parties agree that this clause has been included to rapidly and inexpensively resolve any disputes between them with respect to this Agreement, and that this clause shall be grounds for dismissal of any court action commenced by either party with respect to this Agreement, other than post-arbitration actions seeking to enforce an arbitration award. The parties shall keep confidential, and shall not disclose to any person, except as may be required by law, the existence of any controversy hereunder, the referral of any such controversy to arbitration or the status or resolution thereof.

SECTION 7.9. Severability. If any term or other provision of

this Agreement is invalid, illegal or unenforceable, all other provisions of this Agreement shall remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party.

SECTION 7.10. Specific Performance. The parties hereto

acknowledge that irreparable damage would result if this

Agreement were not specifically enforced, and they therefore consent that the rights and obligations of the parties under this Agreement may be enforced by a decree of specific performance issued by a court of competent jurisdiction. Such remedy shall, however, not be exclusive and, subject to Section 7.8, shall be in addition to any other remedies, including arbitration, which any party may have under this Agreement or otherwise.

SECTION 7.11. Recapitalization. Whenever (a) the number of

outstanding shares of Parent Common Stock is changed by reason of a subdivision or combination of shares, whether effected by a recapitalization, reclassification of shares or otherwise or (b) Parent pays a cash or stock dividend or makes a similar distribution, each specified number of shares referred to in this Agreement (including the Merger Consideration) and each specified per share amount (other than par values) shall be adjusted accordingly.

SECTION 7.12. Subsidiaries. The term "subsidiary" shall mean,

when used with reference to any entity, any entity more than fifty percent (50%) of the outstanding voting securities or interests (including membership interests) of which are owned directly or indirectly by such former entity.

SECTION 7.13. Brokers. Except as otherwise provided in Section

6.3, the Company agrees to indemnify and hold harmless Parent and Acquisition, and Parent and Acquisition agree to indemnify and hold harmless the Company, from and against any and all liability to which Parent and Acquisition, on the one hand, or the Company, on the other hand, may be subjected by reason of any brokers, finders or similar fees or expenses with respect to the transactions contemplated by this Agreement to the extent such similar fees and expenses are attributable to any action undertaken by or on behalf of the Company, or Parent or Acquisition, as the case may be.

SECTION 7.14. Counterparts. This Agreement may be executed in

one or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement.

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be duly executed on its behalf as of the day and year first above written.

SIERRA ON-LINE, INC.

By:/s/ Kenneth A. Williams

Name: Kenneth A. Williams
Title: Chairman and
Chief Executive Officer

CUC INTERNATIONAL INC.

By:/s/ E. Kirk Shelton

Name: E. Kirk Shelton
Title: President

LARRY ACQUISITION CORP.

By:/s/ E. Kirk Shelton

Name: E. Kirk Shelton
Title: President

SHAREHOLDERS AGREEMENT

AGREEMENT, dated February 19, 1996 (this "Agreement"), by and among CUC INTERNATIONAL INC., a Delaware corporation ("Parent"), and each of the other parties signatory hereto (each, a "Shareholder" and, collectively, the "Shareholders").

W I T N E S S E T H:

WHEREAS, concurrently herewith, Parent, STEALTH ACQUISITION II CORP., a Delaware corporation and a direct wholly-owned subsidiary of Parent ("Merger Sub"), and DAVIDSON & ASSOCIATES, INC., a California corporation (the "Company"), are entering into an Agreement and Plan of Merger (as such agreement may hereafter be amended from time to time, the "Merger Agreement;" capitalized terms used and not defined herein have the respective meanings ascribed to them in the Merger Agreement) pursuant to which Merger Sub will be merged with and into the Company (the "Merger");

WHEREAS, each of the Shareholders Beneficially Owns (as defined herein) the number of shares, par value \$.01 per share, of common stock of the Company (the "Shares" or "Company Common Stock") set forth opposite such Shareholder's name on Schedule I hereto;

WHEREAS, as an inducement and a condition to entering into the Merger Agreement, Parent has required that the Shareholders agree, and the Shareholders have agreed, to enter into this Agreement;

NOW, THEREFORE, in consideration of the foregoing and the mutual premises, representations, warranties, covenants and agreements contained herein, the parties hereto hereby agree as follows:

1. Provisions Concerning Company Common Stock. Each

Shareholder hereby agrees that during the period commencing on the date hereof and continuing until the first to occur of the Effective Time and termination of the Merger Agreement in accordance with its terms, at any meeting of the holders of Company Common Stock, however called, or in connection with any written consent of the holders of Company Common Stock, such Shareholder shall vote (or cause to be voted) the Shares held of record or Beneficially Owned (as defined below) by such Shareholder, whether heretofore owned or hereafter acquired,

