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**HOUSEHOLD
INTERNATIONAL**

Received JWJ
AUG 8 1984

James D. Pinkerton
Senior Vice President—
Administration and Secretary

August 7, 1984

To Members of the Board of Directors:

Enclosed is the notebook for your use in connection with the Board meeting to be held August 14 beginning at 9:00 a.m. The Nominating Committee will meet at 8:00 a.m. followed by a meeting of the Compensation Committee at approximately 8:15 a.m. The usual buffet breakfast will be available for all Directors between 7:30 a.m. and 9:00 a.m. in the Corporate dining room. Please note that the Board meeting is estimated to last until approximately 3:30 p.m.

As usual, reservations for out-of-town Directors have been made at the Marriott Lincolnshire Resort for the evening of August 13. You have previously been notified of the informal dinner for those Directors who find it convenient to attend on Monday evening, August 13, in the Corporate dining room beginning at 6:00 p.m.

Sincerely,

JDP vbh
enclosures

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Board of Directors Meeting
Household International, Inc.

August 14, 1984 - 9:00 a.m.
Prospect Heights, Illinois

H000365

Board of Directors Meeting
Household International, Inc.

August 14, 1984 - 9:00 a.m.
Prospect Heights, Illinois

H000366

AGENDA

Board of Directors Meeting
Household International, Inc.

August 14, 1984 - 9:00 a.m.
Prospect Heights, Illinois

1. Report of Nominating Committee
2. Approval of the minutes of the Directors' meetings held May 8 and June 12, 1984, and the meeting of the Executive Committee on July 10, 1984
3. Chief Executive Officer's report
4. Report on financial services business
5. Report on merchandising business
6. Presentation by Martin Lipton & Goldman, Sachs & Co.
7. Financial Review
8. Dividend declaration (Record date, September 28, 1984 - Payment date, October 15, 1984)

   (Common $.75 /share) ($2.375 Preferred $0.59375/share) ($2.50 Preferred $0.625/share) ($6.25 Preferred $1.5625/share)

9. Audit Committee Report
10. Miscellaneous

Estimated time of adjournment - 3:30 p.m. Directors should arrange their transportation accordingly.

H000367

MEETING OF THE EXECUTIVE COMMITTEE

OF

HOUSEHOLD INTERNATIONAL, INC.

Held: July 10, 1984 at 1:00 p.m. in Prospect Heights, Illinois.

Present: Messrs. A. E. Rasmussen, Chairman, D. C. Clark, M. P. Kartalia, J. A. Moran, G. W. Rauch and M. Upton. Absent from the meeting was J. C. Whitehead. Also present was J. D. Pinkerton, Secretary.

Mr. Clark reviewed business operations and results of the Corporation for the year to date and commented on the outlook for the balance of the year. He discussed the status of pending savings and loan acquisitions and the divestiture of selected manufacturing units and facilities.

Mr. Clark then reviewed various personnel changes and executive searches. He also commented on his meetings with the managements of Household Merchandising, T. G. & Y. Stores and Vons Grocery following the unsuccessful effort to combine Household Merchandising with Jewel Companies. Mr. Clark also noted the pending sale of the furniture operations.

Mr. Pinkerton discussed the recent management development seminar on information technology, which was attended by the senior executives of each of Household's major businesses.

Mr. Hendry, together with Messrs. Dammeyer, Hull, Lohmann, Zick, Giessel, Gerdes and Walsh, joined the meeting to discuss the proposed leveraged lease investments in vessels to be used by the U. S. Navy, as described in Mr. Clark's letter and materials dated June 29, 1984, previously distributed to the Board of Directors. Mr. Hendry introduced the proposed transaction, and Mr. Lohmann and his associates reviewed the various issues, assumptions and financial aspects pertaining to the proposed investments. After discussion, the Executive Committee approved the proposed leveraged lease financings of the two vessels, which will require an initial capital investment of no more than $150 million. Since the Executive Committee's approval authority is limited to transactions of $50 million or less, it was agreed that each member of the Board of Directors would be asked to sign a consent authorizing the officers of the Corporation to effectuate the leveraged lease financings of the two vessels.

There being no further business, the meeting was adjourned.

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CONFIDENTIAL

Secretary

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- Attorney Martin Lipton will present an overview of takeover activity, including the status of current Congressional and Court action and responsibilities of the Board of Directors both before and after takeover activity commences.

  He will briefly comment on proposals being submitted by management to the Board of Directors concerning:

  1. Corporate policy that Household International remain independent;
  2. Amendments of the Corporation's Bylaws;
  3. Amendments of Household's benefit plans; and,
  4. A Share Purchase Rights Plan.

  Attorney Lipton will be prepared to answer your questions concerning the takeover preparedness steps being recommended by management.

- A representative from Goldman, Sachs & Co. will discuss:

  1. Reasons for takeover preparedness;
  2. Financial trends in the takeover area; and,
  3. Household's vulnerability to a takeover.

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H000392

Business Week, August 13, 1984

THE LEGAL MASTERMINDS BEHIND MERGER MANIA

HOW A SMALL GROUP OF LAWYERS BECAME SUPERSTARS IN A 'DIRTY' BUSINESS

MARTY LIPTON WAS QUICK TO RECOGNIZE THAT HE COULD FOLLOW THE SUCCESSFUL PATH JOE FLOM BLAZED IN TAKEOVER LAW

Takeover lawyer Martin Lipton's home phone rang early one January morning. It was Bruce Wasserstein, a top investment banker at First Boston Corp. He wanted to know whether Pennzoil Co.'s two-day-old deal for a piece of Getty Oil Co. was final. No, said Lipton, who represented the J. Paul Getty Museum with its pivotal 11.8% of Getty company stock. It would take the lawyers 24 hours to complete their work. Wasserstein, who was advising Texaco Inc., told its executives they would have to move quickly if they wanted to "stop the train" of Pennzoil's $5.4 billion deal. A Texaco executive scrawled notes as Wasserstein talked. "Lipton says there are 24 hours," he wrote.

By the end of that dizzying week, just four days after Pennzoil had announced its coup, the train had been stopped cold. Texaco had Getty. Pennzoil was out. And Lipton had helped set the $10.1 billion price.

Even for a busy merger season, it was a remarkable deal—the largest ever until Gulf Oil Corp. went on the block a month later. But one thing about Texaco-Getty was standard. Lipton was smack in the middle of the action.

Marty Lipton belongs to that elite group of lawyers to whom companies turn when a raider begins massing troops against them or when they hunker down and set their own sights on a target. These generals of corporate wars confront one another repeatedly on changing battlefields. Their number is slowly increasing as more companies embark on raids and more takeovers turn into convoluted multiparty deals.

Joseph H. Flom, now 60, started it all. He was already a seasoned corporate lawyer with a solid knowledge of proxy contests when the rules of business deals changed sharply in the 1970s. Until then, even the biggest mergers could be set with a handshake between the principals. Lawyers, largely irrelevant, were left to dot the i's and cross the t's after the businessmen and their bankers had finished their work.

LIFE OR DEATH. Then the hostile-takeover era began. Suddenly law became a powerful device for business. Under intense time pressure, judgments about securities, contract, and corporate law—and about the dynamics of confrontation—could mean life or death for a company. Flom was the right man in the right place. A creative lawyer who still delights in a novel strategic turn, he communicated well with top managers and investment bankers. Deceptively mild-mannered, slight of build, and soft-spoken, he could be mercilessly aggressive in helping his client bring down its prey. And being entrepreneurial himself, he understood the opportunity the situation presented. The Wall Street law firms, accustomed to a more genteel practice, refused to dirty their hands in the new game. Says Flom: "I was in a business nobody wanted."

Nobody but Marty Lipton, that is. Flom was so successful, Lipton remembers, that "the first question on Wall Street was: 'Which side has him?'" Lipton began to attract attention, partly because of his work on behalf of Loews Corp. in a number of takeover contests in 1973 and 1974. "Wall Street," says Lipton, "was looking for somebody to match up against Flom." He filled the bill. Eight years Flom's junior, he was a tough lawyer with a strong ego and a high-quality young firm behind him. And though his thick glasses made him look bookish, he had a talent for winning the trust of chief executives.

By the mid-1970s, "Marty and Joe" had become shorthand for a new kind of business confrontation. "If those two guys didn't exist," says one investment banker, "they would have had to invent each other." The idea grew that a company had to have one or the other of them, even if only on retainer. Both men, who are friends, enjoyed the attention and worked shrewdly to increase it. And in the meantime, each honed his firm into an efficient deal machine.

Their New York firms still dominate takeover work. Flom's Skadden, Arps, Slate, Meagher & Flom, with more than

350 lawyers, has diversified and become a major corporate practice offering a broad range of services. With fewer than 80 lawyers, Lipton's Wachtell, Lipton, Rosen & Katz, one of the profession's most profitable organizations, concentrates on a few specialties. Each of the firms has become a powerful institution that transcends its leader's strengths. Flom and Lipton have

SULLIVAN & CROMWELL'S KERN IS A RELATIVE NEWCOMER, WHILE FRIED FRANK'S FLEISCHER HAS TAKEN PART IN MOST MAJOR DEALS

brought along a handful of new and autonomous commanders, but the availability of the two stars keeps the business coming in. "Clients are not interested in having people learn how to do deals on their time," says James H. Fogelson, one of Lipton's heirs.

A GROWING CLUB. The firms have been close to so many corporations, in fact, that conflicts of interest sometimes force them to sit out new contests. When Skadden Arps partner Morris J. Kramer got an after-hours call to come to Texaco's aid in the hunt for Getty, he immediately started checking with his partners to see if any of the other companies eying Getty had hired the firm. One colleague was not accounted for when the car that had been sent for Kramer arrived at Texaco's suburban New York headquarters at nearly 10 p.m., so Kramer asked the driver to pull over at the guardhouse. There, while an investment banker waited in the car, Kramer put in a call to the missing partner. He asked whether the firm had been hired by another bidder. It had not. Kramer went on in and helped Texaco do its deal.

Skadden Arps and Wachtell Lipton are clearly the leaders, but the small fraternity has other members. For years, Arthur Fleischer Jr., 51, of Fried, Frank, Harris, Shriver & Jacobson, has been a power in the field. Fleischer is respected in legal circles, and Fried Frank has played a part in most major takeovers. Though less accessible than his two competitors, Fleischer has an analytical style and straightforward approach that suit some executives. Burlington Northern Inc. selected Fleischer for its 1983 fight for El Paso Co. after Chairman Richard M. Bressler interviewed him. When asked why he made the choice, Bressler said: "He's a very direct individual. He said, 'I'll give you advice that you may not like.' I said, 'I like that.'"

Recently, a few of the big-name Wall Street firms have waded into the takeover field. Rather than lose their clients and miss out on the hefty premiums that the work routinely brings, several powerhouses—Simpson Thacher & Bartlett; Cravath, Swaine & Moore; Shearman & Sterling; and two or three others—have carefully built up their takeover skills.

This year, George C. Kern Jr., the takeover chief at prestigious Sullivan & Cromwell, has secured his firm's presence in the field. "We were never really out of the business," insists Kern. "Mergers have been going on for at least a hundred years, and we've been in business a hundred years." But, acknowledges Sullivan & Cromwell partner David M. Kies, "we knew that we had the capability for a full-court press. Some of our clients knew it. But some of them didn't."

Kern, who chain-guzzles Tab and alternates ear-numbing roars with breathless whispers, lays claim to being the only lawyer who played a role in each of this year's multibillion-dollar oil mergers. During one climactic weekend in Pittsburgh, he negotiated with three bidders on Gulf's behalf. He shares with Gulf management both the credit for consummating the largest merger in history and the blame for the strategy that put the company up for sale.

With the prizes so huge, rivalries and competitions among the takeover lawyers are inevitable. The long-running Flom-Lipton bouts are the most celebrated. Most recently, Lipton took a pummeling from his old adversary in Limited Inc.'s utterly unsuccessful assault on Carter Hawley Hale Stores Inc. Lipton concedes he was "100% wrong" in his forecast of how far the company would go to defend itself. Flom, barely concealing his delight over his series of victories on behalf of Carter Hawley Hale, compares them to eating a 2-lb. box of chocolates. "After a while it becomes a little cloying," he says. Then he grins.

ANOTHER DAY. The big-deal bankers and lawyers all know each other, and they all know the rules of the game. Sometimes, as in Texaco's lightning move for Getty, that can make the difference. But the combatants rarely give each other an inch. In Smith International Inc.'s lengthy fight for control of oil-service company Gearhart Industries Inc., for example, Arthur Fleischer won an important court decision by directly attacking the accuracy of a securities filing that Skadden Arps' Kramer wrote for Smith International.

Though the Gearhart-Smith fight has been wearing—and sometimes personal—Fleischer and Kramer prefer working against each other to dealing with someone from outside the circle. "He's been through the process, and I've been through the process," says Fleischer. "We can cut away a lot of the extraneous material." Says Kramer: "If I have to growl at Arthur, I'll growl at Arthur. He knows that I'm growling at him today, but I'll be friendly tomorrow because we'll have another deal." ■

H000394

Fortune, July 23, 1984

OOPS! MY COMPANY IS ON THE BLOCK

Attracting bidders is getting easier, whether you want them or not. Just make an acquisition. Or sell off a doggy division. Or, if you really want buyers to come running, announce that you're taking the company private. Then stand back. ■ *by Anne B. Fisher*

THE MERGER and acquisition boom has entered a new phase in which more companies are finding themselves "in play"—Wall Street parlance for "up for sale." Faced with new pressures and finding that many of the old defensive tactics don't work anymore, managers are increasingly relying on controversial, risky ploys to save their jobs and maybe even get rich in the process. Two of these—paying greenmail and going private through leveraged buyouts—have got regulators and Congress wondering whether executive greed isn't getting in the way of the shareholders' interests. It's not widely known, for example, that a provision in federal bankruptcy law says if a company buys out its shareholders to go private and then goes belly up, the former shareholders may have to give back the money they got for their stock. Stricter regulation of mergers and acquisitions is almost certainly coming.

RESEARCH ASSOCIATE *Michael Rogers*

The first dramatic indication that the rules of the acquisition game were changing came back in 1982, when Bendix made its bid for Martin Marietta, and Allied Corp. rode in to pick up the pieces. Wall Streeters say the Bendix-Martin Marietta-Allied debacle kicked off a new era in corporate dealmaking. Says the head of the investment banking division at one Wall Street firm: "Now, anything you do—especially if it's perceived as enhancing the value of your company—can put you in play."

One cause for the new stampede to buy is financial. Many companies came out of the recession flush with cash, and a smart acquisition suddenly seemed a good way to put it to work. Banks have been pulling new billions into money market accounts and are eager to lend large sums to finance takeovers, friendly or hostile. Another reason for the shopping spree, some contend, is psychological. "Managers read the newspaper and see all these big deals going on," observes an investment banker, "and they want to get in on the action and buy somebody." Any step that calls attention to a company, even if briefly, can draw bidders.

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Successful acquisitions can do it. Esmark, for instance, acquired Norton Simon in 1983 mainly for its profitable Hunt-Wesson division. Last May, Beatrice announced it would buy Esmark—largely, Beatrice executives say, to get Hunt-Wesson.

A lesson was learned *by Frederick Joseph, 47, chief of corporate finance at Drexel Burnham Lambert, when Drexel client David Mahoney tried a leveraged buyout at Norton Simon. Esmark ended up getting the company, Mahoney made $15 million, and Drexel got zip.*

…mping a doggy division can catch …er's eye as well. No sooner had …aker Milton Bradley Co. jetti…d its money-losing video game op…s at the end of 1983 than rumors …n to fly that the company was an …tive takeover candidate. By mid-…, Milton Bradley was talking with …bro Industries, the Pawtucket, …de Island, toy company that makes … Joe and Mr. Potato Head. Hasbro …sequently bought Milton Bradley … $360 million.

SUPPOSE you opt to lay low and prosper quietly. It probably won't help. More and more frequently, companies are …ved unceremoniously into play by …called predatory investors who buy large blocks of stock and threaten …esent management. The menacing …ages of Saul Steinberg, Victor …ner, and Carl Icahn have been …und for years, but most corpora…s hesitated to follow their example. …at's changing fast (see table, …ge 21).

In the face of these onslaughts, tra…onal defenses against raiders are …inning to spring leaks. Consider …e strategy of placing a large number … shares in the hands of a friendly …estor. The trouble is that hands …endly today increasingly turn un…endly tomorrow. "Sooner or later … holder of, say, 20% of a company's …ck is going to want more control," …ys the chief of mergers and acquisi…ons at a prominent Wall Street firm. "Not a month goes by that somebody …esn't come in here with a 20% block …ling me they're dissatisfied with …w management is running things. …at's enough to get me started. That …mpany is in play."

Tesoro Petroleum Corp., a $2.3-bil…on-a-year oil company based in San Antonio, learned this the hard way. One year ago the company sold over 25% of its stock to two insurance divisions of Charter Co., perhaps to discourage those acquisitive Canadians, the Belzberg family, from trying to grab control. At the time the Belzbergs owned less than 5% of Tesoro's stock. The ploy seemed to work—the Belzbergs sold their shares. But now that Charter is in financial trouble, its insurance operations are being sold. The prospective buyer who will get the Tesoro stock as part of the package is—you guessed it—the Belzberg family.

Paying an unwanted suitor a premium over the market price to buy back his shares, the practice known as greenmail, has its drawbacks too. Walt Disney Productions' recent payment of $325 million—$12 a share above the market price—to buy off a group of investors led by Saul Steinberg infuriated many Disney shareholders, knocked Disney's stock price down by $18 a share, and increased by a third the company's already hefty long-term debt.

Even without such dramatic consequences, greenmail has a big flaw: it doesn't resolve anything for long. Papermaker St. Regis, for example, seems to be getting a reputation as a corporate soft touch. First it paid Sir James Goldsmith to go away, then it

…aving Dan River *from a raider,* *…liss & Co. President Joe Schuchert, 53,* *…ped employees buy the textile company …r about $130 million last year. Carl …ahn had grabbed over 20% of the stock. …ahn made $3 million on his investment …hen Dan River went private.*

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No passive investor, *Ted Forstmann, 44, started his buyout firm, Forstmann Little & Co., in 1978 with two partners and $400,000. He's taken four companies private, including Dr Pepper. Forstmann now owns most of the equity in the company.*

worked a complicated deal to put stock that Loews Corp. had acquired into friendlier hands, affording a nice profit to Loews. Now Rupert Murdoch, with 6% of the company's stock, is knocking at the door.

Rather than pay greenmail, many companies are choosing to leap into the arms of a sympathetic acquirer. The most spectacular example to date has been Gulf's merger with Socal, a response to T. Boone Pickens's overtures. But Gulf is by no means alone. Newell Cos., an Illinois hardware and housewares maker, bought a 6.5% stake in Binney & Smith, the Crayola crayon company, last March—and made known its intention to buy up to 14% more over the next three years. In response Binney & Smith's Chairman Jack Kofoed went looking to sell his company. He ultimately accepted a $204-million bid from Hallmark Cards. "We rejected the greenmail approach," says Kofoed, "because, particularly in a relatively small company, you can't spend millions to buy someone out. What are you going to do the next time? And the time after that? You just encourage somebody else to try it."

Wall Streeters say Chesebrough-Pond's, the $1.7-billion-a-year consumer products company that makes Ragu spaghetti sauce and Q-tips, is being pushed into play right now: Carl Icahn is buying the stock. As of late June he hadn't yet got to the 5% mark, where the SEC requires a public filing. "Chesebrough-Pond's had better stop him before this becomes public knowledge," an investment banker warned. "They'll end up on the block."

Small wonder that going private is becoming so popular. "Five years ago you *never* heard of anyone going private as a defensive measure," notes Fred Joseph, head of corporate finance at Drexel Burnham Lambert. "Now it's the first option that comes up in conversation."

GOING PRIVATE foils raiders and allows management to keep its independence—or, indeed, increase it. In the most common of going-private schemes, the so-called leveraged buyout, the management of a company borrows enough cash to buy out the shareholders. According to W.T. Grimm & Co., a Chicago consulting firm that keeps track of merger and acquisition activity, the number of companies going private has shot up nearly threefold in three years, from 13 in 1980 to 36 in 1983.

The reasons company executives give for doing leveraged buyouts typically sound like a paean to the virtues of entrepreneurship. Private companies, the chant goes, are released from the tyranny of investors interested only in short-term earnings. They don't have to file so many documents with the SEC. They can explore new markets, try new products, spread their wings.

It all sounds admirable, and some of it may even be true. A less ballyhooed incentive to go private, however, is that management can get very, very rich. Explains an investment banker: "Leveraged buyouts are a way of locking in what you've achieved. Most successful executives who've spent years building up a company have taken a lot of risks—career risks, personal risks. They want to make sure no one ever takes it all away."

By investing only a small amount of his own money and borrowing the rest, a top executive can go from owning a little block of his company's stock

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owning as much as 30% of the enterprise. If Chief Executive Donald Kelly had succeeded in taking Esmark private earlier this year, for instance, he would have enhanced his net worth by an estimated $12 million overnight. That's about four times the value of the golden parachute that opened for him when Beatrice bought the company he headed.

According to theory, a lot of the money an executive receives on taking a company private is to compensate him for the risks he's assuming. Risks there certainly are.

