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N. R. SOLBERG

FEB 23 1984

2/23/84

G. H. Valentine

To R. C. Roselli

Ron:

Based on my necessarily quick review of your memo, I see nothing in the proposals you discuss that is prohibited by legal considerations, although I should note that this is a fast-changing area.

In my view these matters really present questions of judgment, and I haven't had a chance to consider all the implications raised by your specific proposals. As I mentioned to you, some of the general points to consider are mentioned in my memo to Bob Bouma of Nov. 15, 1982.

GHV

CONFIDENTIAL

HC05524

Date: February 21, 1984

To: J. T. Gurash
A. E. Rasmussen
G. W. Rauch
J. C. Whitehead

In my view the purpose of a "fair price" provision is not to prevent a takeover of Household, but rather to ensure the fair treatment of all of Household's shareholders in the event that Household becomes the target of a takeover attempt. The following paragraph summarizes the basic provisions which I believe a "fair price" amendment to Household's Certificate of Incorporation should include.

Under Delaware corporation law and Household's charter, a merger of Household into another company currently requires approval by a majority of all of Household's stockholders, plus approval by 2/3 of Household's preferred stockholders voting as a class. The "fair price" provision would require that 80% of the voting power of all outstanding shares of Household stock (common and preferred) approve any business combination between Household and a "substantial shareholder" unless: 1.) the proposed business combination is approved by 2/3 of Household's "continuing directors", or 2.) the substantial shareholder pays the "highest per-share price" in acquiring any shares of Household stock in the proposed business combination.

"Substantial shareholder" would be defined to mean any beneficial owner of 10% or more of Household's common and preferred stock. We would define beneficial ownership to include the power to vote such shares or the power to exercise any investment discretion over such shares.

The term "continuing director" would mean any director who is not affiliated with the substantial shareholder and who was a director of Household prior to the time the substantial shareholder became a substantial shareholder, or any new director designated as a continuing director by a majority of all current continuing directors. The purpose of this definition is to prevent a substantial shareholder from electing his own slate of directors to the Board for the purpose of approving a business combination.

With respect to Household's common stock, the "highest per-share price" would mean the highest price paid at any time by the substantial shareholder for any shares of common stock. With respect to each series of Household's preferred stock, the highest per-share price would equal the highest of any of the following amounts: 1.) the highest price paid by the substantial shareholder for any shares of any series of preferred stock, 2.) the price Household would be required to pay to redeem any series of preferred stock, 3.) the highest price for which any series of preferred stock traded on the New York Stock Exchange during the previous two years, or 4.) the conversion per-share rate of any series of convertible preferred stock, multiplied by the highest per-share price paid by the substantial shareholder for any share of Household's common stock. It should be noted that if the substantial shareholder did not make an offer to acquire Household's preferred stock, the 80% voting provision would come into play.

In addition to the "highest per-share price" provisions described above, there are other alternatives we may wish to consider, particularly with respect to common stock. Such alternatives would include: 1.) book value per-share, 2.) the highest price that such shares traded on the New York Stock Exchange for the previous two years, or 3.) An amount equal to the earnings per-share of Household's common stock for the previous four fiscal quarters multiplied by the price earnings ratio of the substantial shareholder's stock.

Some companies which have adopted fair price provisions require that the consideration to be paid by the substantial shareholders in acquiring shares in a business combination must be cash or the same type of consideration paid in acquiring the largest portion of the shareholder's common stock holdings. Also, in order to protect shareholders who are to receive consideration other than cash in a business combination from fluctuations in the value of such consideration prior to the consummation of the transaction, the fair market value of such consideration is generally determined as of the date of consummation of the business combination.

If we choose to adopt a fair price purchase, note that any amendment to this provision will require approval of 80% of the voting shares of Household stock. You should also note that the Securities and Exchange Commission will require Household to explicitly disclose in its proxy statement the effect that a fair price provision may have in discouraging takeover attempts and the benefits to management of such a provision.

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