(i) in favor of approval of the Merger Agreement and any actions required in furtherance thereof and hereof; (ii) against any action or agreement that would result in a breach in any respect of any covenant, representation or warranty or any other obligation or agreement of the Company under the Merger Agreement (after giving effect to any materiality or similar qualifications contained therein); and (iii) except as otherwise agreed to in writing in advance by Parent, against the following actions (other than the Merger and the transactions contemplated by the Merger Agreement): (A) any extraordinary corporate transaction, such as a merger, consolidation or other business combination involving the Company; (B) a sale, lease, transfer or disposition of any assets outside the ordinary course of business or any assets which in the aggregate are material to the Company and its subsidiaries taken as a whole, or a reorganization, recapitalization, dissolution or liquidation of the Company; (C) (1) any change in a majority of the persons who constitute the board of directors of the Company; (2) any change in the present capitalization of the Company or any amendment of the Company's Certificate of Incorporation or By-Laws; (3) any other material change in the Company's corporate structure or business; or (4) any other action which, in the case of each of the matters referred to in clauses C (1), (2), (3) or (4), is intended, or could reasonably be expected, to impede, interfere with, delay, postpone, or materially adversely affect the Merger and the transactions contemplated by this Agreement and the Merger Agreement. Such Shareholder shall not enter into any agreement or understanding with any Person (as defined below) the effect of which would be inconsistent or violative of the provisions and agreements contained in Section 1 or 2 hereof. For purposes of this Agreement, "Beneficially Own" or "Beneficial Ownership" with respect to any securities shall mean having "beneficial ownership" of such securities (as determined pursuant to Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), including pursuant to any agreement, arrangement or understanding, whether or not in writing. Without duplicative counting of the same securities by the same holder, securities Beneficially Owned by a Person shall include securities Beneficially Owned by all other Persons with whom such Person would constitute a "group" as within the meanings of Section 13(d)(3) of the Exchange Act. For purposes of this Agreement, "Person" shall mean an individual, corporation, partnership, joint venture, association, trust, unincorporated organization or other entity.

2. Other Covenants, Representations and Warranties. Each

Shareholder hereby represents and warrants to Parent as follows:

(a) Ownership of Shares. Such Shareholder is the record

and Beneficial Owner of the number of Shares set forth opposite such Shareholder's name on Schedule I hereto. On the date hereof, the Shares set forth opposite such Shareholder's name on Schedule I hereto constitute all of the Shares owned of record or Beneficially Owned by such Shareholder. Such Shareholder has (i) sole voting power and sole power to issue instructions with respect to the matters set forth in Section 1 hereof, sole power of disposition, sole power of conversion, sole power to demand appraisal rights and sole power to agree to all of the matters set forth in this Agreement, in each case with respect to all of the Shares set forth opposite such Shareholder's name on Schedule I hereto and denoted by footnote 1, with no limitations, qualifications or restrictions on such rights (ii) shared voting power and shared power to issue instructions with respect to the matters set forth in Section 1 hereof, shared power of disposition, shared power of conversion, shared power to demand appraisal rights and shared power to agree to all of the matters set forth in this Agreement, in each case shared with another Shareholder party to this Agreement and in each case with respect to all of the Shares set forth opposite such Shareholder's name on Schedule 1 hereto and denoted by footnote 2.

(b) Power; Binding Agreement. Such Shareholder has the

legal capacity, power and authority to enter into and perform all of such Shareholder's obligations under this Agreement. The execution, delivery and performance of this Agreement by such Shareholder will not violate any other agreement to which such Shareholder is a party including, without limitation, any voting agreement, shareholder agreement or voting trust. This Agreement has been duly and validly executed and delivered by such Shareholder and constitutes a valid and binding agreement of such Shareholder, enforceable against such Shareholder in accordance with its terms. There is no beneficiary or holder of a voting trust certificate or other interest of any trust of which such Shareholder is Trustee who is not a party to this Agreement and whose consent is required for the execution and delivery of this Agreement or the consummation by such Shareholder of the transactions contemplated hereby. If such Shareholder is married and such Shareholder's Shares constitute community property, this Agreement has been duly authorized, executed and delivered by, and constitutes a valid and binding agreement of, such Shareholder's spouse, enforceable against such person in accordance with its terms.