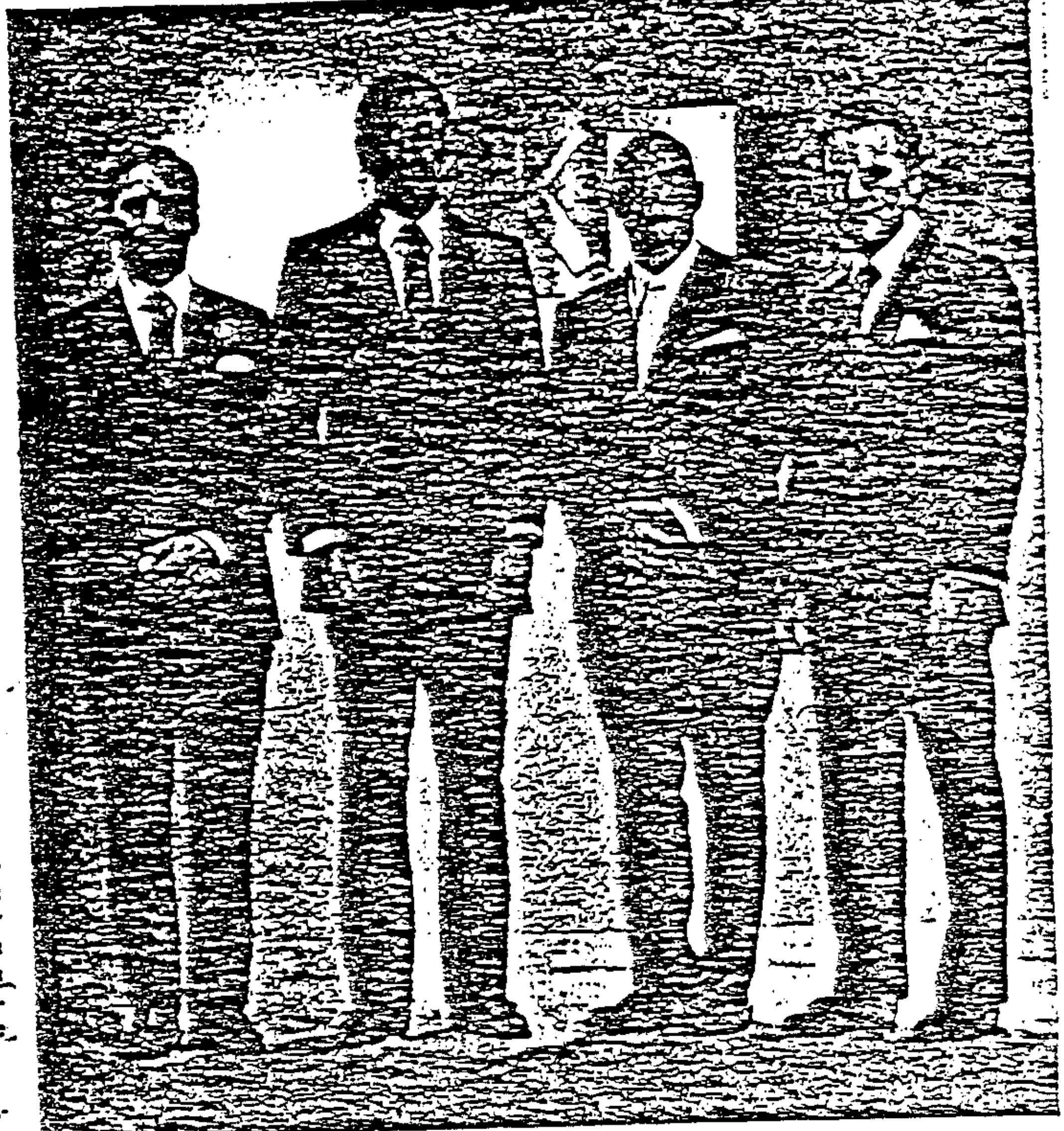
The first, paradoxically, is that the going-private announcement, which the SEC requires as soon as the move is decided on, makes a company more vulnerable to takeover than ever. "From the moment you announce, 'We want to do a leveraged buyout at X dollars per share,'" observes a Wall Streeter, "you are standing in the window with a price tag around your neck." What's worse, you may have to stand there for six weeks or longer, because it often takes at least that much time to round up bank loans to finance your deal. While you're fidgeting in the window, anybody can swoop down with a quick tender offer, typically at a higher per-share price than you are offering, and make off with your company. Merger and acquisition guru Felix Rohatyn puts it bluntly: "You shouldn't announce a leveraged buyout unless you're prepared to see the company sold to someone else."

SOME MANAGERS seem actually to welcome outside bids. Stokely-Van Camp, the $500-million-a-year food company, announced a leveraged buyout at $50 per share in December 1982. The company then got an offer from Pillsbury Co. at $62 a share. "What we are running here," Chairman William B. Stokely III said at the time, "is a controlled auction." Stokely and his investment bankers at Goldman Sachs held out for a higher bid than Pillsbury's, and got it: Quaker Oats bought Stokely-Van Camp last summer for $77 a share.

In another case the management of City Investing, a $6-billion-a-year manufacturing and insurance conglomerate, declared in early May that it would do a leveraged buyout, paying shareholders $2.3 billion. The announcement drew a $2.4-billion bid from financier Victor Posner. City Investing's board won't meet to weigh the two proposals until late July. In the meantime, according to an executive at the company, other offers are always welcome.

The auctions that follow leveraged buyout announcements are rigged against management in several ways. Management has said what it thinks the shares are worth, making impossible the traditional defense that the higher price offered by the would-be acquirer is too low. In financing the buyout, furthermore, management must borrow on a wing and a prayer. These are, respectively, the company's assets and the presumptive owners' good names. Most of the time such collateral pales beside that of outside bidders, who can borrow against two sets of tangible assets—their own and the target company's. David Mahoney, who for this article agreed to be interviewed for the first time since he lost control of Norton Simon last year, claims to have been willing to outbid Esmark: "I would have gone to $34 in cash and paper. But I couldn't beat Esmark's offer of all cash at $32. They had two sets of assets to borrow against. I had one."

In some cases management just can't raise the money at all. Banks,



Why aren't they smiling? *The partners in the leveraged buyout firm of Kohlberg Kravis Roberts, George Roberts (left), Robert MacDonnell, Jerome Kohlberg Jr., and Henry Kravis, collected $7 million from client Esmark even though Beatrice won out.*

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shocked by the stumble of Continental Illinois and jittery about their foreign loans, are getting picky about lending for leveraged buyouts. Southwest Forest Industries, a $600-million-a-year paper and building products company headquartered in Phoenix, found that out when it tried to go private last March. In May, having spent two months trying to obtain bank loans, Southwest's management announced that it would not be able to do the leveraged buyout after all. By that time, of course, the company was already in play. In May, Jefferson Smurfit Group Ltd., an Irish papermaker, snapped up 9% of Southwest's stock and said in an SEC filing that it would seek to buy as much as 20%. The two companies are now discussing merger.

The investment banking firm of Morgan Stanley, which proposed the leveraged buyout to Southwest Chairman William Franke and helped in the effort to line up financing, no longer represents Southwest. It now represents Jefferson Smurfit in the merger negotiations. Executives of the investment banking house heatedly deny any suggestion of a conflict of interest, pointing out that Southwest signed an agreement releasing them to represent the Irish company. But, says a senior executive at Southwest who was part of the team attempting the leveraged buyout and who thinks the prospective merger less welcome than Morgan maintains, "There has been a lot of speculation about the connections there."

INDEED, managers may be forgiven some doubts about whether Wall Street firms that propose leveraged buyouts are all that concerned that the deals go through. Once a company is in play, the investment bankers who have put together a buyout stand to profit no matter who ends up owning the company. That wasn't always the case. As recently as six months ago, the preeminent leveraged buyout firm of Kohlberg Kravis Roberts & Co. committed up to $500,000 in time and talent to each buyout it helped arrange—and lost that money if it got outbid. Now KKR writes contracts that call for options on as much as 15% of a company's stock, as well as a multimillion-dollar fee called a "goodbye kiss," even if the leveraged buyout attempt is defeated. Notes a spokesman for secretive KKR: "You live and learn."

Allen & Co., a veteran of the leveraged buyout game, made headlines last year in its bid to take Northwest Energy private. Williams Cos., a diversified Oklahoma-based concern, carried off the prize instead and kicked out Northwest's top management. Don't cry for Allen & Co., though: it pocketed stock options and other remuneration worth $27 million.

For executives attempting to take a company private, losing a bidding battle is not the only risk run. Because the buyout proposals are so generous to management, they frequently provoke lawsuits from shareholders. The charges filed tend to be unusually vitriolic. Woodward & Lothrop, a Washington, D.C., retailer, considered a leveraged buyout last January. A month later management scrapped the scheme, and in April the board approved a better offer from real estate mogul A. Alfred Taubman, who also wants to take the company private. The deal as currently negotiated is so sweet for Woodward & Lothrop executives—they'll get options on 20% of the company and could make millions—that they have granted Taubman a "lock-up option" that keeps other bidders away. That has Woodward & Lothrop's shareholders hopping mad. A group led by descendants of the company's founders is suing, arguing that the $59-a-share price they'll get from Taubman is far less than their stock is worth. What's more, the plaintiffs accuse Woodward management of failing to disclose to company directors the real value of Woodward & Lothrop's assets. The suit is so heated that Woodward executives can't say a word about it. "Every time we open our mouths," says one, with a nod to the other side's law firm, "Skadden Arps nails us for proxy solicitation."

Management's standard defense in shareholder lawsuits has long been the so-called business judgment rule, which says approximately that whatever managers and directors decide is prudent will be presumed to be the best course of action for the company, whatever the shareholders think. An essential part of the doctrine, though, is that the board must base its decisions on accurate, complete information. If Woodward & Lothrop's shareholders can prove management kept the board in the dark, the business judgment rule won't apply and the court might block the Taubman deal.

EVEN IF a company can escape a takeover and succeed in going private, there may still be a few surprises—not all welcome. Leveraged buyout firms like Kohlberg Kravis Roberts and Forstmann Little & Co. differ from investment banking houses that act merely as agents in a deal—the buyout specialists end up owning a big chunk of the company. Often they're not content to be passive investors. Notes Scott Newquist, who does leveraged buyouts for Morgan Stanley: "What happens is your constituency changes. Suddenly, instead of a lot of silent investors, you have a handful of very vocal and sophisticated ones. They hold your feet to the fire. I've seen people shocked by the adjustment."

In the worst case managers can be left feeling that someone else controls their company. Wometco Enterprises of Miami, a middling-size television station and soda-bottling company, went private last year in a leveraged buyout. When asked recently to name the corporation's current chairman, the company's public relations representative replied, "I'm not sure—it might be one of the KKR people."

By far the biggest worry in a newly private company is paying off the debt taken on to do the deal. Bankers justify lending huge sums to leveraged buyout partnerships with the argument that owning a big stake in a company gives executives an incentive to work harder and smarter. That, according to the theory, in turn boosts cash flow, and voilà, the debt gets paid. As a former Wometco director puts it, "Wometco was a company with $160 million of debt and all of a sudden it's $900 million. So management is under a lot more pressure, trying to save their own necks."

So worrisome is the debt burden that, as leveraged buyouts become more sophisticated, more partnerships are taking steps to limit their vulnerability to rising interest rates. One way

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…egotiate a "cash cap" with lend… even if rates rise beyond a speci… level, the borrower pays only up … level, with the shortfall in inter… converted to principal and tacked … the end of the loan. The company … ends up paying interest on inter… but at least the payments are … ched out so as to avoid short-term … crunches. But many leveraged … are still financed at variable … with no such protection.

…e might think that if a private …any founders under its load of … and goes belly up, at least the for… shareholders could still breathe … Alas, it isn't so. A little-known … of the Federal Bankruptcy … holds a nasty surprise for erst… investors: If a newly private en… …rise goes under, they may have to … back the money they received for … shares when the company bought … out. According to the law, if a … …pany goes bankrupt after a trans… of cash for stock causes its liabil… to exceed its assets, the transac… can be reversed. Muses Stephen …mond, the chairman of First Chica… Credit Corp., a subsidiary of the big …ago bank, "Very few investment …kers, or stockholders either, seem … of this."

The amount of debt that's piling up … mergers and acquisitions and partic… … in leveraged buyouts is one rea… government officials are ponder… …ticer regulations. John Shad, the …rman of the SEC, has decried what … calls "the leveraging up of Ameri… enterprise." But regulators appar… … hesitate to tell banks how much … can lend to dealmakers. "It's real… considered a credit problem," notes …ard Frères' Felix Rohatyn, "so it is … the people who provide the cred… … make sure these are viable deals." …mbing interest rates force enough … leveraged companies into seri… financial straits, however, Wash…ton's laissez-faire attitude could …nge.

FOR NOW Congress seems most concerned with making sure that small shareholders get a fair shake. Legislation has been …duced that would make the lot of … would-be acquirer more difficult: … would have to announce his hold… … as soon as they reached 5%—the …sent rule says within ten days …after—and then wait two business days before buying any more. But other pending legislation could work against the managers of target companies, narrowing their choices. Timothy Wirth, a Democrat from Colorado, has introduced a clutch of bills in the House. One would prohibit companies from paying a premium to buy back the stock of anyone holding 3% or more without first getting the approval of the majority of shareholders. There's enough anti-greenmail sentiment at the SEC and on Capitol Hill to suggest that the measure will probably pass this session.

Slightly less likely to pass is another Wirth bill that attacks the business judgment rule. If it becomes law, managers will have to prove that their decisions are in the shareholders' best interests, rather than requiring shareholders to prove otherwise. That could make the lawsuits provoked by leveraged buyouts a lot more difficult for management to fight.

Paradoxically, outlawing greenmail and shifting the burden of proof in buyouts onto management's shoulders may provoke more mergers and acquisitions, not fewer. With their defensive options limited, executives who feel vulnerable to takeover might seek out friendly merger candidates before unfriendly ones come knocking. "The best and least risky deals," says Ken Miller, head of mergers and acquisitions at Merrill Lynch, "are those that surface in the public eye already done, with a tender offer locked up." What's good for management may not be so terrific for shareholders, though. The more things change . . .

SOME JUMPED INTO PLAY . . .

COMPANY	SALES IN MILLIONS Fiscal year-end	DEAL
Stokely-Van Camp	$525.2 (5/31/83)	Announced leveraged buyout December 1982. Bought by Quaker Oats for $238 million.
Norton Simon	$2,679.3 (6/30/83)	Announced leveraged buyout June 1983. Bought by Esmark for $973 million.
Fabergé	$258.5 (12/31/83)	Announced leveraged buyout January 1984. Bought by McGregor for $180 million.
Woodward & Lothrop	$402.6 (1/28/84)	Rejected leveraged buyout February 1984. Agreed to acquisition by Taubman Holdings for $220 million.
Southwest Forest Industries	$624.4 (12/31/83)	Announced leveraged buyout March 1984. Discussing acquisition by Jefferson Smurfit.
Esmark	$4,027.4 (10/29/83)	Announced leveraged buyout May 1984. Accepted takeover bid by Beatrice for $2.3 billion.
City Investing	$5,948.0 (12/31/83)	Announced leveraged buyout May 1984. Weighing rival bid from Victor Posner for $2.4 billion.

. . . AND SOME WERE PUSHED

COMPANY	SALES IN MILLIONS Fiscal year-end	DEAL
Heublein	$2,137.4 (6/30/82)	General Cinema increased stock holdings in company to 18.9% May 1982. Bought by R.J. Reynolds for $1.4 billion.
Bendix	$4,220.4 (9/30/82)	Announced tender offer for Martin Marietta August 1982. Acquired by Allied for $1.8 billion.
Trane	$1,073.0 (12/31/83)	IC Industries increased stock holdings in company to 24.5% July 1983. Bought by American Standard for $451 million.
Emery & Smith	$234.7 (12/31/83)	Newell increased stock holdings in company to 4.5% March 1984. Company agreed to acquisition by Hallmark Cards for $204 million.
Blue Bell	$1,229.8 (9/30/83)	Announced it was discussing a leveraged buyout May 1984. Belzbergs increased stock holdings to 9.2% and said they may acquire more stock.

GOING, GOING, GONE

Almost anything that draws attention to a company can attract would-be buyers. Going private often takes so long that a quick tender offer wins out. Greenmailers—or potential greenmailers—can also move a company onto the block.

H000400

Business Week, August 13, 1984

WILL MONEY MANAGERS WRECK THE ECONOMY?

THEIR SHORT-TERM VIEW DERAILS COMPANIES' LONG-TERM PLANS

There are no long-term stockholders anymore.

—Martin S. Davis
Chief executive officer
Gulf & Western Industries Inc.

There's no patience to make an investment in the future. The whole society is pervaded by that kind of attitude.

—Edward D. Zinbarg
Senior managing director
Prudential Equity Management Associates

Within minutes of ITT Corp.'s announcement on July 11 that it was cutting its dividend by nearly two-thirds so it could afford heavy investments in the U. S. telecommunications business, money managers stampeded to dump their shares. By day's end, the price of the stock had dropped by roughly a third, in response to the cut and an announcement of lower earnings. In effect, institutional investors knocked the price down until ITT's new $1 dividend once more yielded the minimum 5% return that most institutions demand. And now the low price of ITT's stock makes it a potential takeover candidate, in the opinion of some Wall Streeters.

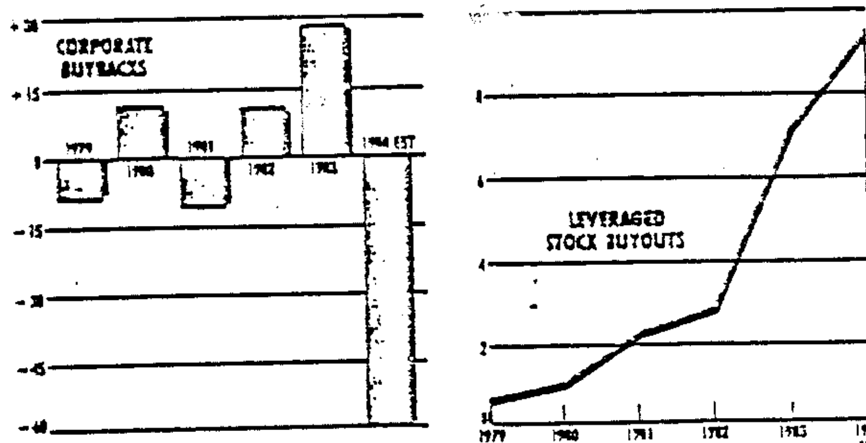
The ITT incident is the clearest evidence of the broad—almost dictatorial—power that money managers wield today over corporate destinies. With more than $1 trillion in holdings, controlling an estimated 60% of corporate stocks and bonds, they can virtually set the price of any company's stock through the impact of their massive purchases or sales. By comparing equity investments with alternate opportunities such as short-term debt instruments, they keep prices low. They can, at will, sell shares in their portfolios to an arbitrageur—a trader who thrives on rumors, buying up shares quickly on hints of a raider's interest, in the hope of reselling them to anyone willing to pay a premium for control of a company. And the institutions base their decisions not on the underlying worth of a company or on its long-term prospects but on whether the arbitrageur will give them a quick profit on their investment.

The money managers' power acts as a Damoclean sword over companies today, forcing chief executives to keep earnings on a consistently upward track, quarter by quarter, even if it means frustrating their long-range plans. And because the low value assigned to their stocks closes equity markets to most companies, managements are borrowing more to operate their businesses.

NEAR THE BRINK? The pressure to focus on the short term plus the need to pile leverage upon leverage clearly will have profound consequences. Ultimately, all but the largest and richest companies will be discouraged from taking risks. The others will be limited to service businesses or to operations that the giants ignore. With investment in potential products and services held to a minimum, mature products will dominate the marketplace. Worst of all, the added bor-

THE SKEWING OF CORPORATE SPENDING

U.S. COMPANIES ARE BUYING THEIR OWN ASSETS...



▲NET EQUITY CHANGE IN BILLIONS OF DOLLARS

▲BILLIONS OF DOLLARS

DATA: SHEARSON LEHMAN/AMERICAN EXPRESS INC.

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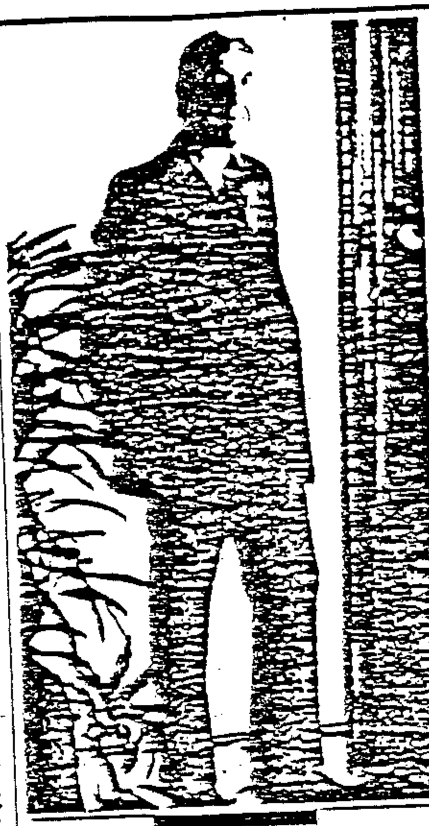
rowing could push companies over the brink if another recession slows growth and cuts off funds to service debt.

So far, money managers are unmoved. Except for the lower dividend and earnings, for example, ITT was the same company on July 11 as it was on July 10: The same management was in place; the same business plan was in effect, and the company held the same assets. If anything, Chairman Rand V. Araskog's decision to cut the payout promised to help ITT's long-term competitive position.

But none of the institutions, which held an estimated 44% of the stock, were concerned with whether the plan would work or how long it would take. From the money manager's point of view, ITT's value is in its 5% return. Any additional worth now resides in the potential premium over market price that ITT's stock might command in the event of a takeover or liquidation. ITT's book value is $39 per share. But its stock price is only $21 per share. A raider would need little more than $3 billion to gain enough control to force the sale of some of these assets—and to foreclose further investment in U.S. telecommunications.

ITT is vulnerable because its management relied too long and too heavily on foreign operations at the expense of U.S. investment. But even companies that have made no mistakes—indeed, that appear to have done everything right—can be up for grabs. In July, according to Standard & Poor's Corp., nearly 30% of all industrial stocks on the New York Stock Exchange sold below their tangible book value.

Corporations that have invested for the long term to the detriment of short-term earnings, those in cyclical industries, and those with assets in natural resources that pay off slowly—such as oil, minerals, or timber—have all been downgraded by the market and thus are ripe for picking. Says Leon G. Cooperman, a partner at Goldman, Sachs & Co.: "I don't think any company can afford a long-term investment today unless its managers own 51% of it."



Executives 'think that by concentrating on their business alone they're doing a good job. That's not true'

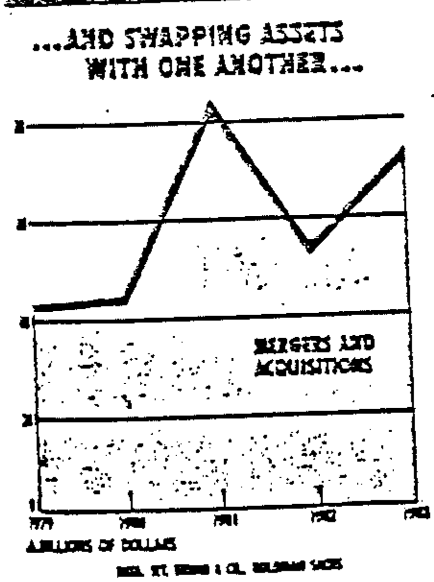
IVAN F. BOESKY
President, Ivan F. Boesky Corp.

