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J. D. Pinkerton
Senior Vice President—Administration and Secretary

TO Glen Fick

8/8/84

I am looking to you to work with Hull on the press release and to arrange for our publicity activities in general. Do you think we need a public relations firm at all on this one? Do we need a set of questions and answers developed for purposes of communicating with our major investors? Perhaps you and Roselli can help each other out on this subject.

JDP

JDPvbh
attachment

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J. P.
Fine
FYI
[illegible]

BOARD OF DIRECTORS
HOUSEHOLD INTERNATIONAL, INC.

Proposed Preferred Share Purchase Rights Plan

The Proposed Preferred Share Purchase Rights Plan is designed to preserve, in the event of a takeover, values for shareholders of the Company. It is management's opinion that our stock is selling at prices substantially below long-term value. The Plan is designed to be effective in cases of a tender offer for control to be followed by a second-step merger or an accumulation of a 20% or greater position to be followed by a merger.

The Plan would not prevent takeovers. It would have no effect on a raider who is willing to acquire control and not obtain 100% ownership through merger until after the rights have expired. In such case the Plan still has had an effect beneficial to the Company's shareholders. It would enable them to avoid an unwanted squeezeout and to continue their equity investment for a period of time designed to enable them to realize the long-term value of our stock.

The rights are redeemable at any time prior to a 20% acquisition of stock by one party. Thus the rights do not interfere with a negotiated merger and should prompt an interested party to seek Board approval before making a tender offer.

The Plan creates rather complicated situations that may be difficult for a potential raider to evaluate. In so doing it may deter a takeover. If the Plan did not deter a takeover, the Plan would virtually assure that any takeover attempt would be for cash and for all of the shares of the Company's common stock. To avoid the dilution to the raider's common stock created by a substantial amount of rights being outstanding following a tender offer, a raider would condition its offer on a very large percentage, 80% to 90%, of the rights being tendered.

The Plan entails a distribution to the Company's shareholders consisting of one right to buy one-hundredth of a share of a new series of participating preferred stock for each share of common stock outstanding. The preferred stock would be non-redeemable and subordinate to other series of the Company's preferred stock. Each share of preferred stock would have a minimum preferential quarterly dividend of $25 per share, but would be entitled to an aggregate dividend of 100 times the dividend declared on the common stock. This translates into a minimum preferential annual dividend of $1.00 per share as compared to the $1.67 dividend paid on the common stock in 1983.

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In the event of liquidation, the holders of the preferred stock would receive a preferred liquidation payment of $100 per share but would be entitled to receive a liquidation payment in the aggregate equal to 100 times the payment made per share of common stock. Each share of preferred stock would have 100 votes, voting together with the common stock. Finally, in the event of any merger, consolidation or other transaction in which shares of common stock are exchanged for or changed into other stock or securities, cash and/or other property, each share of preferred stock would be entitled to receive 100 times the amount received per share of common stock. The foregoing rights are protected against dilution in the event additional shares of common stock are issued.

Because of the nature of the preferred stock's dividend, liquidation and voting rights, the value of the one-hundredth interest in a share of preferred stock purchasable with each right should approximate the value of one share of common stock. The proposed exercise price of the rights ($100 per 1/100 share of preferred stock) approximates management's long-term value of the common stock, as well as of such one-hundredth of a share interest in the preferred stock.

The present distribution of the Rights is not a taxable event for the Company or its stockholders. Upon the rights becoming rights to purchase a raider's common stock or, in the event of a reverse merger, rights to purchase additional preferred stock (in either case as set forth below), holders of rights will probably recognize taxable income.

Since the rights, at $10,000 per preferred share, are obviously "out of the money" they would not dilute earnings per share and should not have any depressing effect on the market price of the common stock. Crown Zellerbach adopted a similar plan in July 1984. That action did not result in a reduction in that company's stock price. In addition, since the rights will not be exercisable at the time of issuance, SEC registration of the preferred stock issuable upon exercise of the rights need not be effective until after issuance.

All further issuances of common stock, including common stock issuable upon conversion of the outstanding preferred stock, will carry these rights.

While there is no court case directly in point, the law firm of Wachtell, Lipton, Rosen & Katz, special counsel for the Company, is of the opinion that the Plan is legal. In this connection it may be noted that in the Enstar case the Delaware Court of Chancery said, "Viewed fairly, however, the 'poison pill' amendments, a measure enacted by the Board when 'takeover' fever gripped the industry, could be considered legitimate exercises of board discretion designed to protect the stockholders against a less than arms-length sale." The Plan raises fewer legal issues than the poison pill preferred and Wachtell, Lipton, Rosen & Katz is of the opinion that, if attacked in court, the Plan will be upheld.

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The principal terms of the rights are as follows:

Term: 10 years.

Exercise price: $100 per 1/100 share of preferred stock (or $10,000 per preferred share).

Rights detach and become exercisable: Prior to such time as a person or group acquires 20% or more of the Company's common stock or announces its intention to commence a tender or exchange offer for 30% or more of the Company's common stock, the rights will be non-exercisable and will not be transferable apart from the Company's common stock. As soon as practicable after such time, separate rights certificates will be issued.

Special protection against squeezeout: In the event a raider were to acquire control of the Company in a manner not approved by the Company's board of directors, and then were to merge or otherwise combine with the Company, each right would become a right to buy that number of shares of common stock of the raider which at the time of the merger would have a market value of two times the exercise price of the right. Thus, if the raider's common stock at the time of the merger is $50 per share, each right thereafter would be exercisable at $100 for four shares of the raider's common stock. In the event of an acquisition of the Company by means of a reverse merger, the rights provide that, if the target company and its stock survive a merger, each right would become exercisable for that number of shares of the Company's participating preferred stock having a market value of two times the exercise price of the right.

Redemption: The rights are redeemable at a price of $.50 per right at any time prior to a 20% acquisition. Thus, the rights would not interfere with a negotiated merger or a white knight transaction even after a hostile tender offer has been commenced. The rights would interfere with a white knight transaction after a 20% acquisition.

Voting: The rights would not have any voting rights.

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