(c) No Conflicts. (A) No filing with, and no permit,

authorization, consent or approval of, any state or federal

public body or authority is necessary for the execution of this Agreement by such Shareholder and the consummation by such Shareholder of the transactions contemplated hereby and (B) none of the execution and delivery of this Agreement by such Shareholder, the consummation by such Shareholder of the transactions contemplated hereby or compliance by such Shareholder with any of the provisions hereof shall (1) result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default (or give rise to any third party right of termination, cancellation, material modification or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, contract, commitment, arrangement, understanding, agreement or other instrument or obligation of any kind to which such Shareholder is a party or by which such Shareholder or any of such Shareholder's properties or assets may be bound, or (2) violate any order, writ, injunction, decree, judgment, order, statute, rule or regulation applicable to such Shareholder or any of such Shareholder's properties or assets.

(d) No Finder's Fees. Other than existing financial

advisory and investment banking arrangements and agreements between the Company and Smith Barney Inc. and between the Company and Kerlin Capital Group, no broker, investment banker, financial adviser or other person is entitled to any broker's, finder's, financial adviser's or other similar fee or commission in connection with the transactions contemplated by the Merger Agreement based upon arrangements made by or on behalf of such Shareholder or any of its affiliates or, to the knowledge of such Shareholder, the Company or any of its affiliates.

(e) Other Potential Acquirors. Such Shareholder (i) shall

immediately cease any existing discussions or negotiations, if any, with any parties conducted heretofore with respect to any acquisition of all or any material portion of the assets of, or any equity interest in, the Company or its subsidiaries or any business combination with the Company or its subsidiaries, in his, her or its capacity as such, and (ii) from and after the date hereof until termination of the Merger Agreement, unless and until the Company is permitted to take such actions under Section 4.4 of the Merger Agreement, shall not, in such capacity, directly or indirectly, initiate, solicit or knowingly encourage (including by way of furnishing non-public information or assistance), or take any other action to facilitate knowingly, any inquiries or the making of any proposal that constitutes, or may reasonably be expected to lead to, any such transaction or acquisition, or agree to or endorse any such transaction or acquisition, or authorize or permit any of such

Shareholder's agents to do so, and such Shareholder shall promptly notify Parent or Merger Sub of any proposal and shall provide a copy of any such written proposal and a summary of any oral proposal to Parent or Merger Sub immediately after receipt thereof (and shall specify the material terms and conditions of such proposal and identify the person making such proposal) and thereafter keep Parent or Merger Sub promptly advised of any development with respect thereto.

(f) Restriction on Transfer, Proxies and Non-Interference.

Such Shareholder shall not, directly or indirectly: (i) except as contemplated by the Merger Agreement, offer for sale, sell, transfer, tender, pledge, encumber, assign or otherwise dispose of, or enter into any contract, option or other arrangement or understanding with respect to or consent to the offer for sale, sale, transfer, tender, pledge, encumbrance, assignment or other disposition of, any or all of such Shareholder's Shares or any interest therein; (ii) grant any proxies or powers of attorney, deposit any Shares into a voting trust or enter into a voting agreement with respect to any Shares; or (iii) take any action that would make any representation or warranty of such Shareholder contained herein untrue or incorrect or have the effect of preventing or disabling such Shareholder from performing such Shareholder's obligations under this Agreement.

(g) Reliance by Parent. Such Shareholder understands and

acknowledges that Parent is entering into, and causing Merger Sub to enter into, the Merger Agreement in reliance upon such Shareholder's execution and delivery of this Agreement.

3. Further Assurances. From time to time, at the other

party's request and without further consideration, each party hereto shall execute and deliver such additional documents and take all such further lawful action as may be necessary or desirable to consummate and make effective, in the most expeditious manner practicable, the transactions contemplated by this Agreement.

4. Stop Transfer; Restrictive Legend. (a) Each

Shareholder agrees with, and covenants to, Parent that such Shareholder shall not request that the Company register the transfer (book-entry or otherwise) of any certificate or uncertificated interest representing any of such Shareholder's Shares, unless such transfer is made in compliance with this Agreement. In the event of a stock dividend or distribution, or any change in the Company Common Stock by reason of any stock dividend, split-up, recapitalization, combination, exchange of

shares or the like, the term "Shares" shall be deemed to refer to and include the Shares as well as all such stock dividends and distributions and any shares into which or for which any or all of the Shares may be changed or exchanged.