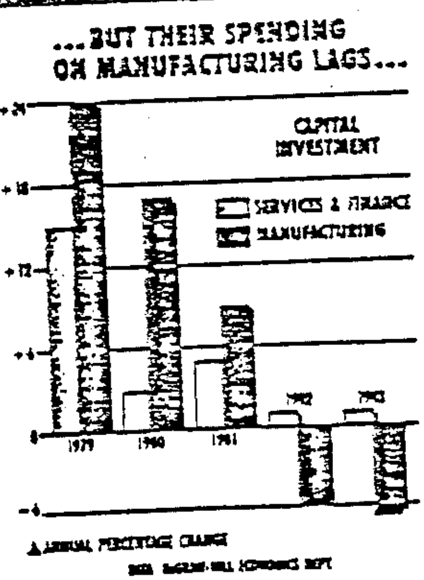
ON THE DEFENSIVE. Araskog is only one of many chief executives walking a tightrope. Harried by well-heeled raiders and burdened with a fickle shareholder base, severely undervalued assets, and, in many industries, overcapacity, managements are trying to plan for the future while keeping their companies intact. If they concentrate on business and ignore their stock price, takeovers threaten; even multibillion-dollar companies are not immune. But if they try to appease Wall Street, they may find their competitive platforms have disappeared.

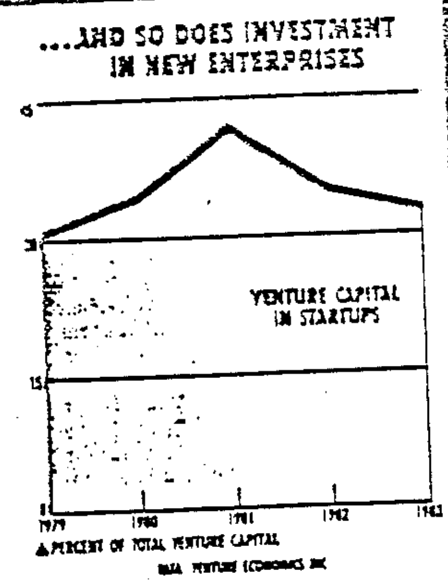
Given the immediate threat, more managers are turning to short-term fixes. Typically they install defenses against marauders. They stagger the election of their boards, they rejigger their corporate charters to proscribe offers for less than the entire company, they rig themselves golden-parachute contracts. But more significantly, they trade assets around, buying and selling subsidiaries, product lines, bits and pieces, seeking a small earnings edge.

For many companies, expending energy and resources in this way displaces long-term commitment to new ideas and to risky but creative uses for corporate cash. It limits companies to what one chief executive calls "survival tactics right now and worry about everything else later."

The evidence of these tactics is becoming more and more marked. Survival







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may be the rationale now, but with no apparent way out of this dilemma, it may become the modus operandi for more and more corporations. The tactics add up to a dispiritingly long list, of which this is a fair sample:

- **Acquisitions.** Less money is going into startup ventures and more into acquisition of existing assets. Last year less than $1 billion in venture capital was allocated to startups from private funds and corporations with venture capital subsidiaries. That compares with $68.6 billion invested in mergers and acquisitions, excluding leveraged buyouts, according to statistics compiled by Venture Economics Inc. and W. T. Grimm & Co.
- **Research.** Companies spend more research money on improving processes and less on developing new products. The rate of increase in research and development spending slowed from 16.4% in 1981 to 11.1% in 1983. The current emphasis, notes McGraw-Hill Inc. economist David Braverman, is on turning out new products based on earlier research (BW—June 18).
- **Capital spending.** Investment is shifting from businesses with high capital needs to businesses with low needs. Although capital spending is at an all-time high, recent data show that outlays for services and finance are growing at a consistent rate, while manufacturing spending fluctuates disturbingly.
- **Buyouts.** More and more companies are selling assets to managers and investors who finance with debt. In 1984's first half, a record $6.3 billion worth of leveraged buyouts sopped up some $5 billion of short-term credit, nearly five times the activity for all of 1981, according to Securities Data Co. and Goldman Sachs.
- **Buybacks.** While companies once replenished their capital by selling new equity to investors, they now are buying back their own stock. And the swing is shocking: After selling $29 billion of equities just a year earlier, companies announced some $60 billion in buybacks in this year's first quarter alone.
- **Resources.** Resource companies are emulating manufacturers—investing less in exploration, more to buy existing reserves. Texaco's $10.1 billion purchase of Getty and Standard Oil of California's $13 billion takeover of Gulf Oil confirm the slogan that it is better to find oil on Wall Street than anywhere else.
- **Short-term debt.** Less equity and fewer bonds underpin business activity. Traditionally, long-term debt accounted for about 2.5 times short-term debt in a company's capitalization. Today that ratio is about 1 to 1, according to Shearson Lehman/American Express Inc.

The long-term implications of such corporate decisions are awesome. Fewer startup operations, less development of new products, ore bodies, or oil fields, and more service businesses at the expense of capital-intensive manufacturing could add up to the slow "deindustrialization" of the U. S. Moreover, higher short-term leveraging at the expense of equity leaves weaker companies vulnerable to bankruptcy in periods of high interest rates and business slowdowns.

Inevitably, corporate power is concentrated in fewer hands. Ultimately, that means fewer choices for consumers and investors. "If the trend continues," says the managing partner of a premier investment banking house, "it means economic suicide." Adds the chief executive of a natural resource company: "It's the defunding of America."

What brought companies to this pass is the new game that has overtaken U. S. equity markets. At one time, company shareholders were individual investors who staked their money on the long-term development of ideas, products, or services. Today, according to Chicago's Northern Trust Co., some 60% of all shares are controlled by pension-fund and mutual-fund managers.

Figures compiled by the Labor Dept. show that pension plans governed by ERISA (Employee Retirement Income Security Act) regulations control some $1 trillion in capital, concentrated predominantly in corporate stocks and bonds. On average, institutions account for 80% to 90% of all daily trades.

> 'The typical investment cycle was three to five years in the 1960s. Now . . . it's more a casino operation'
>
> GREG A. SMITH
> Executive vice-president, Prudential-Bache Securities Inc.

Their stock selections depend on comparisons of returns. High short-term interest rates always cause stock prices and price-earnings multiples to drop, notes Allan S. Lyons, executive editor of two Value Line publications. His reasoning: "Even if you're certain a company will have a payoff on its investment in three years, you have to consider the present value of your investment. You discount what you will pay for it to the present value of the return you expect in the future. Either you pay less for the company now or you put your money elsewhere for three years and switch it to the company then."

No wonder then that Gulf & Western's Davis says, "In most companies there are no long-term stockholders anymore." With short-term money today commanding yields equal to or higher than long-term ones, fund managers see no reason to wait for future payoffs when they can get them now. Currently, for example, Treasury issues due in May, 1986, yield more than some due from 1993 to 1997. That skewing of returns has pushed price-earnings ratios to their lowest point—8.5 to 1—since 1949.

Money managers themselves are increasingly judged on their quarterly results. Now that computers tot up each trade and track overall fund returns, even their weekly and daily results can be tallied and compared with those of

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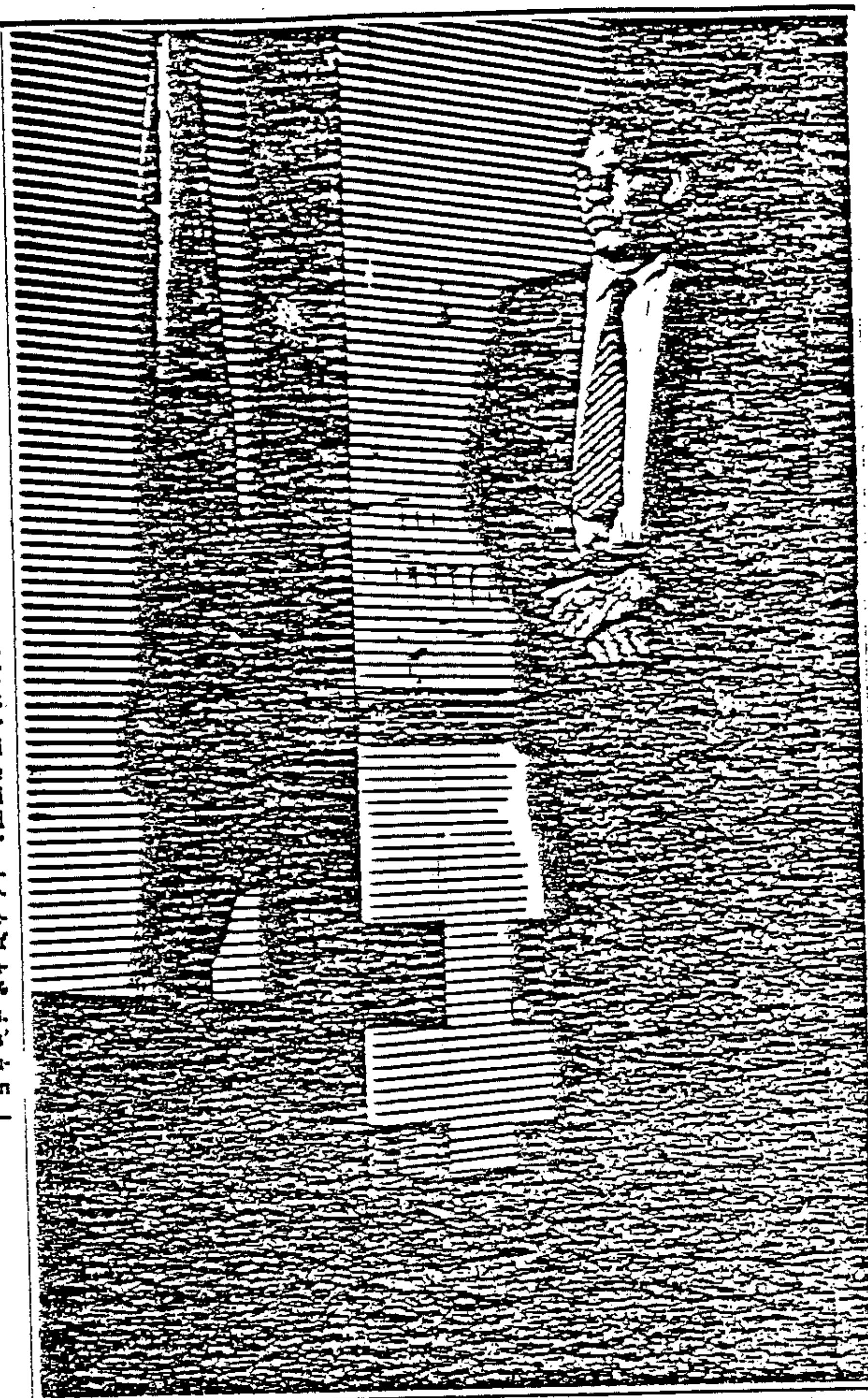
their peers. Because they are judged on their short-term performance, money managers seek the highest yield in the shortest time. Their success comes from beating, or at least matching, their competitors' record, and it matters little whether results are derived from improved earnings by the companies in their portfolios or from premiums that accompany takeovers or breakups of those companies.

PROMISES, PROMISES. "The competition for business among money managers has gotten enormous," says Greg A. Smith, executive vice-president and managing director of institutional sales at Prudential-Bache Securities Inc. "It leads to escalating promises, such as, 'You can make them 20% to 30% a year when a long-term investment gives them only 10%.'" Honoring those promises means either betting on high-risk stocks or selling out when the rumor of a takeover boosts a stock's price.

Ready to exploit takeover situations are the arbitrageurs, who take the shortest view of all. Indeed, they think of investments in terms of days, or at most weeks. Ivan F. Boesky, an arbitrageur who heads his own firm, once described an early deal in which he made a mere 30¢ per share on some stock: "The deal takes a week, is virtually riskless, and the 1.8% we make is 88.4% annualized." The deals today may not all be riskless. Some, such as Limited Inc.'s raid on Carter Hawley Hale Stores Inc., are unsuccessful. Nonetheless, within a week of Limited's announcement of its intentions, arbitrageurs had bought some 35% of Carter's stock from money managers.

There are no barriers to the funds' trading velocity. Commissions on institutional trades are low. Since pension



Pension fund managers should actively support takeovers that boost their portfolio value

ROBERT A. G. MONKS
Chief ERISA administrator, Labor Dept.

funds pay no current taxes, they have no incentive to hold securities to qualify for capital-gains treatment. Indeed, they are urged to trade for short-term gains by such authorities as Robert A. G. Monks, the Labor Dept.'s chief administrator of ERISA pension and benefit regulations. He exhorts fund managers to become activist shareholders (BW—Aug. 6), supporting takeovers, for example, that temporarily boost the price of shares in their control. If takeover targets attempt to block bids, Monks encourages pension funds to sue. "The pension funds must invest to achieve the maximum return," he says.

The pressures to perform have led to some bizarre investing tactics. In 1983, for example, pension funds dumped an average of 62.1% of the stocks in their portfolios and replaced them with other shares, according to SEI, the Chicago-based funds-evaluation service. Ten years ago, the average was 21%. This year the churning is swifter yet.

Since most companies' value and earnings potential are unlikely to change drastically from quarter to quarter, the switchers clearly are betting on something other than underlying worth. "Investment opinions aren't being formed on traditional fundamental analytical tools any more," says Smith. "The typical investment cycle was three to five years in the 1960s. Then money managers looked for good results over a year. That became a quarter. Now it's weekly and daily. It used to be we had an investment policy committee. Now there's

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no restraint on decision-making. It's more a casino operation."

To stay on the right side of the professional investors, corporations are operating under a new credo: no bad news. ITT's Araskog ignored that principle, and now he may be forced to sell some assets. Others may have no choice but to obey the precept. But to produce only good news, companies could be squeezed

The short-term emphasis 'ultimately hurts the whole economy. I don't know what you can do about it'

EDWARD D. ZINBARG

[illegible]

into strategies that make earnings look good but may have no organic relation to their businesses or to their long-term growth.

Besides investing mainly for short-term payouts, many companies hope to pump up earnings, for example, by selling assets and leasing them back. In theory the proceeds from the sale free cash for investment elsewhere at a higher return. In practice the maneuver improves both the income statement and the balance sheet: Sale proceeds in excess of the carrying value in an operating lease are reported as earnings on an amortized basis. And debt from the assets disappears from the balance sheet, improving the ratio of debt to equity.

Selling operations in leveraged buyouts also boosts reported earnings. If the buyers borrow from an outside lender, proceeds are booked as a gain on the income statement. If the company takes back the debt, interest paid on it flows to earnings. Another way to improve earnings per share: Reduce the number of shares outstanding. That is why corporate buybacks of stock have reached epic proportions. None of these ploys adds a single extra customer. Nor do they improve sales or add a consistant stream of dollars to the bottom line.

Furthermore, buybacks do not always achieve their goals. Northwest Industries Inc., for example, reduced its outstanding shares by about 33% with two buybacks, one in 1981 for $55 per share and the second in 1982 for $70. The second was made possible by Northwest's sale of its Coca-Cola bottling unit and Buckingham, distributors of Cutty Sark Scotch whisky, to Beatrice for $600 million. Since then, earnings per share, which peaked in 1981 at $10.03 partly as a result of the first buyback, plummeted to 34¢ last year before special items.

With its remaining businesses—mostly oil and gas—in the doldrums, Northwest's stock has not come close to its buyback price (its recent price: $42). At his annual meeting this year, Chairman Ben W. Heineman declared, "If we had [foreseen the oil and gas debacle], we probably would not have made the second tender."

Putting the best face on it, companies claim that investment in their own business is the soundest they can make. Typical is Nabisco Brands Inc., which announced that it is buying up 11% to 12% of its stock this year to add to last year's 10% buyback. Says Chairman Robert M. Schaeberle: "It's the best use we can make of our capital assets. Our market value is very important. We're buying ourselves at a nine-times-earnings multiple, when companies in our industry are being bought at much higher ones." This past week, Standard Oil Co. (Ohio) announced a massive buyback for virtually the same reason.

TWO EVILS. Goldman Sachs' Cooperman points out that chief executives see limited choices for sopping up the extra cash generated by tax reduction and by the recovery of the economy. With too much capacity in many industries, managers are reluctant to invest heavily in plant and equipment. Boosting dividends means committing companies to continuing high payouts in future years. Declaring a special dividend wins no credit on Wall Street, says Cooperman, because pension managers tend to include in their calculations only items they can regularly count on.

Acquisitions can always sponge up spare cash, but attractive ones are hard to come by; it is simply a seller's market. In short, concludes Cooperman, managements' view is that "the devil I know, in buying my own stock at six or seven times earnings, is better than the devil I don't know that I'd have to pay 13 or 14 times earnings for."

The experience of Dart & Kraft Inc. underscores that view. The company recently spent more than $350 million to

buy back on the open market about 5 million shares, or 9% of its common. Says Chairman John M. Richman: "We had been looking at major acquisitions at the same time, but we're going to be prudent about it. Prices are very high. Anything we invest in we have to see the likelihood of a return in a reasonable period of time." Richman defines a reasonable period as three years. And, he adds, "the cash that sits there penalizes you. If your overall pretax return is 20% to 30%, your pretax return on that cash is more like 10%. It drags down your performance. [A buyback] can build value for shareholders in that it improves the performance of the company [on a per-share basis]."

Nor can companies stick with even marginally profitable businesses no matter how promising the long-term poten-

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tial, under their new short deadlines. Just as fund managers cull their portfolios of low-return investments, so chief executives must cull their businesses of low-return operations. The process is known as "redeployment of assets." But it is corporate triage: A few operations are nurtured, the rest are given up.

Thus, for example, Bell & Howell Co. is out of the instrumentation business. Warner Communications Inc. has sold Atari Inc. Westinghouse Electric Corp. is looking for partners for its robotics business because its management expects that the division will take two to three years to become profitable.

Natural-resource investments also take a long time to reach fruition, a circumstance that made St. Regis Corp. a target for corporate attack three times this year. Bendix Corp., now part of Allied Corp., sold its forest-products business to a group of private investors.

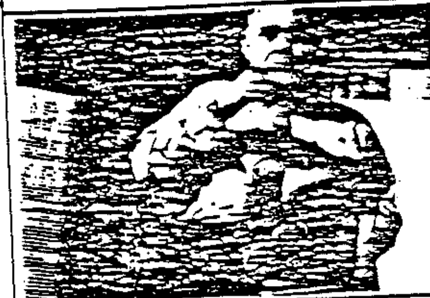
Most of these divestitures were made

through leveraged buyouts. As private companies, the units now are immune to the short view. But because their new owners typically have borrowed as much as 90% of the price, they are vulnerable to another rise in interest rates, or to a slowdown in the economy.

Aware of the pitfalls, some companies refuse to let their stock price influence their decisions. But they buck the trend at great risk. Says Boesky: "Managers think that by concentrating on their business alone they are doing a good job. That's not true. Just as a company has to compete in its industry, it has to be aware of the capital markets. When making management decisions, some thought must also be given to this area and to stockholders."

That seems particularly true with companies that operate in natural resources, such as Amax Inc., the mining company that led its industry for years. Under its former chairman, Ian K. MacGregor, Amax expanded rapidly on borrowed money. It designed its mines to anticipate pollution concerns, diversified into a variety of minerals, developed markets for its major ore, molybdenum, and funded its growth by selling 20% of its stock to Standard Oil Co. of California. In 1981, just as minerals slumped, Socal offered to buy Amax for $78.50 per share, or double its market price. Pierre Gousseland, its new chairman, turned the offer down. Today, with minerals in the doldrums, an Amax share sells for about $19.

By contrast, St. Regis, now under siege by publisher Rupert Murdoch, may have found sanctuary with Champion International Corp. If the deal goes through, a big gainer will be Boesky, who bought nearly 10% of St. Regis between June 22 and July 25.



Ironically, neither investors nor corporations applaud the short-term bias—nor are they sanguine about its long-term results. RCA Corp.'s recent history confirms their doubts. Its former chairman, Edgar H. Griffiths, was determined to improve RCA's standing on Wall Street by increasing earnings quarter by quarter. To do that, he cut expenses, redirected his research staff to trim production costs, and delayed new-product introductions. When he had squeezed all he could, he sold company assets to keep earnings up. To add revenues, Griffiths bought CIT Financial Corp., a financial services company, leveraging RCA heavily to do so.

The result: When interest rates soared and the economy slowed in 1981 and 1982, the company was brought to its knees. Its credit rating was downgraded, its dividend was halved, and it was forced to sell CIT at no gain.

Chief executives blame the fund managers for undervaluing their companies' assets, and money managers blame high interest rates and the pressures of competition. Says Prudential's Zinbarg: "Treasurers—the very people who measure us on the short term—are those who berate us when we dump their stock and it goes down 15%." Nevertheless, he concedes that the short-term emphasis, "which makes us quicker on the trigger to dump a stock, ultimately hurts the whole economy." Yet he adds, "I don't know what you can do about it."

PLAYING IT SAFE. Indeed, there are no easy answers. Imposing legislative restrictions on investors means the end of a free and efficient market and leads to the government's deciding how private capital is to be allocated. In some ways, forcing chief executives to invest for the longer haul and to keep their companies independent is not workable, either.

Still, some of the problem may be self-correcting. Banks are becoming increasingly reluctant to fund the riskier leveraged buyouts. Even more significant, corporations are dismayed at the fund managers' track record. Most funds guessed wrong last year, performing far below the S&P averages. That sorry record has been the norm for the past 20 years. Indeed, SEI discovered that the funds that churned most performed worst in 1983. A number of companies have closed down their pension funds and purchased annuities for their employees. If that trend continues, the clout of the current crop of investors could be dissipated.

To save their jobs, the institutions may have to take a different investment tack, viewing corporations on a longer horizon. Although well-documented studies have shown that long-term profits are relatively unpredictable while the

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> LEON G. COOPERMAN
> Partner, Goldman, Sachs & Co.

next two or three quarters are easier to call, fund managers may have to look farther out to do better for their clients. In turn, chief executives may order their corporate treasurers to be more patient with their pension fund managers.

Even so, corporate chiefs may be unable to escape the pressures of a perpetual balancing act in which they must weigh the interests of their companies, their stockholders, their customers, their suppliers, and their own careers. And if James N. von Germeten, president of Boston Co., which manages $6.5 billion in pension funds, is right, they could be fighting a losing battle. Says von Germeten: "The allocation of resources by the market may be brutal, but it's pretty efficient. If it leads to the rise of industrialization in Third World countries [at the expense of the U. S.], that's not necessarily bad. I'm not certain that what's good for us is really good for all of us when you take a world view."

Writing off the U. S. as an industrial nation may be selling it short, however. Judging from the reaction of chief executives to the current trend, few are willing to give up without a prolonged fight. But unless they can persuade their short-term owners to agree, the very tactics they have been forced to use will inevitably weaken their resolve. ■

H000406

H000407

WLR&K DRAFT
8/3/84

PROPOSED RESOLUTION

The Board of Directors hereby reiterates its belief that the Corporation has a bright future and reconfirms its ~~position~~ belief that the investment of the Corporation's shareholders will be maximized and that the long-term interests of the Corporation as whole ~~and its shareholders~~ will best be served if the Corporation continues as an independent company. ~~Significant~~ accordingly business decisions ~~should~~ will continue to be made with a view toward achieving that objective, ~~and toward~~ which contemplates the impact of such decisions on the Corporation's shareholders employees, its customers and suppliers, the communities in which it and its subsidiaries operate and the public in general.