(b) Upon the written request of Parent, all certificates representing any of such Shareholder's Shares shall contain the following legend:

"The securities represented by this certificate, including certain voting and transfer rights with respect thereto, are subject to the terms of a Shareholders Agreement, dated February 19, 1996, among CUC International Inc., the Issuer and the parties listed on the signature pages thereto, a copy of which is on file in the principal office of the Issuer."

5. Termination. Except as otherwise provided herein, the

covenants and agreements contained herein with respect to the Shares shall terminate upon the earliest of (a) termination of the Merger Agreement in accordance with its terms, (b) the Effective Time or (c) at the election of the Shareholders, if the Company's Board of Directors would have the right to terminate the Merger Agreement under Section 6.1(c)(iv) thereof.

6. Shareholder Capacity. No person executing this

Agreement who is or becomes during the term hereof a director of the Company makes any agreement or understanding herein in his or her capacity as such director. Each Shareholder signs solely in his or her capacity as the record and/or beneficial owner of such Shareholder's Shares.

7. Miscellaneous.

(a) Entire Agreement. This Agreement and the Merger

Agreement constitute the entire agreement between the parties with respect to the subject matter hereof and supersede all other prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

(b) Certain Events. Each Shareholder agrees that this

Agreement and the obligations hereunder shall attach to such Shareholder's Shares and shall be binding upon any person or entity to which legal or beneficial ownership of such Shares

shall pass, whether by operation of law or otherwise, including, without limitation, such Shareholder's heirs, guardians, administrators or successors. Notwithstanding any transfer of Shares, the transferor shall remain liable for the performance of all obligations under this Agreement of the transferor.

(c) Assignment. This Agreement shall not be assigned by

operation of law or otherwise without the prior written consent of the other party, provided that Parent may assign, in its sole discretion, its rights and obligations hereunder to any direct or indirect wholly owned subsidiary of Parent, but no such assignment shall relieve Parent of its obligations hereunder if such assignee does not perform such obligations.

(d) Amendments, Waivers, Etc. This Agreement may not be

amended, changed, supplemented, waived or otherwise modified or terminated, with respect to any one or more Shareholders, except upon the execution and delivery of a written agreement executed by the relevant parties hereto; provided that Schedule I hereto may be

supplemented by Parent by adding the name and other relevant information concerning any Shareholder of the Company who agrees to be bound by the terms of this Agreement without the agreement of any other party hereto, and thereafter such added shareholder shall be treated as a "Shareholder" for all purposes of this Agreement.

(e) 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 any Shareholder:

At the addresses set forth
on Schedule I hereto

with a copy to:

Gibson, Dunn & Crutcher
333 South Grand Avenue
Los Angeles, California 90071-3197
Attention: Peter F. Ziegler, Esq.
Telephone: (213) 229-7000
Facsimile: (213) 229-7520

If to Parent
or Merger Sub:

CUC International Inc.
707 Summer Street
Stamford, Connecticut 06901
Telephone: (203) 324-9261
Facsimile: (203) 977-8501
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.

(f) Severability. Whenever possible, each provision or

portion of any provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law but if any provision or portion of any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or portion of any provision in such jurisdiction, and this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision or portion of any provision had never been contained herein.

(g) Specific Performance. Each of the parties hereto

recognizes and acknowledges that a breach by it of any covenants or agreements contained in this Agreement will cause the other party to sustain damages for which it would not have an adequate remedy at law for money damages, and therefore each of the parties hereto agrees that in the event of any such breach the aggrieved party shall be entitled to the remedy of specific performance of such covenants and agreements and injunctive and other equitable relief in addition to any other remedy to which it may be entitled, at law or in equity.

(h) Remedies Cumulative. All rights, powers and remedies

provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise of any thereof by any party shall

not preclude the simultaneous or later exercise of any other such right, power or remedy by such party.

(i) No Waiver. The failure of any party hereto to exercise

any right, power or remedy provided under this Agreement or otherwise available in respect hereof at law or in equity, or to insist upon compliance by any other party hereto with its obligations hereunder, and any custom or practice of the parties at variance with the terms hereof, shall not constitute a waiver by such party of its right to exercise any such or other right, power or remedy or to demand such compliance.

(j) No Third Party Beneficiaries. This Agreement is not

intended to be for the benefit of, and shall not be enforceable by, any person or entity who or which is not a party hereto.

(k) Governing Law. This Agreement shall be governed and

construed in accordance with the laws of the State of California, without giving effect to the principles of conflicts of law thereof.

(l) Descriptive Headings. The descriptive headings used

herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

(m) Counterparts. This Agreement may be executed in

counterparts, each of which shall be deemed to be an original, but all of which, taken together, shall constitute one and the same Agreement.

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

CUC INTERNATIONAL INC.

By: /s/ E. Kirk Shelton

Name: E. Kirk Shelton
Title: President

ROBERT M. DAVIDSON

By: /s/ Robert M. Davidson

CHARITABLE REMAINDER TRUST

Robert M. Davidson

By: /s/ Robert M. Davidson

Robert M. Davidson, Trustee

By: /s/ Janice G. Davidson

Janice G. Davidson

JANICE G. DAVIDSON
CHARITABLE REMAINDER TRUST

ELIZABETH A. DAVIDSON TRUST

By: /s/ Robert M. Davidson

Robert M. Davidson, Co-Trustee

By: /s/ Janice G. Davidson

Janice G. Davidson, Trustee

By: /s/ Janice G. Davidson

Janice G. Davidson, Co-Trustee

JOHN R. DAVIDSON TRUST

By: /s/ Robert M. Davidson

Robert M. Davidson, Co-Trustee

EMILIE A. DAVIDSON TRUST

By: /s/ Robert M. Davidson

Robert M. Davidson, Co-Trustee

By: /s/ Janice G. Davidson

Janice G. Davidson, Co-Trustee

By: /s/ Janice G. Davidson

Janice G. Davidson, Co-Trustee

AGREED TO AND ACKNOWLEDGED
(with respect to Section 4):

DAVIDSON & ASSOCIATES, INC.

BY: /s/ Robert M. Davidson

Name: Robert M. Davidson
Title: Chairman and Chief
Executive Officer

NYFS01...:\01\39801\0023\1547\AGR0265N.25F

Schedule I to
Shareholders Agreement

Name and Address* -----	Number of Shares Owned -----
Robert M. Davidson	494,075 (1)
Robert M. Davidson, as trustee of Robert M. Davidson Charitable Remainder Unitrust	9,000,000 (1)
Robert M. Davidson, as co-trustee of Elizabeth A. Davidson Trust	2,168,750 (2)
Robert M. Davidson, as co-trustee of Emilie A. Davidson Trust ²	2,168,750 (2)
Robert M. Davidson, as co-trustee of John R. Davidson Trust	2,168,750 (2)
Janice G. Davidson	488,475 (1)
Janice G. Davidson, as trustee of Janice G. Davidson Charitable Remainder Unitrust	9,000,000 (1)
Janice G. Davidson, as co-trustee of Elizabeth A. Davidson Trust	2,168,750 (2)
Janice G. Davidson, as co-trustee of Emilie A. Davidson Trust	2,168,750 (2)
Janice G. Davidson, as co-trustee of John R. Davidson Trust	2,168,750 (2)

(1) Shareholder has sole power with respect to such shares. See Section 2(a)(i) of this Agreement.

(2) Shareholder has shared power with respect to such shares. See Section 2(a)(ii) of this Agreement.

*c/o Robert M. Davidson and Janice G. Davidson, 19840 Pioneer Avenue, Torrance, CA 90503; Tel. (310) 793-0600; Fax (310) 793-0601.

SHAREHOLDERS AGREEMENT

AGREEMENT, dated February 19, 1996 (this "Agreement"), by and among CUC INTERNATIONAL INC., a Delaware corporation ("Parent"), and each of the other parties signatory hereto (each, a "Shareholder" and, collectively, the "Shareholders").

W I T N E S S E T H :

WHEREAS, concurrently herewith, Parent, LARRY ACQUISITION CORP., a Delaware corporation and a direct wholly-owned subsidiary of Parent ("Merger Sub"), and SIERRA ON-LINE, INC., a Delaware corporation (the "Company"), are entering into an Agreement and Plan of Merger (as such agreement may hereafter be amended from time to time, the "Merger Agreement;" capitalized terms used and not defined herein have the respective meanings ascribed to them in the Merger Agreement) pursuant to which Merger Sub will be merged with and into the Company (the "Merger");

WHEREAS, each of the Shareholders owns the number of shares, par value \$.01 per share, of common stock of the Company (the "Shares" or "Company Common Stock") set forth opposite such Shareholder's name on Schedule I hereto;

WHEREAS, as an inducement and a condition to entering into the Merger Agreement, Parent has required that the Shareholders agree, and the Shareholders have agreed, to enter into this Agreement;