Not binding on part of Board in event attractive offer is made.

H000406

H000409

SELECTED MODEL BY-LAW PROVISIONS

Special Meeting.

Special meetings of the stockholders may be called at any time by the Chairman of the Board, the President, or a majority of the Board of Directors.

Notice of Stockholder Business.

At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (c) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation, not less than 50 days nor more than 90 days prior to the meeting; provided, however, that in the event that less

< 70 Days

than 70 days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business, (c) the class and number of shares of the Corporation which are beneficially owned by the stockholder, and (d) any material interest of the stockholder in such business. Notwithstanding anything in the By-Laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section ___. The Chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section ___, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

≥ < 10 days after notice

Notice of Stockholder Nominees.

Only persons who are nominated in accordance with the procedures set forth in this Section ____ shall be eligible for election as Directors. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of stockholders by or at the direction of the Board of Directors or by any stockholder of the Corporation entitled to vote for the election of Directors at the meeting who complies with the notice procedures set forth in this Section ___. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than 60 days nor more than 90 days prior to the meeting; provided, however, that in the event that less than 70 days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Such stockholder's notice shall set forth (a)

H000412

as to each person whom the stockholder proposes to nominate for election or re-election as a Director, (i) the name, age, business address and residence address of such person, (ii) the principal occupation or employment of such person, (iii) the class and number of shares of the Corporation which are beneficially owned by such person and (iv) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including without limitation such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected); and (b) as to the stockholder giving the notice (i) the name and address, as they appear on the Corporation's books, of such stockholder and (ii) the class and number of shares of the Corporation which are beneficially owned by such stockholder. At the request of the Board of Directors any person nominated by the Board of Directors for election as a Director shall furnish to the Secretary of the Corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a Director of the Corporation unless nominated in accordance with the procedures set forth in this Section ____. The Chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by the By-Laws, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

Consents to Corporate Action

Section 1. Action by Written Consent. Whenever any action is required or permitted to be taken at any meeting of stockholders of the Corporation, unless the Certificate of Incorporation otherwise provides, and subject to the provisions of Sections 2, 3, and 4 of this Article ____, the action may be taken without a meeting, without prior notice and without a vote, if a written consent setting forth the action so taken shall have been signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize such action at a meeting at which all shares entitled to vote thereon were present and voted; provided, however, that prompt notice of the taking of corporate action without a meeting and by less than unanimous written consent must be given to those stockholders who have not consented in writing.

Section 2. Determination of Record Date for Action by Written Consent. The record date for determining stockholders entitled to express consent to corporate action in writing without a meeting shall be fixed by the Board of Directors of the Corporation. Any stockholder seeking to have the stockholders authorize or take corporate action by written consent without a meeting shall, by written notice, request the Board of Directors to fix a record date. The Board of Directors shall, upon receipt of such a request, fix as the record date the 15th day following receipt of the request or such later date as may be specified by such stockholder. If the record date falls on a Saturday, Sunday or legal holiday, the record date shall be the day next following which is not a Saturday, Sunday or legal holiday.

Section 3. Determination of Consent Date. The date for determining if an action has been consented to by the holder or holders of shares of outstanding stock of the Corporation having the requisite voting power to authorize or take the action specified therein (the "Consent Date"), shall be the 31st day after the date on which materials soliciting consents are mailed to stockholders of the Corporation or, if no such materials are required to be mailed under applicable law, the 31st day followin the record date fixed by the Board of Directors pursuant to Section 2 of this Article ____. If the Consent Date falls on a Saturday, Sunday or legal holiday, the Consent Date shall be the day next following which is not a Saturday, Sunday or legal holiday.

Section 4. Procedures for Written Consent. In the event of the delivery to the Corporation of a written consent or consents purporting to authorize or take corporate action and/or related revocations (each such written consent and related revocation is referred to in this Article ____ as a "Consent"), the Secretary of the Corporation shall provide for the safekeeping of such Consent and shall conduct such reasonable investigation as he deems necessary or appropriate for the purpose of ascertaining the validity of such Consent and all matters incident thereto, including, without limitation, whether the holders of shares having the requisite voting power to authorize or take the action specified in the Consent have given consent; provided, however, that if the corporate action to which the Consent relates is the removal or replacement of one or more members of the Board of Directors, the Secretary of the Corporation shall designate two persons, who may not be members of the Board of Directors, to serve as Inspectors with respect to such Consent, and such Inspectors shall discharge the functions of the Secretary of the Corporation under this Section 4. If after such investigation the Secretary or the

Inspectors (as the case may be) shall determine that the Consent is valid, that fact shall be certified on the records of the Corporation kept for the purpose of recording the proceedings of meetings of stockholders, and the Consent shall be filed in such records, at which time the Consent shall become effective as stockholder action; provided, however, that neither the Secretary nor the Inspectors (as the case may be) shall make such certification or filing, and the Consent shall not become effective as stockholder action, until the final termination of any proceedings which may have been commenced in the Court of Chancery of the State of Delaware or any other court of competent jurisdiction for an adjudication of any legal issues incident to determining the validity of the Consent, unless and until such court shall have determined that such proceedings are not being pursued expeditiously and in good faith.

H000416

"RESOLVED, that the Board hereby authorizes and-directs
eneral Officers of the Corporation to amend the Corpora-
tax-qualified employee benefit plans to provide that,
e event of a tender or exchange offer for shares of the
ration's Common Stock, each employee-participant in any
plan will be entitled to indicate individually whether
t the participant's shares in such plans shall be tendered
xchanged; specifically, no participant's shares will be
ered or exchanged without instructions to do so from the
icipant. The General Officers may also make such other
nical amendments to accomplish the foregoing as they deem
essary or advisable."

H000420

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.

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.

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.

H000424

HOUSEHOLD INTERNATIONAL, INC.

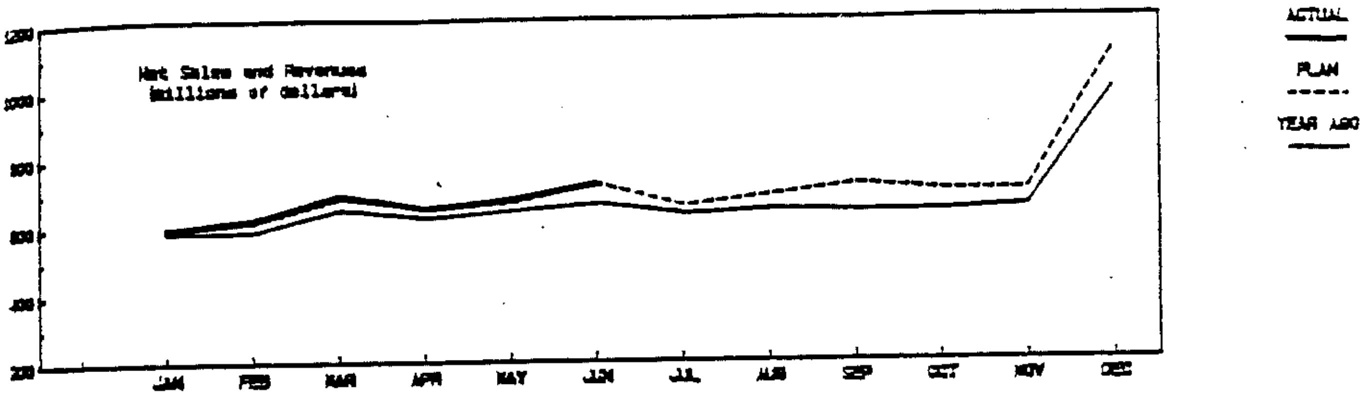
FINANCIAL REVIEW

JUNE 1984

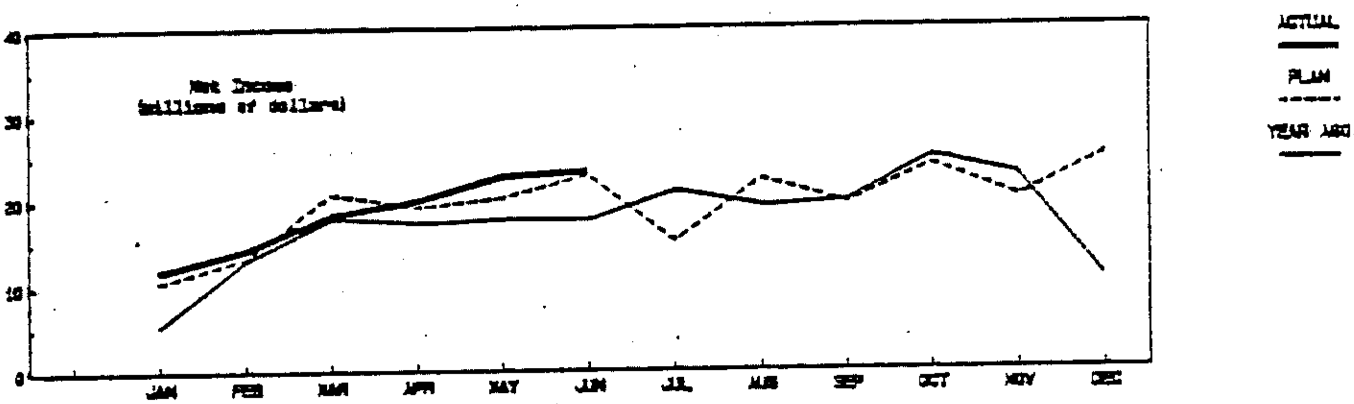
H000425

Corporate Controller's Office
August 6, 1984

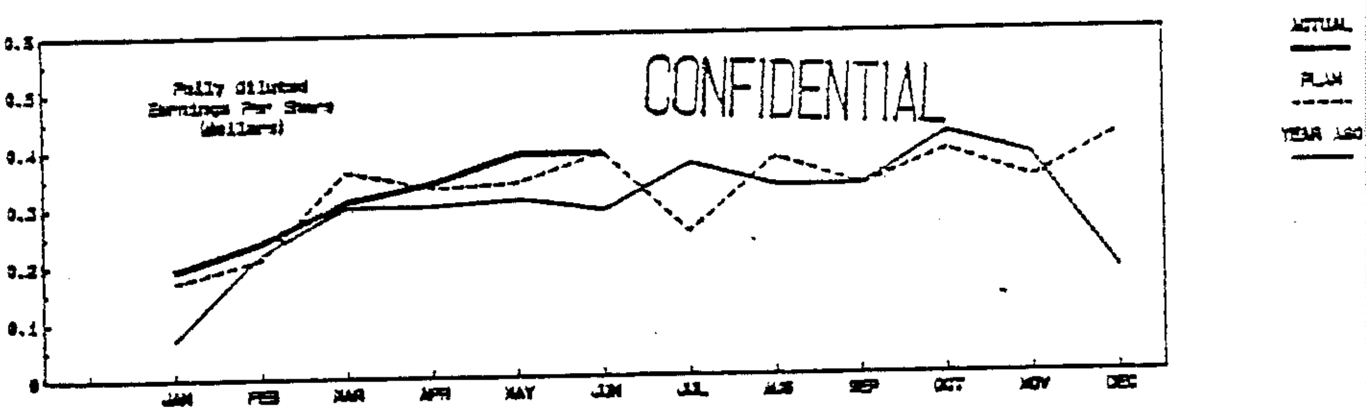
CORPORATE SUMMARY
FINANCIAL HIGHLIGHTS



	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ACTUAL	[illegible]	617.5	[illegible]	[illegible]	673.3	717.7	.0	.0	.0	.0	.0	.0
PLAN	592.5	[illegible]	678.4	647.3	[illegible]	718.2	[illegible]	[illegible]	719.4	[illegible]	[illegible]	1 106.3
YEAR AGO	579.3	[illegible]	645.1	620.4	641.1	[illegible]	[illegible]	640.9	[illegible]	636.3	[illegible]	994.1



	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ACTUAL	11.7	14.3	18.3	19.9	22.7	23.2	.0	.0	.0	.0	.0	.0
PLAN	10.5	13.3	20.5	19.1	20.2	22.3	15.0	22.2	19.4	23.8	20.0	24.3
YEAR AGO	5.4	13.0	17.8	17.3	17.7	17.5	20.3	19.1	19.7	24.3	22.5	10.5



	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ACTUAL	0.19	0.24	0.31	0.34	[illegible]	[illegible]	.00	.00	.00	.00	.00	.00
PLAN	0.17	0.21	0.33	0.33	0.34	[illegible]	0.28	0.38	0.33	0.38	0.34	0.42
YEAR AGO	0.07	0.22	0.30	0.30	0.31	0.29	0.37	0.33	0.33	0.42	0.38	[illegible]

REVENUES: Consolidated sales and revenues through June exceeded Original Plan as all businesses except Merchandising have improved. Merchandising sales are below Plan as a result of sales shortfalls at Vons and T.G.&Y.

NET INCOME: Net income for the month of June was $.4 million more than Original Plan as all businesses except Merchandising exceeded Plan. June income exceeded 1983 by $5.6 million as all businesses reported improved earnings.

H000426

FULLY DILUTED EARNINGS PER SHARE: Fully diluted earnings per share were in line with Original Plan and exceeded 1983 for the month of June due to the earnings improvement.

CORPORATE SUMMARY
NET INCOME AND KEY DATA

(all dollar amounts other than per share data are stated in thousands)

	Month				Year To Date			
	1984 Actual	Original Plan	1983 Actual	Growth Rate 1984/1983	1984 Actual	Original Plan	1983 Actual	Growth Rate 1984/1983
Income								
ancial Services	$ 13,386	$ 12,948	$ 11,451	16.9 %	$ 80,456	$ 77,608	$ 75,479	6.6 %
rchandising	2,929	3,631	2,020	45.0	11,752	12,197	11,330	3.7
ufacturing	6,533	4,960	4,416	47.9	20,939	20,298	11,875	76.3
ansportation:								
Rental and Leasing	5,397	4,249	4,240	27.3	18,051	12,993	7,924	127.8
ir Travel	-	-	665	-	-	-	(2,140)	-
rporate Expenses:								
Administrative	(1,860)	(1,443)	(1,297)	(43.4)	(10,696)	(10,618)	(8,113)	(31.8)
Unallocated Interest	(4,363)	(4,039)	(4,123)	(5.8)	(26,088)	(25,061)	(24,982)	(4.4)
Unallocated Taxes	1,186	2,498	176	573.9	15,681	19,092	17,386	(9.8)
tal	$ 23,208	$ 22,304	$ 17,548	32.3 %	$ 110,095	$ 106,309	$ 88,759	24.0 %
riod Key Data								
les and Revenues	$ 717,654	$ 718,121	$ 659,824	8.8 %	$3,931,199	$3,905,167	$3,729,632	5.4 %
rnings Per Share:								
Primary	$ .42	$ .41	$ .31	35.5 %	$ 1.96	$ 1.88	$ 1.55	26.5 %
Fully Diluted	$ .39	$ .39	$ .29	34.5 %	$ 1.86	$ 1.80	$ 1.49	24.8 %
nth End Key Data								
ssets	$9,154,715	$9,059,079	$8,342,136					
bt:								
Amount	$5,597,543	$5,380,822	$5,260,719					
Percent Variable Rate	36.9%	37.8%	41.3%					
Percent Variable Rate (excluding cash invested in Purchased Vehicle Contracts)	32.2%	32.7%	36.1%					
quity (1)	$1,464,124	$1,498,596	$1,369,247					
ook Value Per Share	$ 28.11	$ 28.76	$ 26.47					
tock Price	$ 25.125	$ N/A	$ 28.875					

CONFIDENTIAL

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(1) Consistent with external reporting requirements, equity excludes preferred stock subject to mandatory redemption.

Commentary

Net income for the month of June was $.4 million or 2% over the Original Plan as all businesses except Merchandising reported above Plan earnings. Vons continues to experience severe price competition resulting in lower sales and reduced gross profit. The decline in Vons' income coupled with increased losses by the Furniture companies were the main reasons for the shortfall in Merchandising income from Origi 1 Plan.

Second quarter net income exceeded the Original Plan by $3.7 million or 6%. All businesses reported second quarter earnings which were higher than Original Plan with the major increases coming from Manufacturing and Rental and Leasing. Both of these businesses have experienced increased volume over Original Plan expectations. In addition, Manufacturing's second quarter comparison to Plan benefited from the recording of a $2.3 million accrual for relocation expenses in the first quarter. In the Original Plan, these expenses were spread throughout the year and $1 million were planned for the second quarter. Although Merchandising's income was only $.3 million above Plan for the second quarter it is important to note that T.G.&Y. exceeded Plan by $2.4 million. This improvement was offset by below Plan results at Vons and the Furniture operations.

Compared with 1983, second quarter income increased 25% as all businesses reported improved earnings. Financial Services improved as higher average receivables resulted in a substantial increase in earnings from the Consumer segment. This was offset somewhat by higher short-term interest rates. Merchandising's improvement over 1983 can be attributed to increased earnings at T.G.&Y. as a result of higher sales and improved margins and expense ratios. This improvement was offset however by shortfalls at Vons due to the competitive pressure on sales and margins. Manufacturing's second quarter results increased 65.8% over 1983 as a result of strong sales growth in the Power Components and Specialty Products segments. Rental and Leasing's income increased 30% over the second quarter of 1983 as a result of improved volume and vehicle sale profits.

CORPORATE SUMMARY
FULL YEAR FORECAST
(all dollar amounts other than per share data are stated in thousands)

	Full Year Net Income			Return on Equity		
	Second Quarter Revision	1984 Original Plan	1983 Actual	Second Quarter Revision	1984 Original Plan	1983 Actual
Net Income and Return on Equity						
Financial Services	$ 156,182	$ 156,889	$ 146,909	19.43%	18.72%	18.85%
Merchandising	45,984	49,446	39,633	8.56	9.20	7.65
Manufacturing (1)	33,000	30,000	22,047	7.34	6.66	4.97
Transportation:						
Rental and Leasing	34,200	32,500	29,596	13.75	13.35	12.85
Air Travel	-	-	4,574	-	-	-
Corporate Expenses:						
Administrative	(21,280)	(20,906)	(18,378)	-	-	-
Unallocated Interest	(46,648)	(48,912)	(48,003)	-	-	-
Unallocated Taxes	30,240	32,831	30,052	-	-	-
Total	$ 231,678	$ 231,348	$ 206,430	14.08%	13.37%	13.28%
Period Key Data						
Sales and Revenues	$8,423,237	$8,452,135	$7,911,903			
Earnings Per Share:						
Primary	$ 4.14	$ 4.13	$ 3.68			
Fully Diluted	$ 3.92	$ 3.91	$ 3.50			
Year End Key Data						
Assets	$9,457,379	$9,505,691	$8,446,000			
Debt:						
Amount	$5,693,603	$5,814,235	$5,099,718			
Percent Variable Rate	36.8%	37.8%	36.0%			
Percent Variable Rate (excluding cash invested in Purchased Vehicle Contracts)	33.8%	31.6%	33.1%			
Book Value Per Share	$ 29.36	$ 30.14	$ 27.51			

CONFIDENTIAL

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(1) Includes aftertax provisions for restructuring costs of $8.2 million in both the Second Quarter Revision and Original Plan and $10 million for 1983 Actual. Excluding these provisions, Return on Equity for Manufacturing is 8.96%, 8.28% and 7.21% for the Second Quarter Revision, Original Plan and 1983 Actual, respectively.

Commentary

Total year net income and fully diluted earnings per share for the Second Quarter Revision are projected to be approximately level with the First Quarter Revision and the Original Plan. (Despite a small decline in income of $.4 million and $.2 million from the First Quarter Revision and Original Plan, respectively, fully diluted earnings per share has increased by $.01. Outstanding fully diluted shares are expected to be slightly lower than earlier forecasts due to lower projections of the dilutive effect of stock options.)

Financial Services has reduced their estimate of 1984 income to $156.2 million from the First Quarter Revision estimate of $159.2 million. This decrease in projected earnings is expected to occur primarily in the Consumer Operations due to rising interest rates and reduced loan account growth in Canada. Within the Commercial segment projected income from Purchased Vehicle Contracts has declined due to lower utilization by Chrysler Financial Corporation. This has been offset, however, by increased Preferred Stock income as a result of increased volume.

Merchandising's projected 1984 income has increased to $46 million from $42.9 million in the First Quarter Revision. Most of this increase is expected to occur at T.G.&Y. which is expected to benefit from higher sales and margin resulting from an improved merchandising program. Higher markdowns and retail operating expenses will be incurred in an effort to clear out old inventory but this will largely be offset by a lower inflation charges associated with the LIFO method of accounting.

Manufacturing has increased their estimate of 1984 earnings by $.5 million over the First Quarter Revision. Stronger sales projections for Power Components and Specialty Products have increased the earnings forecast for these segments by $1.9 million and $1.1 million over the First Quarter Revision. These increases are almost completely offset, however, by reductions in Building Products and Consumer Products. Further declines in the level of housing starts could have an additional adverse impact on the Building Products forecast.

Rental and Leasing's projected 1984 income has increased $.4 million over the First Quarter Revision primarily as a result of more investment tax credits associated with increased fleet growth. Car Rental volume is expected to increase slightly over First Quarter Revision levels but will be offset by higher interest rates.

CORPORATE SUMMARY
FULL YEAR FORECAST - QUARTERLY DATA
(all dollar amounts other than per share data are stated in thousands)

	1984 Second Quarter Revision					
	Actual		Forecast			1983
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year	Actual
Net Income						
Financial Services	$ 40,976	$ 39,480	$ 39,324	$ 36,402	$ 156,182	$ 146,909
Merchandising	1,173	10,579	2,720	31,512	45,984	39,633
Manufacturing:						
Operations	6,802	14,137	11,436	8,835	41,210	32,047
Restructuring Costs	-	-	-	(8,210)	(8,210)	(10,000)
Transportation:						
Rental and Leasing	5,206	12,845	15,165	984	34,200	29,596
Air Travel	-	-	-	-	-	4,574
Corporate Expenses:						
Administrative	(5,042)	(5,654)	(5,251)	(5,333)	(21,280)	(18,378)
Unallocated Interest	(12,771)	(13,317)	(8,994)	(11,566)	(46,648)	(48,003)
Unallocated Taxes	7,956	7,725	2,894	11,665	30,240	30,052
Total	$ 44,300	$ 65,795	$ 57,294	$ 64,289	$ 231,678	$ 206,430
Original Plan	$ 44,412	$ 62,097	$ 56,558	$ 68,781	$ 231,848	
1983 Actual	$ 36,167	$ 52,592	$ 59,765	$ 57,906	$ 206,430	
Period Key Data						
Earnings Per Share:						
Primary	.76	1.20	1.02	1.16	4.14	$ 3.68
Fully Diluted:						
Amount	.74	1.12	.97	1.09	3.92	$ 3.50
Over 1983	.15	.22	(.06)	.11	.42	

Commentary

The Second Quarter Revision projects the same quarterly income trends as the First Quarter Revision and the Original Plan with the strongest results occurring in the second and fourth quarter due to the seasonality of certain businesses. Third quarter income is projected to decrease from the second quarter level. Although the third quarter will include the seasonally strong results of Rental and Leasing, it will be offset by lower Merchandising income resulting from higher markdowns and store closing provisions at T.G.&Y. Fourth quarter income projections have declined from earlier revisions primarily due to the adverse impact of higher interest rates on the Financial Services business.

With the exception of the third quarter, all quarters are expected to show improvement over 1983. The third quarter comparison is adversely affected by the inclusion in 1983 results of the $6.7 million gain from the sale of Wien. Excluding this gain, the third quarter would show year-to-year improvement although not to the same extent as other quarters due to the record earnings reported by Rental and Leasing in 1983.

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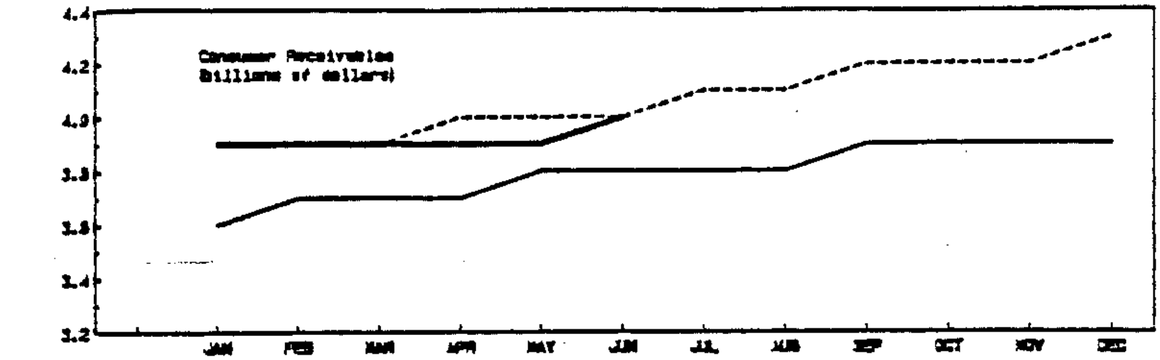
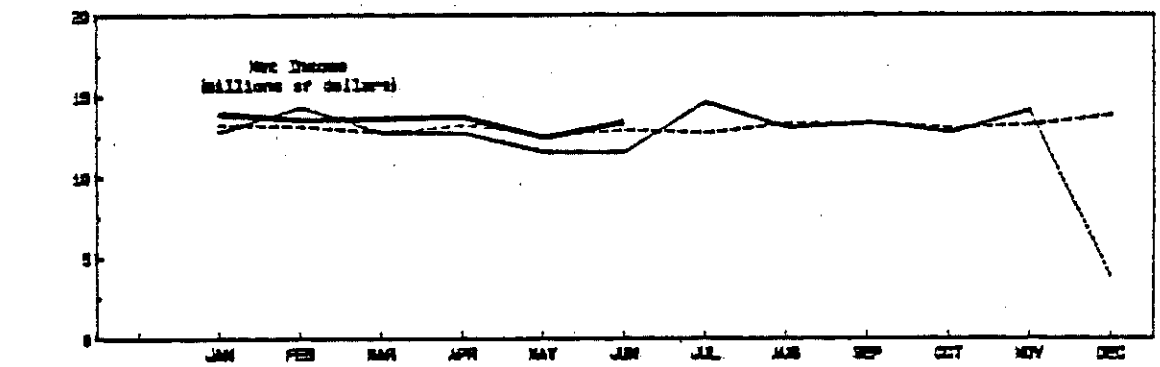


	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ACTUAL	3.9	3.9	3.9	3.9	3.9	4.0	.0	.0	.0	.0	.0	.0
PLAN	3.9	3.9	3.9	4.0	4.0	4.0	4.1	4.1	4.2	4.2	4.2	4.3
YEAR AGO	3.6	3.7	3.7	3.7	3.8	3.8	3.8	3.8	3.9	3.9	3.9	3.9



	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ACTUAL	13.9	13.5	13.8	13.7	12.4	13.4	.0	.0	.0	.0	.0	.0
PLAN	13.2	13.1	12.7	13.2	12.5	12.9	12.7	13.3	13.3	13.0	13.2	13.8
YEAR AGO	12.9	14.3	12.7	12.7	11.5	11.5	14.8	13.0	13.3	12.7	14.1	3.7

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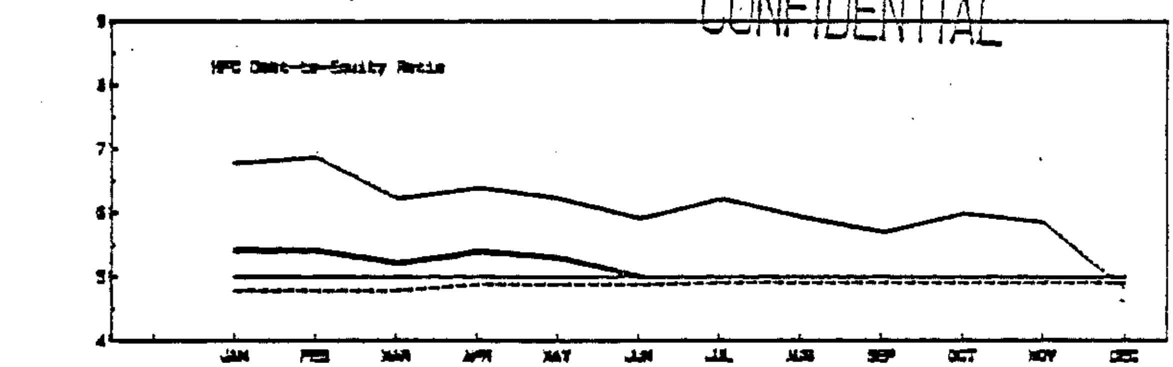

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ACTUAL	5.42	5.41	5.20	5.40	5.29	5.00	.00	.00	.00	.00	.00	.00
PLAN	4.78	4.78	4.78	4.88	4.88	4.88	4.91	4.91	4.91	4.91	4.91	4.91
YEAR AGO	6.78	6.87	6.22	6.38	6.22	5.91	6.22	5.93	5.69	5.99	5.85	4.91
TARGET	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00

CONSUMER RECEIVABLES: Consumer receivables at June 30 were $85.1 million below Original Plan mainly for two reasons. First, receivables growth in the Canadian Branch Office and Deposit-Taking Operations has been lower than Plan by $36.1 million and $6.8 million, respectively. Second, United Kingdom and Canadian exchange rates are substantially below Original Plan resulting in a $57.7 million decline due solely to translation. These unfavorable variances have been partially offset by higher receivables growth in the U.S. Branch Offices.

NET INCOME: Net income for June 1984 was $.5 million greater than the Original Plan. A favorable variance in U.S. Branch Offices was partially offset by shortfalls in Credit Insurance and Canadian Branch Offices.

HFC DEBT-TO-EQUITY: The June debt-to-equity ratio of 5.00 is lower than the May ratio of 5.29 primarily due to a reduction in intercompany advances to Household International and the paydown of Purchased Vehicle Contracts. Purchased Vehicle Contracts should continue to decrease as new purchases are not anticipated.

FINANCIAL SERVICES
NET INCOME
(thousands of dollars)

	Net Income					
	Month			Year to Date		
	1984 Actual	Original Plan	1983 Actual	1984 Actual	Original Plan	1983 Actual
Consumer:						
United States:						
Branch Offices	$ 7,755	$ 6,430	$ 4,193	$ 44,845	$ 42,275	$ 35,314
Deposit-Taking Operations	80	226	324	373	999	1,003
Canada:						
Branch Offices	814	1,170	2,021	6,098	7,047	9,237
Deposit-Taking Operations	(75)	18	39	(319)	(97)	285
United Kingdom	355	366	316	2,170	1,908	2,132
Australia	140	122	98	824	620	408
Credit Insurance	1,784	2,116	1,522	12,072	11,479	11,429
Total	10,853	10,448	8,513	66,063	64,231	59,808
Commercial:						
Purchased Vehicle Contracts	564	531	790	3,598	3,096	5,618
Leveraged Leasing	519	532	887	2,182	2,422	2,990
Preferred Stock	724	615	605	4,149	3,688	3,640
Commercial Loan	293	280	95	1,189	1,255	501
Total	2,100	1,958	2,377	11,118	10,461	12,749
Noncredit Insurance:						
Alexander Hamilton	422	532	563	2,969	2,856	2,810
Household Reinsurance	11	10	(2)	306	60	112
Total	433	542	561	3,275	2,916	2,922
Total	$ 13,386	$ 12,948	$ 11,451	$ 80,456	$ 77,608	$ 75,479
Memo:						
Household Bank	$ 67	$ 199	$ 224	$ 264	$ 914	$ 757
Valley National Bank	(75)	(71)	83	(414)	(491)	(213)
U.S. Industrial Banks and Thrifts	88	98	17	523	576	459

Commentary

Financial Services' net income through June of $80.5 million was $2.9 million and $5 million greater than the Original Plan and 1983, respectively.

For the month of June, net income of $13.4 million was $.5 million greater than Original Plan. A favorable variance of $1.2 million in the U.S. Branches resulted from greater-than-expected receivables growth and finance charge yield and lower-than-anticipated operating expenses. Partially offsetting these favorable variances, Canadian Branch Offices were $.3 million below Original Plan, principally because of less-than-expected receivables growth. Credit Insurance was $.3 million below Plan because of unplanned losses on disposition of investments.

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FINANCIAL SERVICES
OPERATING DATA
(thousands of dollars)

	Month 1984 Actual	Month Original Plan	Month 1983 Actual	Year to Date 1984 Actual	Year to Date Original Plan	Year to Date 1983 Actual
Period Key Data						
Average Receivables:						
Consumer:						
Amount	$3,924,383	$4,010,443	$3,744,565	$3,920,134	$3,942,965	$3,679,088
Real Estate Secured	45.44%	44.80%	50.51%	45.95%	46.10%	50.76%
Net Chargeoffs	0.09%	0.09%	0.11%	0.52%	0.52%	0.64%
Commercial:						
Purchased Vehicle Contracts	$ 390,306	$ 367,413	$ 360,206	$ 410,611	$ 316,640	$ 425,400
Leveraged Leasing	233,075	233,527	227,459	232,744	233,009	226,473
Preferred Stock	200,264	178,148	175,253	189,656	172,371	175,309
Commercial Loan	122,015	146,353	55,071	109,780	122,394	46,127
Credit Insurance Penetration:						
Life	82.8%	85.0%	83.6%	82.8%	85.0%	83.2%
Accident and Health	81.0	75.0	78.0	79.0	75.0	78.0
Property	49.0	50.0	49.0	51.0	50.0	49.0
Interest Spreads (1):						
U.S. Branches	12.84%	12.70%	13.53%	12.54%	12.78%	12.97%
Canadian Branches	11.61	12.03	13.72	11.57	12.10	12.71
United Kingdom	14.95	14.87	15.09	15.49	15.26	15.93
Household Bank	3.58	4.42	3.76	3.26	4.10	3.08
Valley National Bank	7.60	7.59	9.64	8.07	7.88	7.95
U.S. Industrial Bank and Thrifts	9.47	8.79	9.06	9.08	8.84	8.60
HFC Trust (Canada)	1.74	2.44	3.45	1.39	2.42	2.98
Average Interest Rates:						
Short-Term	10.71%	9.02%	8.94%	10.07%	9.01%	8.75%
Long-Term	8.75	8.71	8.56	8.72	8.68	8.49
Customer Deposits	8.89	9.00	8.49	8.87	8.90	8.77
Composite	9.23%	8.81%	8.65%	9.05%	8.77%	8.59%
Interest Expense:						
Short-Term	$ 7,803	$ 7,367	$ 7,470	$ 44,543	$ 39,440	$ 40,784
Long-Term	18,942	18,937	17,263	115,424	113,552	107,160
Customer Deposits	3,062	3,219	2,605	18,628	18,703	15,270
Total	$ 29,807	$ 29,523	$ 27,338	$ 178,595	$ 171,695	$ 163,214
Average Borrowings:						
Short-Term	$ 969,235	$ 931,725	$ 992,553	$ 936,308	$ 820,198	$1,010,276
Long-Term	2,690,932	2,730,541	2,475,077	2,705,281	2,731,943	2,566,556
Customer Deposits	417,320	435,695	372,677	421,740	423,063	351,165
Total	$4,077,487	$4,097,961	$3,840,307	$4,063,329	$3,975,204	$3,927,997
Month-End Key Data						
Debt:						
Amount	$4,078,535	$4,143,300	$3,887,930			
Percent Variable Rate	37.1%	39.5%	37.1%			
Percent Net Variable Rate (excluding cash investment in Purchased Vehicle Contracts)	30.6%	32.3%	30.1%			
Customer Deposits	$ 413,468	$ 440,621	$ 376,638			
HFC Debt-to-Equity Ratio	5.00	4.88	5.91			

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(1) The interest spread represents the difference between the average gross yield on finance receivables and the average interest rate on total debt. For the banking operations, gross yield also includes yield on investments in securities.

FINANCIAL SERVICES
FULL YEAR FORECAST
(thousands of dollars)

	Full Year Net Income: Second Quarter Revision	Full Year Net Income: 1984 Original Plan	Full Year Net Income: 1983 Actual	Return on Equity: Second Quarter Revision	Return on Equity: 1984 Original Plan	Return on Equity: 1983 Actual
Net Income and Return on Equity						
Consumer:						
United States:						
Branch Offices	$ 80,986	$ 79,664	$ 76,300	24.53 %	22.22 %	22.84 %
Deposit-Taking Operations	1,329	2,408	(2,254)	3.66	5.77	(5.34)
Canada:						
Branch Offices	12,499	14,049	13,919	18.64	18.79	17.19
Deposit-Taking Operations	(229)	132	(171)	(2.81)	1.91	(3.28)
United Kingdom	4,279	4,474	4,178	18.71	17.81	17.24
Australia	1,605	1,253	1,176	13.92	12.49	12.92
Credit Insurance	24,300	24,300	23,189	17.62	17.50	18.07
Total	125,269	126,780	116,337	20.34	19.26	18.67
Commercial:						
Purchased Vehicle Contracts	6,441	6,774	9,635	-	-	-
Leveraged Leasing	5,402	5,311	6,223	8.20	8.35	10.32
Preferred Stock	9,354	7,466	7,535	16.97	16.78	16.96
Commercial Loan	2,548	3,432	969	10.09	12.11	7.73
Total	23,745	23,183	24,362	11.33	11.32	12.56
Noncredit Insurance:						
Alexander Hamilton	6,800	6,300	6,222	16.92	17.07	16.62
Household Reinsurance	368	126	(12)	19.71	8.36	(0.31)
Total	7,168	6,426	6,210	17.05	16.74	15.93
Total	$ 156,182	$ 156,389	$ 146,909	19.43 %	18.72 %	18.85 %
Memo:						
Household Bank	$ 750	$ 2,163	$ (1,231)	7.86 %	13.84 %	(14.48)%
Valley National Bank	(598)	(905)	(1,407)	(6.38)	(10.62)	(16.97)
U.S. Industrial Banks and Thrifts	1,147	1,148	384	6.73	6.52	1.51
Period Key Data						
Average Receivables:						
Consumer:						
Amount	$3,990,016	$4,044,824	$3,755,562			
Net Chargeoffs (%)	0.99%	1.02%	1.24%			
Commercial:						
Purchased Vehicle Contracts	$ 340,832	$ 366,101	$ 352,209			
Leveraged Leasing	244,295	234,360	228,944			
Preferred Stock	220,451	175,320	175,632			
Commercial Loan	133,310	150,529	56,807			
Effective Tax Rate	42.3%	44.1%	45.8%			
Interest Rates:						
Short-Term Debt	10.39%	8.33%	9.09%			
Long-Term Debt	8.38	8.73	8.53			
Customer Deposits	9.43	8.94	8.69			
Composite	9.23%	8.73%	8.69%			
Year-End Key Data						
HFC Debt-to-Equity Ratio:						
Amount	5.07	4.91	4.81			
Target	5.00	5.00	5.00			

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Commentary

Financial Services' total-year net income for the Second Quarter Revision of $156.2 million is $3 million or 1.9% below the First Quarter Revision. Return on equity, however, is projected at 19.43%, virtually identical to the 19.39% projected in the First Quarter Revision. The decrease in earnings is offset by an increase in the foreign currency translation adjustment portion of shareholder's equity resulting from a stronger U.S. dollar.

Lower earnings are expected in Consumer Operations. Branch Office Operations income will drop by $1.9 million for three major reasons. First, interest rates have increased. The Branch Office composite interest rate is projected to increase to 9.01% from 8.91%. Second, Canadian consumer receivables growth, including foreign exchange, has been reduced from a growth of $9.1 million to a loss of $61.6 million. Third, the U.K. is projecting a decline of $1.2 million due in part to the downward movement of the exchange rate.

Total Deposit-Taking Operations income is projected to decrease $1 million from the First Quarter Revision. Household Bank income will drop by $.9 million for three reasons. First, it will be necessary to pay higher rates to attract the deposits needed to fund receivables growth. Second, the acquisition of eight profitable offices from U.S. Branch Operations has been moved back to later in the year. Third, acquisition fees payable to U.S. Branch Operations for loans acquired under the Customer Retention Bank Rate Program were underestimated in the previous Plan. (The latter two factors are inter-company items and would not affect total Financial Services income.) HFC Trust (Canada) income has been reduced by $.3 million to a loss of $.2 million principally because of start-up expenses for new Branches.

Total income from Commercial Operations is virtually unchanged from the First Quarter Revision. Preferred Stock income is projected to increase $.3 million over the First Quarter Revision because of the purchase of additional stock issues not contemplated in the previous Plan. Purchased Vehicle Contracts income is [illegible] million below the First Quarter Revision because Chrysler Financial Corporation has informed HFC that

FINANCIAL SERVICES
FULL YEAR FORECAST - QUARTERLY DATA
(thousands of dollars)

	1984 Second Quarter Revision					
	Actual		Forecast			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year	1983 Actual
Net Income						
Consumer:						
United States:						
Branch Offices	$ 23,038	$ 21,807	$ 19,121	$ 17,020	$ 80,986	$ 76,300
Deposit-Taking Operations	185	188	643	313	1,329	(2,254)
Canada:						
Branch Offices	3,393	2,705	3,119	3,282	12,499	13,919
Deposit-Taking Operations	(119)	(200)	(3)	93	(229)	(171)
United Kingdom	1,248	922	1,035	1,074	4,279	4,178
Australia	396	428	398	383	1,605	1,176
Credit Insurance	5,966	6,106	6,333	6,395	24,800	23,189
Total	34,107	31,956	30,646	28,560	125,269	116,337
Commercial:						
Purchased Vehicle Contracts	1,758	1,840	1,544	1,299	6,441	9,635
Leveraged Leasing	962	1,220	2,117	1,103	5,402	6,223
Preferred Stock	2,033	2,116	2,571	2,634	9,354	7,535
Commercial Loan	491	698	568	791	2,548	969
Total	5,244	5,874	6,800	5,827	23,745	24,362
Noncredit Insurance:						
Alexander Hamilton	1,351	1,618	1,847	1,984	6,800	6,222
Household Reinsurance	274	32	31	31	368	(12)
Total	1,625	1,650	1,878	2,015	7,168	6,210
Total	$ 40,976	$ 39,480	$ 39,324	$ 36,402	$156,182	$146,909
1984 Original Plan	$ 39,039	$ 38,569	$ 39,329	$ 39,952	$156,889	
1983 Actual	$ 39,762	$ 35,717	$ 40,886	$ 30,544	$146,909	
Memo:						
Household Bank	$ 36	$ 228	$ 484	$ 32	$ 780	$ (1,231)
Valley National Bank	(174)	(240)	(179)	(5)	(598)	(1,407)
U.S. Industrial Banks and Thrifts	323	200	338	286	1,147	384
Quarter End Key Data						
HFC Debt-to-Equity Ratio	5.20	5.00	5.21	5.07	5.07	4.81

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Commentary

The second quarter revision forecast of net income by quarter shows a reduction in the fourth quarter of approximately $3 million from second and third quarter levels. U.S. Branch Office income is projected to decrease each quarter during 1984 because of increased operating expenses associated with receivables growth and the new Branch Office computer system and because of increasing interest rates. The fourth quarter will be further negatively impacted by the traditional finance charge yield decrease in December. This decrease normally is offset by an increase in January.

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Leveraged Leasing income is approximately $1 million higher in the third quarter than in other quarters. Approximately $.6 million of this increase is from placement fees on new joint ventures. The remaining increase results from investment tax credit on a new direct financing lease to be entered into during August. The third quarter increase in Leasing income will partially offset the third quarter decrease in U.S. Branch Office income, keeping the third quarter income basically level with the second quarter. The return to a normal level of Leasing income in the fourth quarter, coupled with a further decrease in U.S. Branch Office income, accounts for the majority of the total Financial Services' income decrease in this period.