NOW, THEREFORE, in consideration of the foregoing and the mutual premises, representations, warranties, covenants and agreements contained herein, the parties hereto hereby agree as follows:

1. Provisions Concerning Company Common Stock. Each

Shareholder hereby agrees that during the period commencing on the date hereof and continuing until the first to occur of the Effective Time and termination of the Merger Agreement in accordance with its terms, at any meeting of the holders of Company Common Stock, however called, or in connection with any written consent of the holders of Company Common Stock, such Shareholder shall vote (or cause to be voted) the Shares held of record or Beneficially Owned (as defined below) by such Shareholder, whether heretofore owned or hereafter acquired, (i) in favor of approval of the Merger Agreement and any actions required in furtherance thereof and hereof; (ii) against any action or agreement that would result in a breach in any respect of any covenant, representation or warranty or any other obligation or agreement of

the Company under the Merger Agreement (after giving effect to any materiality or similar qualifications contained therein); and (iii) except as otherwise agreed to in writing in advance by Parent, against the following actions (other than the Merger and the transactions contemplated by the Merger Agreement): (A) any extraordinary corporate transaction, such as a merger, consolidation or other business combination involving the Company; (B) a sale, lease or transfer of a material amount of assets of the Company, or a reorganization, recapitalization, dissolution or liquidation of the Company; (C) (1) any change in a majority of the persons who constitute the board of directors of the Company; (2) any change in the present capitalization of the Company or any amendment of the Company's Certificate of Incorporation or By-Laws; (3) any other material change in the Company's corporate structure or business; or (4) any other action which, in the case of each of the matters referred to in clauses C (1), (2), (3) or (4), is intended, or could reasonably be expected, to impede, interfere with, delay, postpone, or materially adversely affect the Merger and the transactions contemplated by this Agreement and the Merger Agreement. Such Shareholder shall not enter into any agreement or understanding with any Person (as defined below) the effect of which would be inconsistent or violative of the provisions and agreements contained in Section 1 or 2 hereof. For purposes of this Agreement, "Beneficially Own" or "Beneficial Ownership" with respect to any securities shall mean having "beneficial ownership" of such securities (as determined pursuant to Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), including pursuant to any agreement, arrangement or understanding, whether or not in writing. Without duplicative counting of the same securities by the same holder, securities Beneficially Owned by a Person shall include securities Beneficially Owned by all other Persons with whom such Person would constitute a "group" as within the meanings of Section 13(d)(3) of the Exchange Act. For purposes of this Agreement, "Person" shall mean an individual, corporation, partnership, joint venture, association, trust, unincorporated organization or other entity.

2. Other Covenants, Representations and Warranties. Each

Shareholder hereby represents and warrants to Parent as follows:

(a) Ownership of Shares. Such Shareholder is the record

and Beneficial Owner of the number of Shares set forth opposite such Shareholder's name on Schedule I hereto. On the date hereof, the Shares set forth opposite such Shareholder's name on Schedule I hereto constitute all of the Shares owned of record or Beneficially Owned by such Shareholder. Such Shareholder has sole voting power and sole power to issue instructions with respect to the matters set forth in Section 1 hereof, sole power of disposition, sole power of conversion, sole power to demand appraisal rights and sole power to agree to all of the matters set forth in this Agreement, in each case with respect to all of the Shares set

forth opposite such Shareholder's name on Schedule I hereto, with no limitations, qualifications or restrictions on such rights.

(b) Power; Binding Agreement. Such Shareholder has the

legal capacity, power and authority to enter into and perform all of such Shareholder's obligations under this Agreement. The execution, delivery and performance of this Agreement by such Shareholder will not violate any other agreement to which such Shareholder is a party including, without limitation, any voting agreement, shareholder agreement or voting trust. This Agreement has been duly and validly executed and delivered by such Shareholder and constitutes a valid and binding agreement of such Shareholder, enforceable against such Shareholder in accordance with its terms. There is no beneficiary or holder of a voting trust certificate or other interest of any trust of which such Shareholder is Trustee whose consent is required for the execution and delivery of this Agreement or the consummation by such Shareholder of the transactions contemplated hereby. If such Shareholder is married and such Shareholder's Shares constitute community property, this Agreement has been duly authorized, executed and delivered by, and constitutes a valid and binding agreement of, such Shareholder's spouse, enforceable against such person in accordance with its terms.