FINANCIAL SERVICES
LOAN ACCOUNT GROWTH
(thousands of dollars)

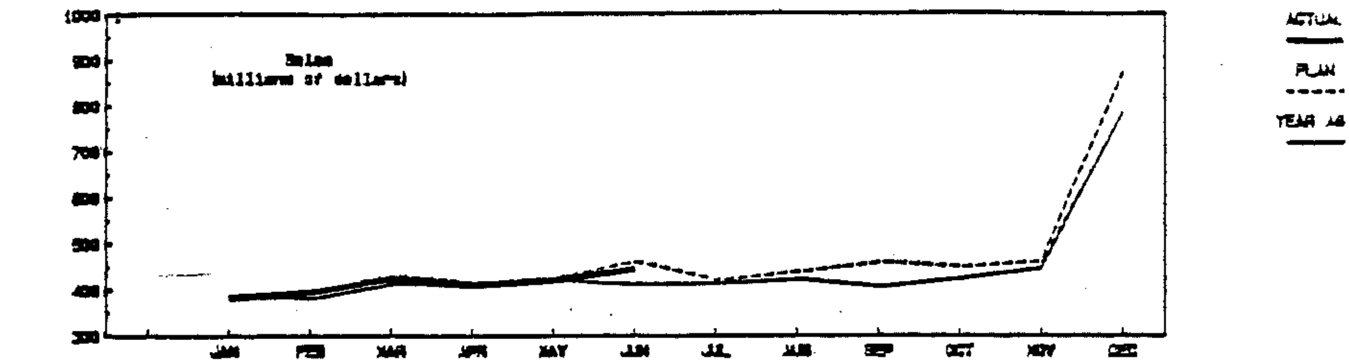
	1984 Second Quarter Revision						
	Actual		Forecast			1984 Original Plan	1983 Actual
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year		
Consumer:							
United States:							
Branch Offices	$ (1,537)	$ 49,608	$ 50,397	$ 43,298	$ 141,766	$ 177,826	$ 196,895
Deposit-Taking Operations	11,163	22,818	24,929	53,007	111,917	48,589	30,909
Canada:							
Branch Offices	(18,197)	(16,046)	2,445	3,666	(28,132)	12,225	70,213
Deposit-Taking Operations	5,380	14,522	22,262	22,264	64,428	44,825	21,554
United Kingdom	3,881	7,978	18,985	13,517	44,361	47,880	34,517
Exchange gain (loss)	(18,054)	(31,428)	(4,323)	(5,339)	(59,144)	25,222	(26,012)
Total	(17,364)	47,452	114,695	130,413	275,196	356,567	328,076
Commercial:							
Purchased Vehicle Contracts	329,676	(200,602)	(62,640)	(49,899)	16,535	243,480	(259,999)
Leveraged Leasing	(302)	724	28,969	597	29,988	2,998	6,459
Preferred Stock	(2,169)	54,915	11,436	(5,731)	58,451	7,518	12,616
Commercial Loan	11,144	21,401	35,254	50,186	117,985	121,677	64,093
Exchange gain (loss)	(1,088)	(3,146)	(2,935)	(1,974)	(9,143)	5,179	(4,709)
Total	337,261	(126,708)	10,084	(6,821)	213,816	380,852	(181,540)
Total	$ 319,897	$ (79,256)	$ 124,779	$ 123,592	$ 489,012	$ 737,419	$ 146,536
1984 Original Plan:							
Consumer	$ 10,888	$ 113,307	$ 118,457	$ 113,915	$ 356,567		
Commercial	140,967	90,198	56,665	93,022	380,852		
Total	$ 151,855	$ 203,505	$ 175,122	$ 206,937	$ 737,419		
Memo:							
Household Bank	$ 6,978	$ 21,685	$ 18,210	$ 42,127	$ 89,000	$ 34,892	$ 7,600
Valley National Bank	4,802	1,634	4,604	9,370	20,410	8,797	22,481
U.S. Industrial Banks and Thrifts	(617)	(501)	2,115	1,510	2,507	4,900	828

Commentary

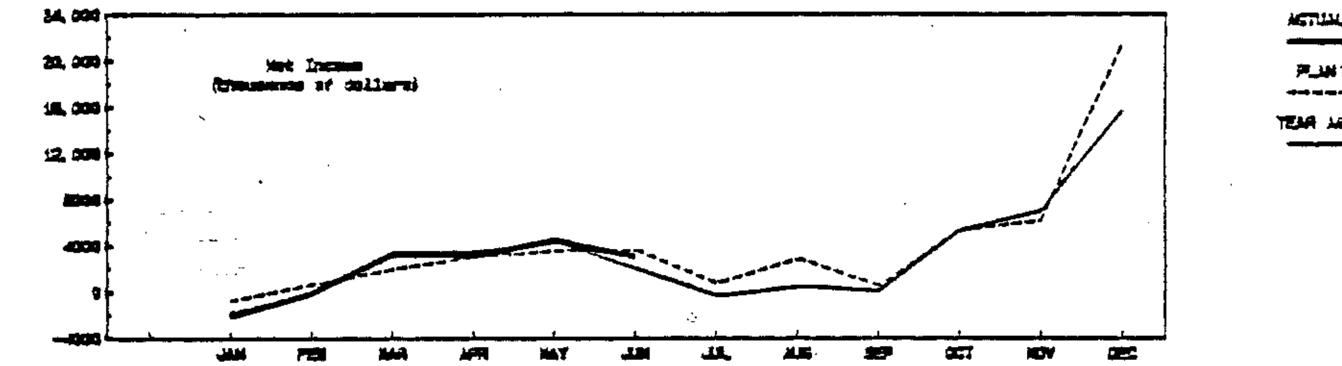
Total consumer receivables growth of $275.2 million is $54.2 million below the growth projected in the First Quarter Revision. The shortfall principally will occur in the Canadian Branches where a receivables decrease of $61.6 million (comprised of a $28.1 million decline in real growth and a $33.5 million decline associated with falling exchange rates) has been projected compared with an increase of $9.1 million in the First Quarter Revision. While economic conditions in Canada have not permitted the anticipated growth, conditions are expected to improve by year end.

The U.S. and Canadian Deposit-Taking Operations expect increased real growth, though falling Canadian exchange rates will negatively impact the Plan-to-Plan growth at HFC Trust (Canada) by $5.9 million. The success of programs designed to increase customer retention through making lower-rate loans in the U.S. Branches and selling them to Household Bank and Valley National Bank has increased projected receivables growth in these institutions without diluting growth in the U.S. Branches. The Deposit-Taking Operations also are projecting increased growth in self-generated receivables.

Commercial receivables growth will decrease substantially from the First Quarter Revision principally because no additional receivables are expected to be purchased from Chrysler Financial Corporation. This reduction is partially offset by acquisition of additional Preferred Stock issues.



	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ACTUAL	384.3	388.4	424.7	408.4	420.1	445.8	.0	.0	.0	.0	.0	.0
PLAN	387.4	398.4	431.3	417.2	425.7	461.5	420.3	438.2	459.4	448.2	461.9	888.5
YEAR AGO	384.5	390.9	412.0	405.0	418.7	410.3	413.0	421.5	405.5	424.3	446.0	783.4



	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ACTUAL	-2,074	-64	3,331	3,140	4,510	2,929						
PLAN	-733	882	1,980	3,047	3,570	3,531	781	2,886	541	5,388	6,182	21,511
YEAR AGO	-1,757	-188	3,420	3,323	4,292	2,020	-338	470	31	5,331	7,037	15,738

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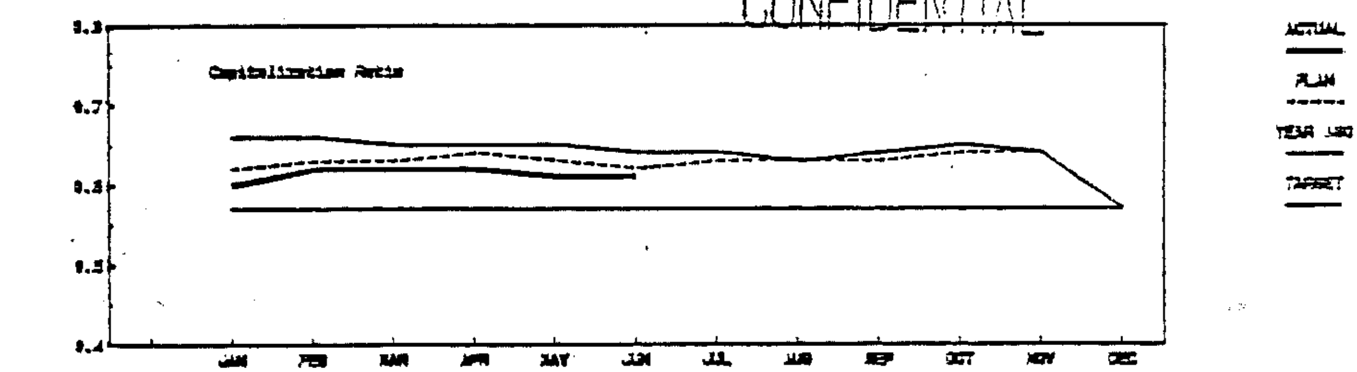

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ACTUAL	0.60	0.62	0.62	0.62	0.61	0.61	.00	.00	.00	.00	.00	.00
PLAN	0.62	0.63	0.63	0.64	0.63	0.62	0.63	0.63	0.63	0.64	0.64	0.57
YEAR AGO	0.66	0.66	0.65	0.65	0.65	0.64	0.64	0.63	0.64	0.65	0.64	0.57
TARGET	0.57	0.57	0.57	0.57	0.57	0.57	0.57	0.57	0.57	0.57	0.57	0.57

SALES: June sales were 3% below Original Plan and 8% above last year. The principal dollar decreases from Plan were at Vons and T.G.&Y. The increase over last year was primarily due to T.G.&Y. which recorded a 23% gain. A large part of T.G.&Y.'s sales gain is a result of the change in reporting calendar as discussed on page 13. Huffman-Koos had a 25% increase while Vons and Ben Franklin had increases of 1%.

NET INCOME: Net income in June was $.6 million less than Original Plan and $1 million greater than last year. Vons' income was below Plan and last year by $.3 million and $.1 million respectively. T.G.&Y.'s income was slightly below Plan but exceeded last year by $1.3 million. Both of the wholesale companies had increases over Plan and last year. The furniture companies recorded losses which were in excess of Plan by $.7 million.

CAPITALIZATION RATIO: The capitalization ratio of .61 was better than Original Plan and last year's ratios which were .62 and .64 respectively. Adjusted debt was $25.3 million below Plan and $63.2 million below last year.

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MERCHANDISING
NET INCOME
(thousands of dollars)

	Net Income					
	Month			Year to Date		
	1984 Actual	Original Plan	1983 Actual	1984 Actual	Original Plan	1983 Actual
Vons	$ 1,153	$ 1,449	$ 1,209	$ 6,245	$ 9,321	$ 10,949
T.G.&Y.	1,411	1,431	120	3,496	1,540	(1,527)
Ben Franklin	10	(155)	(8)	(546)	(1,352)	(1,035)
Coast-to-Coast	820	645	634	2,462	1,624	2,454
Furniture:						
Huffman-Koos	(167)	201	(193)	486	610	(102)
Barker Bros.	(191)	71	(57)	(362)	223	(117)
Colby's	(112)	(82)	(83)	(383)	(51)	(64)
American	(24)	21	(13)	(71)	32	(23)
Discontinued Operations	29	50	411	425	250	795
Total	$ 2,929	$ 3,631	$ 2,020	$ 11,752	$ 12,197	$ 11,330

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Commentary

Vons' identical store sales for June were substantially level with last year. This was a improvement over the year-to-date trend but fell short of Original Plan. The smaller sale increase and a 1% reduction in store gross profit rate were responsible for a $2.4 millio reduction from Plan store gross profit. Reduced income from the meat plant also contributed t the lower income. This was partially offset by lower retail expenses which were favorable t Plan by $1.7 million of which $1.3 million was due to lower payroll expense. Results fro retail operations were improved over last year, but the lower meat plant income offset tha improvement. In addition, increased interest expense adversely affected the income comparision

T.G.&Y.'s initial gross profit was below Original Plan by $3.4 million in June due to a 2% sale decline and a 1.0 percentage point reduction in gross margin rate. Retail expenses were $3. million under Plan and this favorable variance more than offset the lower gross profit. Stor payroll was favorable to Plan by $1.3 million and store publicity by $1.9 million. A additional provision of $.4 million for closed stores was a factor in the small decrease i income from Plan. The income improvement over last year resulted from increased sales and significant reduction in the retail expense ratio which improved to 26% of sales from 23% las year.

Ben Franklin's income in June improved by $.2 million over Original Plan and was approximatel the same as last year. Wholesale expenses were $.5 million lower than Plan which more tha compensated for lower gross profit due to a 0.9 percentage point reduction in gross margi rate. Improvement in print plant operations and reduced interest expense also contributed t favorable results compared with both Plan and last year.

Coast-to-Coast's June income improved over both Original Plan and last year by $.2 million Wholesale sales were 6% below Plan but the decline in operating income was limited as gros margin rate was close to Plan and expenses were under Plan. Operating income was slightly belo last year as sales, gross margin rate and expenses did not vary significantly. The improvemen in income over last year resulted from reduced interest expense and a lower corporate expens allocation.

The Furniture operations' loss for the month of June was worse than Original Plan and last yea primarily as a result of lower sales.

MERCHANDISING OPERATING DATA
(thousands of dollars)

	Month			Year to Date		
	1984 Actual	Original Plan	1983 Actual	1984 Actual	Original Plan	1983 Actual
Period Key Data						
Sales	$ 445,607	$ 461,644	$ 410,807	$2,475,749	$2,520,517	$2,412,043
Sales Growth Rate	8.5 %	12.4 %	(2.1)%	2.6 %	4.5 %	0.7 %
Return on Sales	0.66%	0.79%	0.49%	0.47%	0.48%	0.47%
Interest Rates:						
Short-Term Debt	11.65%	10.03%	9.79%	10.84%	10.05%	9.45%
Composite	9.82	9.30	9.04	9.36	9.22	8.87
Sales (1):						
Vons	$ 188,231	$ 195,483	$ 185,954	$1,122,170	$1,154,463	$1,111,809
T.G.&Y.	185,841	190,315	151,158	933,835	946,675	895,118
Furniture	10,615	12,815	10,708	85,683	87,573	81,636
Wholesale	60,832	62,944	60,433	332,745	331,130	311,788
Sales Growth Rate:						
Vons	1.2 %	5.1 %	0.7 %	0.9 %	3.8 %	4.3 %
T.G.&Y.	22.9	25.9	(5.2)	4.3	5.8	(1.7)
Furniture	(0.9)	19.7	(8.1)	5.0	7.3	1.9
Wholesale	(0.7)	4.2	(1.2)	6.7	6.2	(2.0)
Identical Store Sales Growth Rate:						
Vons	0.57 %	3.72 %	(3.17)%	(0.39)%	2.31 %	(0.55)%
T.G.&Y.	27.74	30.98	(6.98)	8.42	7.40	(4.17)
Furniture	16.96	38.22	(11.31)	11.81	14.16	2.95
Wholesale	2.45	N/A	(3.23)	8.41	N/A	(2.79)
Merchandising Gross Margin:						
Vons	25.09 %	25.32 %	24.51 %	25.11 %	25.45 %	24.96 %
T.G.&Y.	28.66	29.77	28.58	29.06	29.13	28.25
Furniture	40.06	41.78	40.00	40.45	40.93	39.93
Wholesale	11.62	12.20	11.55	12.34	12.58	12.09
Month End Key Data						
Inventory (Month's Supply):						
Vons	1.03	1.00	0.94			
T.G.&Y.	5.21	5.06	5.17			
Furniture	3.87	3.90	3.91			
Wholesale	2.18	2.05	2.02			
Debt:						
Amount	$ 387,209	$ 401,592	$ 406,714			
Percent Variable Rate	36.7%	38.1%	36.9%			
Capitalization Ratio	.61	.62	.64			
Current Ratio	1.78	1.69	1.53			

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(1) Excludes Discontinued Operations

Commentary

T.G.&Y.'s identical store increase of 27.7% compares 35 days of sales this year with 30 days last year. When the five weeks ending June 30 are compared with the corresponding weeks in 1983, the increase was 6.7%.

Inventories at selling value exceeded Original Plan by $55.7 million or 5% at month end. This was a significant reduction from the excess of $85.4 million or 7% at the end of May. The greatest improvements were made at T.G.&Y. and the wholesale companies. T.G.&Y.'s excess over Original Plan was reduced to $52.1 million from $70.8 million at May 31. There was a small decline in the proportion of inventories financed by trade payables.

MERCHANDISING
FULL YEAR FORECAST
(thousands of dollars)

	Full Year Net Income			Return on Equity		
	Second Quarter Revision	1984 Original Plan	1983 Actual	Second Quarter Revision	1984 Original Plan	1983 Actual
Net Income and Return on Equity						
Vons	$ 17,433	$ 24,284	$ 26,168	12.84 %	17.86 %	18.37 %
T.G.&Y.	19,631	16,730	2,818	5.94	5.15	0.96
Ben Franklin	1,091	841	43	4.57	3.69	0.23
Coast-to-Coast	5,277	4,690	6,745	27.58	25.81	31.14
Furniture:						
Huffman-Koos	749	1,266	258	10.42	13.51	2.98
Barker Bros.	371	883	(41)	4.26	7.62	(0.39)
Colby's	(128)	(28)	(416)	(3.92)	(0.63)	(9.38)
American	(317)	223	(372)	(10.08)	3.27	(5.34)
Discontinued Operations	2,077	557	4,430	60.22	16.80	37.10
Total	$ 45,984	$ 49,446	$ 39,633	8.56 %	9.20 %	7.65 %
Period Key Data						
Sales	$5,505,955	$5,617,320	$5,305,731			
Effective Tax Rate	47.0%	42.0%	41.5%			
Year End Key Data						
Assets	$1,389,467	$1,403,439	$1,427,785			
Capitalization Ratio:						
Amount	.54	.57	.57			
Target	.57	.57	.57			

Commentary

Net income for the full year is expected to be $46 million, an increase of $3.1 million over the First Quarter Revision. The principal reason for the increase in projected income is expectations of improved results at T.G.&Y. Net income is expected to be below the Original Plan however due to reduced income at Vons.

T.G.&Y. projects an increase in income of $4.8 million over the First Quarter Revision with $1.4 million of the increase occurring in the second half. Improved second half merchandising and advertising programs are expected to generate $39.6 million more in sales and $14.2 million more in initial margin, primarily in the fourth quarter. Markdowns are expected to increase by $9.8 million while the projected LIFO provision has been reduced by $9 million compared with the prior revision. Retail operating expenses are anticipated to increase by $6.7 million but should be lower in relation to sales.

Vons has projected a second half sales reduction of $34.7 million from the First Quarter Revision, but no significant change in income. Reduced expenses will compensate for lost gross profit attributable to the lower sales. Ben Franklin and Coast-to-Coast will record lower income than in the prior revision due in part to an increased share of higher corporate expenses as a result of the pending sale of the furniture companies. The furniture companies were projected in the First Quarter Revision to provide $.2 million in income in the fourth quarter while absorbing $.5 million of corporate expenses.

Income from the Furniture operations is projected to decline from First Quarter Revision and Original Plan levels. The Second Quarter Revision assumes that the Furniture operation would be sold effective September 30, 1984 and therefore does not include any fourth quarter earnings from these companies. No gain or loss on the disposition has been included in the Second Quarter Revision due to the preliminary nature of the sale discussions.

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MERCHANDISING
FULL YEAR FORECAST - QUARTERLY DATA
(thousands of dollars)

	1984 Second Quarter Revision					
	Actual		Forecast			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year	1983 Actual
Net Income						
Vons	$ 2,461	$ 3,784	$ 3,543	$ 7,645	$ 17,433	$ 26,168
T.G.&Y.	(3,205)	6,701	(4,152)	20,287	19,631	2,818
Ben Franklin	(389)	(157)	989	648	1,091	43
Coast-to-Coast	1,069	1,393	1,568	1,247	5,277	6,745
Furniture:						
Huffman-Koos	953	(467)	263	-	749	258
Barker Bros.	141	(503)	733	-	371	(41)
Colby's	(41)	(342)	255	-	(128)	(416)
American	(102)	31	(446)	-	(517)	(372)
Discontinued Operations	286	139	(33)	1,685	2,077	4,430
Total	$ 1,173	$ 10,579	$ 2,720	$ 31,512	$ 45,984	$ 39,633
1984 Original Plan	$ 1,949	$ 10,248	$ 4,188	$ 33,061	$ 49,446	
1983 Actual	$ 1,495	$ 9,835	$ 196	$ 28,107	$ 39,633	
Quarter End Key Data						
Capitalization Ratio	.62	.61	.58	.54	.54	.57

Commentary

Third quarter net income is expected to be $.8 million less than in the First Quarter Revision. T.G.&Y. accounts for $.5 million of this decline primarily due to higher markdowns and a $1.6 million provision for 1985 store closings.

Fourth Quarter net income will be $1 million greater than the First Quarter Revision. T.G.&Y. is expected increase its income by $1.9 million but this gain will be offset by lower income at Ben Franklin and Coast-to-Coast.

No fourth quarter income is projected for the Furniture operations due to the assumption that these companies will be sold effective September 30, 1984.

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MERCHANDISING
CAPITAL EXPENDITURES
(thousands of dollars)

	1984 Second Quarter Revision	1984 Original Plan	1983 Actual
Vons	$ 47,786	$ 65,545	$ 48,449
T.G.&Y.	33,555	51,843	47,260
Ben Franklin	9,047	9,175	3,131
Coast-to-Coast	4,073	4,410	1,494
Furniture:			
Huffman-Koos	509	1,987	2,920
Barker Bros.	26	550	545
Colby's	-	1,402	234
American	341	603	233
Refrigeration	-	-	169
Corporate	1,006	955	112
Total	$ 96,343	$ 136,470	$ 104,547

Commentary

Capital expenditures for the Second Quarter Revision are projected to be $40.2 million less than Original Plan and $19 million less than the First Quarter Revision. Vons' decrease in spending of $17.7 million from Original Plan includes reductions of $10.1 million for store remodels, $2.5 million for new stores and $2 million for MIS projects. T.G.&Y.'s decrease of $18.2 million includes reductions of $6.8 million for store remodels, $6 million for replacement store fixtures and $7.3 million for MIS projects.

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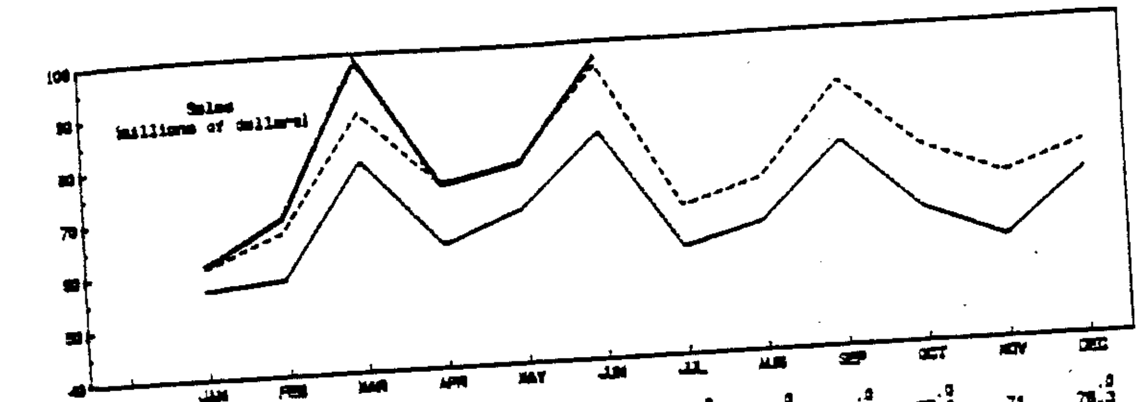
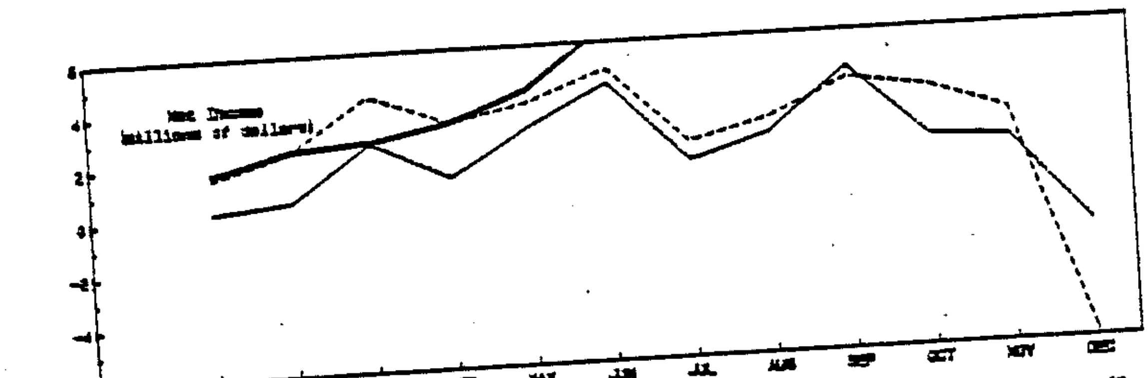
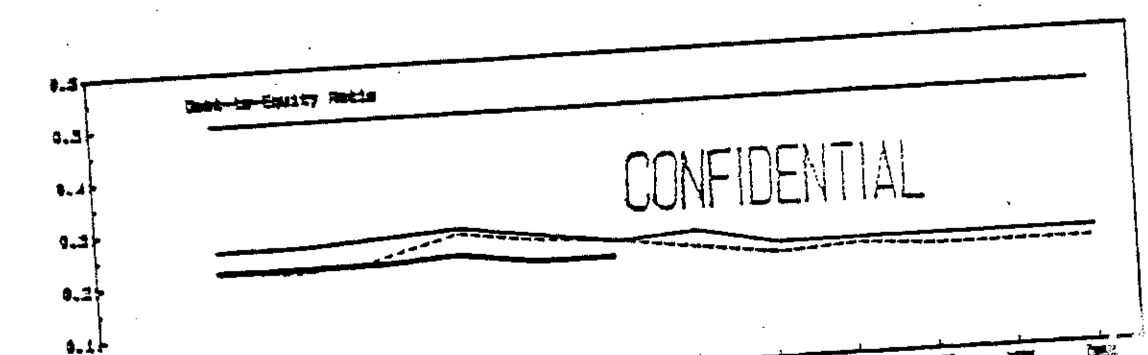
MANUFACTURING
FINANCIAL HIGHLIGHTS



	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ACTUAL	61.2	[illegible]	[illegible]	74.4	77.9	97.9	.0	.0	.0	.0		.0
PLAN	60.8	67.0	[illegible]	74.2	78.4	95.2	[illegible]	72.5	[illegible]	77.0	71	78.3
YEAR AGO	58.7	[illegible]	78.8	63.1	[illegible]	[illegible]	60.2	64.3	78.6	[illegible]	59	71.1



	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ACTUAL	1.97	2.46	2.97	3.25	4.38	6.53	.00	.00	.00	.00	.00	.00
PLAN	1.49	2.48	4.35	3.24	3.58	4.98	2.98	2.84	4.17	3.72	2.71	-5.52
YEAR AGO	0.24	0.53	2.38	1.17	2.94	4.42	1.38	2.27	4.58	1.38	1.71	-1.28



	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ACTUAL	0.22	0.22	0.22	0.25	0.25	0.21	.00	.00	.00	.00	.00	.00
PLAN	0.22	0.21	0.23	0.27	0.25	0.24	0.22	0.23	0.21	0.23	0.23	0.23
YEAR AGO	0.28	0.25	0.27	0.28	0.25	0.24	0.25	0.22	0.22	0.22	0.22	0.22
TARGET	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30

SALES: Household Manufacturing's sales for the month of June 1984 were 2% above Original Plan and 17% ahead of 1983. Sales of Schwitzer N.A. products continued to run significantly above Plan levels primarily due to the sustained increase in production and repair of heavy duty trucks. Continued strength in the ice machine market resulted in above Plan sales for Scotsman. Higher sales of Structo's popular cart style gas grills reflected the continued strength in consumer spending for leisure products. These sales increases were partially offset at Thermos U.S. due to lower than Plan sales of school lunch kits and at Selkirk Metalbestos N.A. due to a weak Canadian market.

NET INCOME: June net income was 32% above Original Plan and 48% ahead of 1983. Excluding the Thermos relocation expenses, which were accrued in March but spread in the Plan on a monthly basis, results from operations were 15% over Plan. Higher sales at Schwitzer N.A., Scotsman and Freeport and favorable manufacturing variances at most divisions were partially offset at Selkirk Metalbestos N.A. by low sales volume and related unfavorable volume variances.

H000442

DEBT-TO-EQUITY: The debt-to-equity ratio of .21 was below Original Plan as improved cash flows have resulted in reduced borrowings.

MANUFACTURING
NET INCOME
(thousands of dollars)

	Net Income					
	Month			Year to Date		
	1984 Actual	Original Plan	1983 Actual	1984 Actual	Original Plan	1983 Actual
Power Components	$ 763	$ (40)	$ (740)	$ 2,541	$ (484)	$ (4,154)
Building Products	1,604	1,640	1,733	5,146	5,991	5,267
Tools	339	319	122	993	924	(1,080)
Consumer Products	1,515	1,233	1,437	1,712	4,955	4,711
Specialty Products	2,312	1,808	1,825	10,547	8,912	6,891
Eliminations/Discontinued Operations	-	-	39	-	-	240
Total	$ 6,533	$ 4,960	$ 4,416	$ 20,939	$ 20,298	$ 11,875

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Commentary

Net Income and Return on Equity

June net income was 32% above Original Plan primarily due to favorable manufacturing variances and the absence of Thermos relocation expense previously accrued in March. Excluding the abnormal expense impact from the Original Plan, results from operations were 15% above Plan. Schwitzer N.A.'s Service Center recorded a record month in both sales and gross profit primarily due to rebuilt turbo and turbo part sales to distributors as well as to both Caterpillar and Mack. These higher sales combined with favorable variances in volume, material prices and variable spending resulted in significantly higher income. Scotsman's results were favorably affected by favorable manufacturing variances and continued demand for ice machines. The popularity of the cart style gas grill has resulted in significantly higher sales and consequently higher income than planned for Freeport. The favorable impact of increased sales volumes was partially offset by higher selling costs and unfavorable material, labor and fixed spending variances. Thermos U.S. reported above Plan income despite lower than Plan sales resulting from low school lunch kit demand. The absence of relocation expense from June results together with favorable material price, fixed spending and volume variances produced the favorable income results. A declining Canadian housing market and the reluctance of dealers to commit early to orders of wood heating chimneys and wood stoves has had a negative effect on Selkirk N.A.'s earnings.

June net income increased 48% over the prior year. Increased sales volumes due to the growing U.S. economy and favorable manufacturing volume variances resulting from higher production levels were primary contributors to the net income improvement. Significant increases were reported by Schwitzer N.A., Eljer and Freeport. Only Building Products reported slightly less income than 1983 due to unfavorable volume variances and relocation costs related to the transfer of manufacturing operations at Selkirk Metalbestos N.A.

Excluding the effect of the relocation expense accrual at Thermos U.S., year-to-date net income was 10% above Plan. Schwitzer N.A.'s earnings made up a significant portion of the increase as a result of high sales volume due to the continued strength in truck production and repair parts. Eljer, Simonds Cutting Tools N.A., Scotsman, Freeport and King-Seeley also reported income improvement over Plan due to strengthening demand in the U.S. economy. Product availability problems in both the outdoor living products and school lunch kit lines, manufacturing variances relating to abnormally high seasonal production start-up problems and increased advertising expense associated with the new Coffee Butler carafe negatively impacted results at Thermos U.S. Selkirk N.A.'s earnings have been adversely affected by weak Canadian sales and related unfavorable volume variance, and abnormal expenses related to the shutdown of the Greensboro plant.

Year-to-date net income was 76% ahead of 1983, primarily due to a 17% increase in sales and favorable material and volume variances. Schwitzer N.A., Simonds Cutting Tools N.A. and Scotsman were the major contributors to the improved performance in Power Components, Tools, and Specialty Products groups respectively.

JUNE 1984
(Appendix)

MANUFACTURING
NET INCOME
(thousands of dollars)

	Net Income					
	Month			Year to Date		
	1984 Actual	Original Plan	1983 Actual	1984 Actual	Original Plan	1983 Actual
Power Components:						
Schwitzer N.A.	$ 643	$ (98)	$ (526)	$ 2,235	$ (854)	$ (2,952)
Schwitzer Europe	105	81	159	551	503	636
Lacom-Schwitzer	35	13	(34)	49	23	(245)
Gear Products	(20)	(36)	(339)	(294)	(156)	(1,593)
Total	$ 763	$ (40)	$ (740)	$ 2,541	$ (484)	$ (4,154)
Building Products:						
Eljer	$ 477	$ 326	$ 392	$ 1,599	$ 1,352	$ 959
U.S. Brass	543	585	553	2,976	2,864	2,614
Selkirk Metalbestos N.A.	190	345	392	(601)	467	382
Dry	200	167	239	753	622	648
Selkirk Europe	160	180	72	565	599	292
Grada	34	37	85	(146)	87	372
Total	$ 1,604	$ 1,640	$ 1,733	$ 5,146	$ 5,991	$ 5,267
Tools:						
Simonds Cutting Tools N.A.	$ 159	$ 139	$ 207	$ 470	$ 309	$ (533)
Thorsen Tool	35	(12)	(98)	(68)	(233)	(626)
Acrax/Newcarb	37	49	(65)	98	219	(319)
GC Electronics	108	143	78	493	629	398
Total	$ 339	$ 319	$ 122	$ 993	$ 924	$ (1,080)
Consumer Products:						
Thermos	$ 883	$ 682	$ 921	$ (1,172)	$ 2,313	$ 2,192
Thermos Ltd.	249	238	136	1,111	1,051	1,073
Canadian Thermos	159	107	182	459	469	496
Metallized	(18)	(7)	(11)	84	117	8
Albion	242	213	209	1,230	1,005	942
Total	$ 1,515	$ 1,233	$ 1,437	$ 1,712	$ 4,955	$ 4,711
Specialty Products:						
Scotsman	$ 1,239	$ 1,029	$ 1,085	$ 5,225	$ 4,219	$ 3,161
Frimont	214	207	186	870	856	742
Almco	45	7	(10)	(36)	21	(30)
Freeport	605	458	331	3,438	3,081	2,236
King-Seeley	209	107	233	1,070	735	782
Total	$ 2,312	$ 1,808	$ 1,825	$ 10,547	$ 8,912	$ 6,891

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MANUFACTURING OPERATING DATA
(thousands of dollars)

	Month 1984 Actual	Month Original Plan	Month 1983 Actual	Year to Date 1984 Actual	Year to Date Original Plan	Year to Date 1983 Actual
Period Key Data						
Sales:						
Power Components	$ 14,303	$ 13,207	$ 10,994	$ 77,615	$ 68,745	$ 59,465
Building Products	31,263	32,814	28,377	151,386	156,766	139,408
Tools	13,530	13,734	11,338	67,638	67,555	60,076
Consumer Products	16,766	17,527	14,809	71,240	73,942	65,071
Specialty Products	21,156	17,879	17,214	111,143	97,180	85,346
Total	$ 97,018	$ 95,161	$ 82,732	$ 479,022	$ 464,188	$ 409,366
Sales Growth Rate:						
Power Components	30.1 %	20.1 %	(20.4)%	30.5 %	15.6 %	(32.8)%
Building Products	10.2	15.6	25.8	8.6	12.5	21.4
Tools	19.3	21.1	8.5	12.6	12.4	(7.5)
Consumer Products	13.2	18.4	17.2	9.5	13.6	(7.3)
Specialty Products	22.9	3.9	12.7	30.2	13.9	3.5
Incoming Orders	$ 93,937	N/A	$ 88,964	$ 507,636	N/A	$ 438,704
Variable Contribution	41.9%	41.2%	40.9%	40.8%	40.6%	40.5%
Gross Margin	28.5%	25.9%	26.5%	25.1%	25.5%	24.1%
Return on Sales	6.7%	5.2%	5.3%	4.4%	4.4%	2.9%
Month End Key Data						
Inventory (Month's Supply)	4.34	4.21	4.68			
Receivables (Month's Sales)	2.09	2.09	2.16			
Order Backlog	$ 116,090	N/A	$ 96,323			
Debt:						
Amount	$ 95,509	$ 107,393	$ 108,145			
Percent Variable Rate	17.7%	26.4%	37.0%			
Debt-to-Equity Ratio	.21	.24	.24			
Current Ratio	2.59	2.71	2.52			

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MANUFACTURING
FULL YEAR FORECAST
(thousands of dollars)

	Full Year Net Income			Return on Equity		
	Second Quarter Revision	1984 Original Plan	1983 Actual	Second Quarter Revision	1984 Original Plan	1983 Actual
Net Income and Return on Equity						
Power Components	$ 4,609	$ 610	$ (3,290)	4.60 %	0.61 %	(3.58)%
Building Products	16,109	17,894	15,654	10.05	11.16	10.71
Tools	2,398	2,567	(997)	2.95	3.06	(1.32)
Consumer Products	3,222	3,965	7,894	5.91	6.96	12.50
Specialty Products	14,872	13,174	12,398	23.38	21.65	19.57
Eliminations/Discontinued Operations	-	-	388	-	-	-
Income from Operations	41,210	38,210	32,047	8.96	8.28	7.21
Restructuring Costs	(8,210)	(8,210)	(10,000)	-	-	-
Total	$ 33,000	$ 30,000	$ 22,047	7.34 %	6.66 %	4.97 %
Period Key Data						
Effective Tax Rate	51.4%	49.8%	62.7%			
Year End Key Data						
Assets	$ 703,387	$ 691,666	$ 671,260			
Debt-to-Equity Ratio:						
Amount	.21	.20	.22			
Target	.50	.50	.50			

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Commentary

Full-year sales for the Second Quarter Revision of $936 million are substantially identical to the First Quarter Revision but $17 million ahead of the Original Plan. Significant reductions in sales projections occurred within the Building Products group overall as second quarter performance fell short of projections, particularly within Selkirk N.A.'s Canadian markets. Recent increases in interest rates combined with anticipated declines in housing starts also have resulted in less optimistic projections for the balance of the year at both U.S. Brass and Eljer. Adversely impacting foreign subsidiary performance has been the continued strengthening of the U.S. dollar. The Second Quarter Revision projection for the U.K. operations is based on a U.S. exchange rate on the British pound sterling of 1.40 versus 1.55 and 1.50 in the Original Plan and First Quarter Revision, respectively. This now appears to be optimistic. Within Consumer Products, Thermos U.S. has also substantially reduced its total year sales forecast due to poor second quarter sales resulting from availability problems with outdoor living products and reduced orders for school lunch kits. Offsetting these declines are substantial sales volume increases in the Specialty Products group. Current strong demand for Scotsman ice machines is projected to continue as will consumer demand for Structo's cart style gas grill. Freeport also is projecting increased Halsey Taylor water cooler demand due to strong year-to-date sales and early 1985 season sales of Structo grills this fall. In other groups, Schwitzer N.A.'s projection of continued strong demand for fan drives as well as heavy duty truck fans has resulted in an improved forecast for the year. Albion also is projecting a continuation of strong industrial caster sales and a substantially improved sales forecast for the year.

Full year net income in the Second Quarter Revision is projected at $33 million, slightly above the First Quarter Revision and 10% above the Original Plan. Overall, net income projections are fluctuating consistent with the projected sales changes with Building Products and Thermos U.S. expecting significant declines and Schwitzer N.A., Albion, Scotsman and Freeport expecting improved results. In addition, several divisions are forecasting a benefit from more favorable volume variances due to increases in year-end inventory levels. Most notably, Schwitzer N.A. is planning to build inventory to cover customer requirements during the transitional phases of moving Indianapolis manufacturing operations to Asheville. Partially offsetting the impact of sales declines, Thermos U.S. also is starting 1985 season production on personal coolers sooner to facilitate that product's move from Norwich to Batesville in the following spring. Freeport also will begin its fall production schedules for the 1985 gas grill season earlier to meet its new promotional efforts with major customers like Montgomery Wards. Household Manufacturing, in total, also is benefiting from a substantially improved cash position resulting from improved cash flows and thereby generating a significant increase in projected interest income.

Obvious potential risks to the current revision would be the adverse impact of any further substantial increases in interest rates and/or dramatic reductions in housing starts. In addition, continuing strengthening of the U.S. dollar abroad, which recently has produced a British pound to U.S. dollar exchange rate of 1.30, would substantially reduce foreign subsidiary results.

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JUNE 1984
(Appendix)

MANUFACTURING
FULL YEAR FORECAST
(thousands of dollars)

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	Full Year Net Income: Second Quarter Revision	Full Year Net Income: 1984 Original Plan	Full Year Net Income: 1983 Actual	Return on Equity: Second Quarter Revision	Return on Equity: 1984 Original Plan	Return on Equity: 1983 Actual
Net Income and Return on Equity						
Power Components:						
Schwitzer N.A.	$ 3,225	$ (724)	$ (1,695)	5.24 %	(1.21)%	(3.01)%
Schwitzer Europe	1,110	1,060	1,167	33.11	27.56	42.81
Lacom-Schwitzer	117	83	(454)	2.35	1.63	(11.85)
Gear Products	157	191	(2,308)	0.52	0.63	(8.00)
Total	$ 4,609	$ 610	$ (3,290)	4.60 %	0.61 %	(3.58)%
Building Products:						
Eljer	$ 3,125	$ 3,174	$ 2,768	6.80 %	6.67 %	6.66 %
U.S. Brass	5,980	6,273	5,843	10.64	11.85	11.89
Selkirk Metalbestos N.A.	3,446	4,458	3,394	9.54	11.65	9.54
Dry	1,315	1,262	1,656	21.87	22.40	32.68
Selkirk Europe	2,058	2,069	1,252	18.33	19.06	13.13
Grada	185	658	741	3.85	13.17	14.21
Total	$ 16,109	$ 17,894	$ 15,654	10.05 %	11.16 %	10.71 %
Tools:						
Simonds Cutting Tools N.A.	$ 912	$ 803	$ (55)	1.83 %	1.53 %	(0.12)%
Thorsen Tool	26	(48)	(1,312)	0.18	(0.32)	(9.72)
Atrax/Newcarb	322	439	(399)	3.70	4.92	(7.03)
GC Electronics	1,138	1,373	969	14.17	17.36	14.60
Total	$ 2,398	$ 2,567	$ (997)	2.95 %	3.06 %	(1.32)%
Consumer Products:						
Thermos	$ (1,898)	$ (776)	$ 2,373	(5.69)%	(2.25)%	7.32 %
Thermos Ltd.	2,003	1,905	2,194	20.98	19.97	21.15
Canadian Thermos	609	648	624	15.93	11.47	12.22
Metallized	57	74	(5)	3.50	4.20	(0.21)
Albion	2,451	2,114	2,208	39.46	38.70	25.93
Total	$ 3,222	$ 3,965	$ 7,894	5.91 %	6.96 %	12.50 %
Specialty Products:						
Scotsman	$ 8,781	$ 7,863	$ 6,734	31.11 %	29.95 %	27.85 %
Frimont	1,498	1,657	1,590	23.47	25.17	24.93
Almco	113	98	178	5.44	3.73	4.28
Freeport	2,715	2,293	2,033	12.09	10.87	9.50
King-Seeley	1,765	1,263	1,863	39.60	29.37	25.72
Total	$ 14,872	$ 13,174	$ 12,398	23.38 %	21.65 %	19.57 %

MANUFACTURING
FULL YEAR FORECAST - QUARTERLY DATA
(thousands of dollars)

	1984 Second Quarter Revision					
	Actual		Forecast			1983 Actual
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year	
Net Income						
Power Components	$ 570	$ 1,971	$ 1,004	$ 1,064	$ 4,609	$ (3,290)
Building Products	2,071	3,075	5,567	5,396	16,109	15,654
Tools	368	625	630	775	2,398	(997)
Consumer Products	(975)	2,687	1,179	331	3,222	7,894
Specialty Products	4,768	5,779	3,056	1,269	14,872	12,398
Eliminations/Discontinued Operations	-	-	-	-	-	388
Income from Operations	6,802	14,137	11,436	8,835	41,210	32,047
Restructuring Costs	-	-	-	(8,210)	(8,210)	(10,000)
Total	$ 6,802	$ 14,137	$ 11,436	$ 625	$ 33,000	$ 22,047
1984 Original Plan	$ 8,241	$ 12,057	$ 9,091	$ 611	$ 30,000	
1983 Actual	$ 3,351	$ 8,524	$ 8,237	$ 1,935	$ 22,047	
Quarter End Key Data						
Debt-to-Equity Ratio	.22	.21	.22	.21	.21	.22

Commentary

Second Quarter Revision sales compared with the prior revisions show improvement in the third quarter largely due to the improved projections of Scotsman and Freeport. Although fourth quarter sales projections were reduced substantially in Building Products, they remain relatively level with the First Quarter Revision on an overall basis. Fourth quarter sales are below Original Plan levels primarily at Selkirk N.A. as a result of slower market growth in chimneys and gas heaters.

Projected net income in the third quarter compared with the prior revision is up significantly due to the sales volume increases and favorable volume variance impact of earlier inventory build schedules. Fourth quarter net income declined on a comparative basis largely due to a slight decline in projected variable contribution rates resulting from less favorable product mixes at several divisions.