(c) No Conflicts. (A) No filing with, and no permit,

authorization, consent or approval of, any state or federal public body or authority is necessary for the execution of this Agreement by such Shareholder and the consummation by such Shareholder of the transactions contemplated hereby and (B) none of the execution and delivery of this Agreement by such Shareholder, the consummation by such Shareholder of the transactions contemplated hereby or compliance by such Shareholder with any of the provisions hereof shall (1) result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default (or give rise to any third party right of termination, cancellation, material modification or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, contract, commitment, arrangement, understanding, agreement or other instrument or obligation of any kind to which such Shareholder is a party or by which such Shareholder or any of such Shareholder's properties or assets may be bound, or (2) violate any order, writ, injunction, decree, judgment, order, statute, rule or regulation applicable to such Shareholder or any of such Shareholder's properties or assets.

(d) No Finder's Fees. Other than existing financial

advisory and investment banking arrangements and agreements between the Company and Robertson, Stephens & Company LLC, no broker, investment banker, financial adviser or other person is entitled to any broker's, finder's, financial adviser's or other similar fee or commission in connection with the transactions contemplated by the Merger Agreement based upon

arrangements made by or on behalf of such Shareholder or any of its affiliates or, to such shareholder's knowledge, the Company or any of its affiliates.

(e) Restriction on Transfer, Proxies and Non-Interference.

Such Shareholder shall not, directly or indirectly: (i) except as contemplated by the Merger Agreement, offer for sale, sell, transfer, tender, pledge, encumber, assign or otherwise dispose of, or enter into any contract, option or other arrangement or understanding with respect to or consent to the offer for sale, sale, transfer, tender, pledge, encumbrance, assignment or other disposition of, any or all of such Shareholder's Shares or any interest therein; (ii) grant any proxies or powers of attorney, deposit any Shares into a voting trust or enter into a voting agreement with respect to any Shares; or (iii) take any action that would make any representation or warranty of such Shareholder contained herein untrue or incorrect or have the effect of preventing or disabling such Shareholder from performing such Shareholder's obligations under this Agreement.

(f) Reliance by Parent. Such Shareholder understands and

acknowledges that Parent is entering into, and causing Merger Sub to enter into, the Merger Agreement in reliance upon such Shareholder's execution and delivery of this Agreement.

3. Stop Transfer; Restrictive Legend. (a) Each

Shareholder agrees with, and covenants to, Parent that such Shareholder shall not request that the Company register the transfer (book-entry or otherwise) of any certificate or uncertificated interest representing any of such Shareholder's Shares, unless such transfer is made in compliance with this Agreement. In the event of a stock dividend or distribution, or any change in the Company Common Stock by reason of any stock dividend, split-up, recapitalization, combination, exchange of shares or the like, the term "Shares" shall be deemed to refer to and include the Shares as well as all such stock dividends and distributions and any shares into which or for which any or all of the Shares may be changed or exchanged.

(b) All certificates representing any of such Shareholder's Shares shall contain the following legend:

"The securities represented by this certificate, including certain voting and transfer rights with respect thereto, are subject to the terms of a Shareholders Agreement, dated February 19, 1996, among CUC International Inc., the Issuer and the parties listed on the signature pages

thereto, a copy of which is on file in the principal office of the Issuer."

4. Termination. Except as otherwise provided herein, this

Agreement shall terminate upon the earlier of (a) termination of the Merger Agreement in accordance with its terms and (b) the Effective Time.

5. Shareholder Capacity. No person executing this

Agreement who is or becomes during the term hereof a director of the Company makes any agreement or understanding herein in his or her capacity as such director. Each Shareholder signs solely in his or her capacity as the record and beneficial owner of such Shareholder's Shares. Notwithstanding any other provision of this Agreement, no Shareholder shall have any obligation under this Agreement to act or refrain from acting in any manner inconsistent with such Shareholder's fiduciary duties as a director of the Company.

6. Confidentiality. The Shareholders recognize that

successful consummation of the transactions contemplated by this Agreement may be dependent upon confidentiality with respect to the matters referred to herein. In this connection, pending public disclosure thereof, each Shareholder hereby agrees not to disclose or discuss such matters with anyone not a party to this Agreement (other than such Shareholder's counsel and advisors, if any) without the prior written consent of Parent, except for disclosures such Shareholder's counsel advises are necessary in order to fulfill such Shareholder's obligations imposed by law, in which event such Shareholder shall give notice of such disclosure to Parent as promptly as practicable so as to enable Parent to seek a protective order from a court of competent jurisdiction with respect thereto.

7. Miscellaneous.

(a) Entire Agreement. This Agreement and the Merger

Agreement constitute the entire agreement between the parties with respect to the subject matter hereof and supersede all other prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

(b) Certain Events. Each Shareholder agrees that this

Agreement and the obligations hereunder shall attach to such Shareholder's Shares and shall be binding upon any person or entity to which legal or beneficial ownership of such Shares shall pass, whether by operation of law or otherwise, including, without limitation, such Shareholder's heirs, guardians, administrators or successors. Notwithstanding any transfer of Shares, the

transferor shall remain liable for the performance of all obligations under this Agreement of the transferor.

(c) Assignment. This Agreement shall not be assigned by

operation of law or otherwise without the prior written consent of the other party, provided that Parent may assign, in its sole discretion, its rights and obligations hereunder to any direct or indirect wholly owned subsidiary of Parent, but no such assignment shall relieve Parent of its obligations hereunder if such assignee does not perform such obligations.

(d) Amendments, Waivers, Etc. This Agreement may not be

amended, changed, supplemented, waived or otherwise modified or terminated, with respect to any one or more Shareholders, except upon the execution and delivery of a written agreement executed by the relevant parties hereto; provided that Schedule I hereto may be

supplemented by Parent by adding the name and other relevant information concerning any Shareholder of the Company who agrees to be bound by the terms of this Agreement without the agreement of any other party hereto, and thereafter such added shareholder shall be treated as a "Shareholder" for all purposes of this Agreement.

(e) 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 any Shareholder: At the addresses set forth
on Schedule I hereto

with a copy to: Perkins Coie
1201 Third Avenue
40th Floor
Seattle, Washington 98101-3099
Telephone: (206) 583-8534
Facsimile: (206) 583-8500
Attention: Stephen A. McKeon, Esq.

If to Parent
or Merger Sub:

CUC International Inc.
707 Summer Street
Stamford, Connecticut 06901
Telephone: (203) 324-9261
Facsimile: (203) 977-8501
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.

(f) Severability. Whenever possible, each provision or

portion of any provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law but if any provision or portion of any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or portion of any provision in such jurisdiction, and this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision or portion of any provision had never been contained herein.

(g) Specific Performance. Each of the parties hereto

recognizes and acknowledges that a breach by it of any covenants or agreements contained in this Agreement will cause the other party to sustain damages for which it would not have an adequate remedy at law for money damages, and therefore each of the parties hereto agrees that in the event of any such breach the aggrieved party shall be entitled to the remedy of specific performance of such covenants and agreements and injunctive and other equitable relief in addition to any other remedy to which it may be entitled, at law or in equity.

(h) Remedies Cumulative. All rights, powers and remedies

provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise of any thereof by any party shall not preclude the simultaneous or later exercise of any other such right, power or remedy by such party.

(i) No Waiver. The failure of any party hereto to exercise

any right, power or remedy provided under this Agreement or otherwise available in respect hereof at law or in equity, or to insist upon compliance by any other party hereto with its obligations hereunder, and any custom or practice of the parties at variance with the terms hereof, shall not constitute a waiver by such party of its right to exercise any such or other right, power or remedy or to demand such compliance.

(j) No Third Party Beneficiaries. This Agreement is not

intended to be for the benefit of, and shall not be enforceable by, any person or entity who or which is not a party hereto.

(k) Governing Law. This Agreement shall be governed and

construed in accordance with the laws of the State of Delaware, without giving effect to the principles of conflicts of law thereof.

(l) WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES

ANY RIGHT TO A TRIAL BY JURY IN CONNECTION WITH ANY SUCH ACTION, SUIT OR PROCEEDING.

(m) Descriptive Headings. The descriptive headings used

herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

(n) Counterparts. This Agreement may be executed in

counterparts, each of which shall be deemed to be an original, but all of which, taken together, shall constitute one and the same Agreement.

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

CUC INTERNATIONAL INC.

By: /s/ E. Kirk Shelton

Name: E. Kirk Shelton
Title: President

/s/ Kenneth A. Williams

Kenneth A. Williams

/s/ Roberta L. Williams

Roberta L. Williams

AGREED TO AND ACKNOWLEDGED
(with respect to Section 4):

SIERRA ON-LINE, INC.

By: /s/ Richard K. Thumann

Name: Richard K. Thumann
Title: Vice-President

NYFS01...:\01\39801\0025\1547\AGR2136X.38C

Schedule I to
Shareholders Agreement

Name and Address -----	Number of Shares Owned -----
Kenneth A. Williams and Roberta L. Williams	1,676,698