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JUNE 1984
(Appendix)

MANUFACTURING
FULL YEAR FORECAST - QUARTERLY DATA
(thousands of dollars)

	1984 Second Quarter Revision					
	Actual		Forecast			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year	1983 Actual
Net Income						
Power Components:						
Schwitzer N.A.	$ 624	$ 1,611	$ 564	$ 426	$ 3,225	$ (1,695)
Schwitzer Europe	273	278	204	355	1,110	1,167
Lacom-Schwitzer	(27)	76	38	30	117	(454)
Gear Products	(300)	6	198	253	157	(2,308)
Total	$ 570	$ 1,971	$ 1,004	$ 1,064	$ 4,609	$ (3,290)
Building Products:						
Eljer	$ 606	$ 993	$ 1,035	$ 491	$ 3,125	$ 2,768
U.S. Brass	1,600	1,376	1,826	1,178	5,980	5,843
Selkirk Metalbestos N.A.	(630)	29	1,701	2,346	3,446	3,394
Dry	329	424	401	161	1,315	1,656
Selkirk Europe	274	291	513	980	2,058	1,252
Grada	(108)	(38)	91	240	185	741
Total	$ 2,071	$ 3,075	$ 5,567	$ 5,396	$ 16,109	$ 15,654
Tools:						
Simonds Cutting Tools N.A.	$ 164	$ 306	$ 177	$ 265	$ 912	$ (55)
Thorsen Tool	(71)	3	61	33	26	(1,312)
Atrax/Newcarb	(2)	100	97	127	322	(599)
CC Electronics	277	216	295	350	1,138	969
Total	$ 368	$ 625	$ 630	$ 775	$ 2,398	$ (997)
Consumer Products:						
Thermos	$ (2,359)	$ 1,187	$ (16)	$ (710)	$ (1,898)	$ 2,873
Thermos Ltd.	543	568	481	411	2,003	2,194
Canadian Thermos	204	255	107	43	609	624
Metallized	49	35	26	(53)	57	(5)
Albion	588	642	581	640	2,451	2,208
Total	$ (975)	$ 2,687	$ 1,179	$ 331	$ 3,222	$ 7,894
Specialty Products:						
Scotsman	$ 2,326	$ 2,899	$ 2,467	$ 1,089	$ 8,781	$ 6,734
Frimont	383	487	309	319	1,498	1,590
Almco	(113)	57	95	74	113	178
Freeport	1,614	1,824	(206)	(517)	2,715	2,033
King-Seeley	558	512	391	304	1,765	1,863
Total	$ 4,768	$ 5,779	$ 3,056	$ 1,269	$ 14,872	$ 12,398

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MANUFACTURING
CAPITAL EXPENDITURES
(thousands of dollars)

Major Projects	1984 Second Quarter Revision	1984 Original Plan	1983 Actual
Power Components	$ 8,084	$ 9,130	$ 4,951
Building Products	22,368	22,982	11,730
Tools	5,170	7,231	2,361
Consumer Products	6,517	6,431	7,022
Specialty Products	2,969	2,571	2,562
Corporate	150	150	97
Adjustment	(5,758)	(8,995)	-
Total	$ 39,500	$ 39,500	$ 28,723

Commentary

Second Quarter Revision projected capital expenditures of $39.5 million assumes the same overall level of spending as in the Original Plan and First Quarter Revision. Changes in projected spending levels within the individual groups are the result of less optimistic timetables for approval and spending on various projects. The corporate adjustment represents management's estimate of certain additional division expenditures which will not be incurred in 1984 as currently scheduled.

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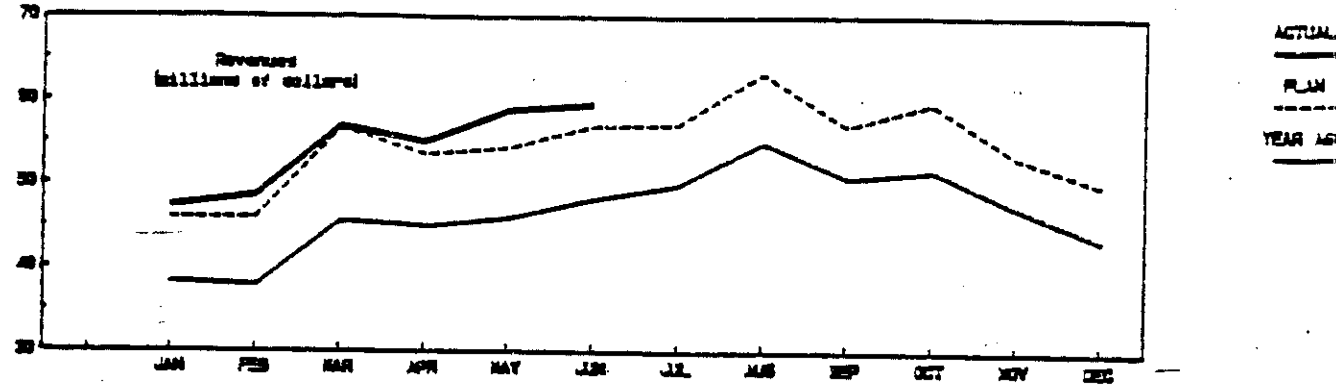
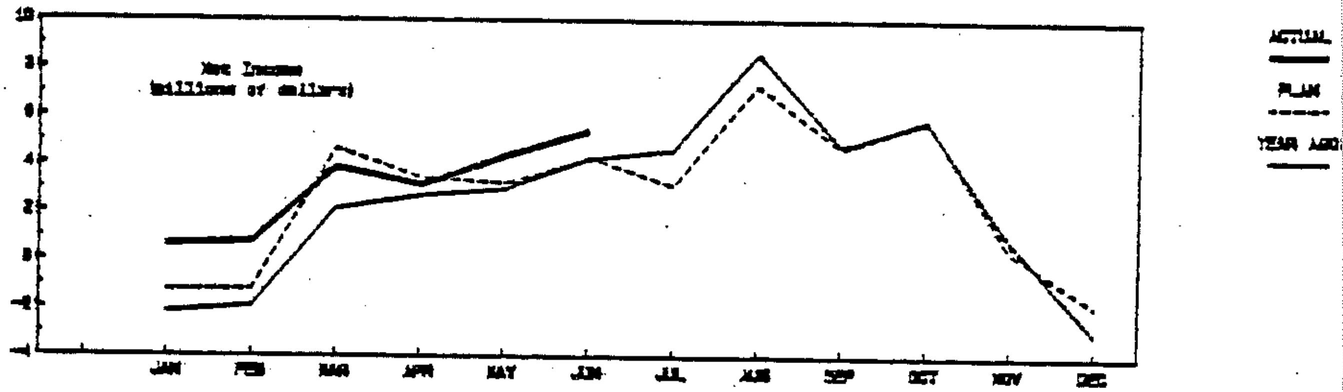


	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ACTUAL	47.3	48.3	56.6	54.9	58.3	59.5	.0	.0	.0	.0	.0	.0
PLAN	45.9	45.3	55.5	53.5	54.3	56.3	57.1	62.2	55.9	58.5	52.2	48.9
YEAR AGO	38.2	37.8	45.5	44.9	45.3	48.2	49.9	54.9	50.7	51.3	47.1	43.3



	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ACTUAL	0.81	0.73	3.80	3.10	4.34	5.40	.0	.00	.00	.00	.00	.00
PLAN	-1.25	-1.24	4.52	3.42	3.13	4.25	3.1	7.29	4.36	5.30	0.41	-1.34
YEAR AGO	-2.16	-1.92	2.14	2.59	2.95	4.24	4.4	8.44	4.73	5.52	0.30	-2.92

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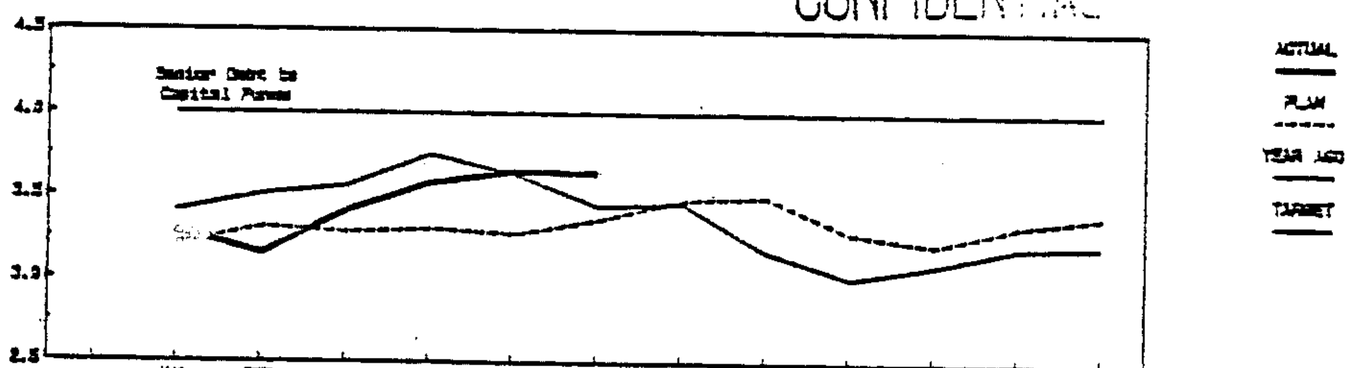

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ACTUAL	3.3	3.1	3.4	3.5	3.6	3.6	.0	.0	.0	.0	.0	.0
PLAN	3.2	3.3	3.3	3.3	3.3	3.4	3.3	3.5	3.3	3.2	3.3	3.4
YEAR AGO	3.4	3.5	3.5	3.8	3.6	3.4	3.5	3.2	3.0	3.1	3.2	3.2
TARGET	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0

REVENUES: Revenues for the month of June were better than both Original Plan and last year due to continued growth in volume, particularly in Car Rental.

NET INCOME: June income was over Original Plan and last year due to higher volume and vehicle sale profits, partially offset by compressed margins. Additionally, the tax rate was significantly lower than Original Plan and last year.

SENIOR DEBT TO CAPITAL FUNDS RATIO: The senior debt to capital funds ratio is over Original Plan due to more owned vehicles in the fleet, partially offset by higher year-to-date net income and higher payables and accrued liabilities. The target ratio has been changed with approval of major rating agencies from 3.75 to 4.00 in recognition of the increased proportion of higher leveraged car and truck leasing versus rental business.

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TRANSPORTATION - RENTAL AND LEASING
NET INCOME
(thousands of dollars)

	Net Income					
	Month			Year to Date		
	1984 Actual	Original Plan	1983 Actual	1984 Actual	Original Plan	1983 Actual
Car Rental	$ 3,028	$ 2,756	$ 1,837	$ 11,889	$ 9,624	$ 4,854
Car Leasing	665	487	524	2,983	2,891	3,019
Truck	757	383	293	2,768	1,775	1,591
Mud Cat	(11)	30	(7)	15	(43)	(241)
Unallocated Intra-period Taxes	958	593	1,593	396	(1,254)	(1,299)
Total	$ 5,397	$ 4,249	$ 4,240	$ 18,051	$ 12,993	$ 7,924

Commentary

Net income for the month of June of $5.4 million was $1.1 million over the Original Plan and $1.2 million better than last year. These increases are due to higher volume and vehicle sale profits, partially offset by compressed margins. In addition, the tax provision was favorable to the Original Plan by $.9 million as expectations of higher investment tax credits for 1984 resulted in a lower effective tax rate than anticipated in the Plan.

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TRANSPORTATION - RENTAL AND LEASING
OPERATING DATA
(thousands of dollars unless otherwise indicated)

	Month: 1984 Actual	Month: Original Plan	Month: 1983 Actual	Year to Date: 1984 Actual	Year to Date: Original Plan	Year to Date: 1983 Actual
Period Key Data						
Interest Rates:						
Short-Term Debt	11.18%	10.21%	10.22%	10.80%	9.89%	10.29%
Composite	11.51	11.20	11.38	11.59	11.27	11.57
Car Rental:						
Revenues	$ 42,492	$ 40,074	$ 33,818	$ 229,607	$ 216,938	$ 182,432
Fleet Size	73,185	61,000	55,268	67,574	57,667	52,009
Utilization	71%	72%	74%	70%	71%	71%
Used Car Profits	$ 3,749	$ 3,053	$ 2,478	$ 20,056	$ 15,675	$ 11,402
Average Profit per Car Sold	$ 927	$ 678	$ 634	$ 956	$ 640	$ 589
Transactions	393,627	353,141	315,671	2,188,759	1,932,781	$1,728,614
Revenue per Car	$ 588	$ 641	$ 618	$ 577	$ 612	$ 580
Airport Penetration (based on April data)	20.5%	19.5%	18.9%	20.2%	19.3%	18.4%
Car Leasing:						
Revenues	$ 8,391	$ 8,139	$ 6,963	$ 47,287	$ 47,578	$ 40,812
Fleet Size:						
Operating	24,705	24,325	21,356	23,802	23,354	20,774
Finance	20,775	20,079	18,184	19,970	19,666	17,962
Used Vehicle Profits	$ 125	$ 86	$ 93	$ 748	$ 435	$ 692
Truck:						
Revenues	$ 8,241	$ 7,849	$ 6,956	$ 46,656	$ 45,527	$ 35,584
Lease and Other Fleet Size	5,033	4,962	4,728	4,895	4,867	4,101
Rental Fleet Size	1,279	1,093	877	1,136	1,043	792
Rental Utilization	89.9%	87.0%	86.6%	88.6%	82.4%	80.1%
Maintenance and Tire Expense per Mile (cents)	6.09	7.43	7.04	6.88	7.44	6.98
Used Vehicle Profits	$ 459	$ 133	$ 119	$ 1,533	$ 831	$ 887
Month End Key Data						
Senior Debt to Capital Funds	3.64	3.36	3.44			
Debt:						
Amount	$ 692,509	$ 640,115	$ 576,556			
Percent Variable Rate	51.7%	52.6%	58.4%			

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TRANSPORTATION - RENTAL AND LEASING
FULL YEAR FORECAST
(thousands of dollars)

	Full Year Net Income			Return on Equity		
	Second Quarter Revision	1984 Original Plan	1983 Actual	Second Quarter Revision	1984 Original Plan	1983 Actual
Net Income and Return on Equity						
Car Rental	$ 22,779	$ 22,672	$ 20,307	23.99 %	25.24 %	25.54 %
Car Leasing	5,864	5,724	6,267	27.15	25.59	30.54
Truck	5,464	4,074	3,679	25.72	19.24	19.09
Mod Cat	93	30	(657)	6.86	5.52	(47.85)
Total (excluding goodwill)	$ 34,200	$ 32,500	$ 29,596	24.58 %	24.27 %	24.52 %
Total (including goodwill)	$ 34,200	$ 32,500	$ 29,596	13.75 %	13.35 %	12.85 %
Period Key Data						
Effective Tax Rate	13.2%	18.8%	17.3%			
Fixed Charge Coverage	1.51	1.40	1.56			
Year End Key Data						
Assets	$1,319,240	$1,237,128	$1,096,554			
Senior Debt to Capital Funds:						
Amount	3.55	3.39	3.21			
Target	4.00	3.75	3.75			

Commentary

Projected income for the full year of $34.2 million is up $.4 million from the First Quarter Revision. Car Rental decreased slightly due to higher interest rates which partially are offset by a slight increase in volume. Car Leasing increased due to higher activity and higher ITC. The increase in Truck comes from continued high rental demand and the strong used truck market. The Second Quarter Revision assumes a continued strong economy, an increase in short-term interest rates of 60 basis points and a decrease in the effective tax rate as a result of higher ITC related to fleet growth.

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TRANSPORTATION - RENTAL AND LEASING
FULL YEAR FORECAST - QUARTERLY DATA
(thousands of dollars)

	1984 Second Quarter Revision					
	Actual		Forecast			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year	1983 Actual
Net Income						
Car Rental	$ 4,069	$ 7,820	$ 9,435	$ 1,455	$ 22,779	$ 20,307
Car Leasing	1,370	1,613	1,399	1,482	5,864	6,267
Truck	1,038	1,730	1,461	1,235	5,464	3,679
Mud Cat	(3)	18	105	(27)	93	(657
Unallocated Intra-period taxes	(1,268)	1,664	2,765	(3,161)	-	-
Total	$ 5,206	$ 12,845	$ 15,165	$ 984	$ 34,200	$ 29,596
Original Plan	$ 2,131	$ 10,862	$ 15,034	$ 4,473	$ 32,500	
1983 Actual	$ (1,961)	$ 9,385	$ 17,987	$ 3,685	$ 29,596	
Quarter End Key Data						
Senior Debt to Capital Funds	3.41	3.64	3.55	3.55	3.55	3.21

Commentary

The revision assumes the same seasonal trends in net income as experienced in recent years. Interim variations in net income result from the seasonal nature of the car rental and truc businesses.

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TRANSPORTATION - RENTAL AND LEASING
CAPITAL EXPENDITURES
(thousands of dollars)

	1984 Second Quarter Revision	1984 Original Plan	1983 Actual
Car Rental	$ 13,572	$ 13,895	$ 6,228
Car Leasing	50	50	119
Truck	1,900	1,490	1,598
Mud Cat	39	39	26
Corporate	1,901	1,661	793
Total Capital Expenditures	17,462	17,135	8,764
Computer - Present value of operating lease	3,280	3,280	3,280
Total	$ 20,742	$ 20,415	$ 12,044

Commentary

Capital spending projections in the Second Quarter Revision have increased slightly over the First Quarter Revision and Original Plan projections of $20.4 million. The only significant change is the planned addition of a new Truck division facility in St. Louis.

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Contents

H000457

HOUSEHOLD INTERNATIONAL, INC.
ANNUAL REVIEW
OF
EMPLOYEE BENEFIT PLANS

Contents

H000458

Introduction

Household International, Inc. provides long-term retirement benefits to its 77,000 employees through a combination of various defined-benefit and defined-contribution plans. This report is intended to be an overview of these plans with particular emphasis on the financial considerations pertinent to both the plan and the sponsoring company. The scope of this report includes only those plans designed to provide retirement or other long-term benefits to employees such as:

- Pension plans
- Profit-sharing plans
- Tax credit ESOPS
- Other post-retirement benefit plans

This report is divided into two main sections. The first section summarizes and comments on key data pertaining to Household's various long-term benefit plans. Within the benefit plan area, defined-benefit pension plans represent the largest concentration of Household's assets and resources. For this reason, the majority of this section is devoted to a review of pension plans. Although not as large as pension plans, defined-contribution plans also represent a significant annual cost to the Corporation. Additionally, these plans are important to a full understanding of the long-term employee benefit package.

The second section of this report deals with a review of the Household International Pooled Investment Fund. The Pooled Investment Fund is the vehicle through which substantially all of Household's pension assets are invested. The Fund is administered by an Investment Committee comprised of Household management personnel. Assets of the Fund are invested by external investment managers in a mix of equity, fixed income and real estate investments. The investment performance of the Fund naturally has a direct bearing on the ultimate cost of meeting future retirement obligations and, in turn, our current pension funding requirements. This second section of the report will, therefore, review the 1983 investment performance of the Fund and address principal recent activities of the Investment Committee.

H000460

Household International, Inc.
Financial Review of Employee Benefit Plans

Pension Plans

Defined-benefit pension plans are the most widely-used vehicle for providing retirement benefits. Although the number of plans declined during 1983 due to the consolidation of all salaried plans at Household Manufacturing, Household continues to administer more than 50 company sponsored defined-benefit pension plans. In addition, as many of our employees are covered under collective bargaining agreements, the Company contributes to over 30 union administered multiemployer pension plans. A summary of employee participation in these plans at December 31 follows:

	1983	1982	1981
Company sponsored plans	34,600	31,900	33,500
Multiemployer plans	16,600	18,900	18,400
Non-participants	25,800	33,200	38,100
Total employees	77,000	84,000	90,000

The increase during 1983 in the number of company sponsored plan participants is the result of changes in the T.G.&Y. pension plan which significantly expanded the participant base. The T.G.&Y. plan was amended to no longer require contributions from employees with less than five years of service and also to ease the eligibility requirements for initial entry into the plan. Multiemployer plan participation decreased during 1983. The number of multiemployer plan participants declined at Vons as a result of two factors. First, in response to increased competitive pressure, Vons' has revised its productivity standards and labor scheduling techniques resulting in an overall decline in the number of employees. Second, Vons experienced a net decline in the number of store locations utilizing union employees as the majority of stores opened during 1983 were in the Fresno, California area where they have been able to avoid the use of union employees. Additionally, the year-to-year comparison was impacted by the sale of Wien Air Alaska which had considerable participation in these plans.

Pension plans represent a significant concentration of Household's assets and resources and a substantial annual expense to the Corporation. As of December 31, 1983, the market value of assets dedicated to company sponsored pension plans was in excess of $330 million. Consolidated pension expenses for the past three years as disclosed in our Annual Report to Shareholders were as follows (in millions):

	1983*	1982	1981
Household International and Financial Services	$(1.1)	$ 6.7	$ 6.0
Merchandising	32.1	34.2	32.4
Manufacturing	12.5	16.0	10.3
Transportation:			
Rental and Leasing	1.9	1.5	1.8
Air Travel	1.3	3.0	4.0
Total	$46.7	$61.4	$54.5

*Includes Wien Air Alaska through June 30, 1983; this business was sold July 1, 1983.

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These expenses (in millions) were associated with:

	1983	1982	1981
Company sponsored plans	$22.1	$38.0	$30.8
Multiemployer plans	24.6	23.4	23.7
	$46.7	$61.4	$54.5

Recent efforts directed at reducing the overfunded condition of many of our pension plans has resulted in a substantial decrease in 1983 pension expense for company sponsored plans. Pension expense for 1981 was unusually low as it included only six months of expense for Wallace Murray Corporation acquired in June of that year.

Company Sponsored Plans

Over the years, concern has grown regarding inconsistencies among Household's company sponsored plans with respect to actuarial methods and assumptions. In addition, it became obvious that Household management needed to focus their attention on overfunded pension plans to avoid over-allocation of resources to pension funds. To address these concerns, a task force was appointed in 1983 to develop a companywide pension funding policy. This policy was presented in detail in last year's report but a brief summary in this report will help the reader understand changes that are beginning to emerge from implementing the policy. Basically, the corporate pension funding policy specified a single actuarial method (unit credit) and described factors that are to be considered in developing realistic estimates of future payments to retirees. The policy provides corporate guidelines for basic assumptions such as inflation, general increases in compensation levels, and investment return (6%, 7%, and 11% rates, respectively, were used for both the 1982 and 1983 valuations). Actuaries were instructed to modify these factors only where necessary to fit fact patterns of the specific benefit plans being evaluated. Market values are to be used for asset valuations and a long-range funding goal (5 to 10 years) was established. The goal is to fund plans at or close to a 100% to 120% funding ratio. This approach is to be used solely for internal management purposes. Although certain ideal actuarial methods and rates were identified, substantial flexibility was left to enable management to adjust actuarial assumptions used for funding and financial reporting purposes to facilitate moving toward the targeted funding ratio. This flexibility is an important factor in an environment where numerous ERISA, accounting, tax and other requirements impact the ability of management to adjust funding strategy.

Exhibit A summarizes key financial data for company sponsored plans. The most important statistic on this schedule is the funding ratio. This ratio was prepared using our new guidelines and is indicative of each plan's overall financial health. Additional exhibits are presented which summarize similar data on a major business group basis.

As indicated on Exhibit A, the funding ratio of all company sponsored plans at the beginning of 1983 was 140.6%. Although there were various individual plans whose funding ratios were below the target range of 100-120%, the vast majority of plans were above this range largely as a result of overfunding in prior years and favorable investment experience.

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Various steps were taken in 1983 to reduce this overfunded condition:

- For the Company's largest plan, the Household International Retirement Income Plan, a change was made in both an actuarial assumption and an actuarial method. The investment return assumption for funding purposes was increased from 6.5% to 8% and the market value method was adopted for asset valuation purposes. These changes caused the pension contribution to decrease from $3.5 million in 1982 to zero for 1983. Over the span of two years therefore, annual contributions to this plan have declined from approximately $5.0 million to zero. Minimal or no contributions will be made to this plan for perhaps as long as ten years.

- In Household Merchandising, 1983 contributions were eliminated or reduced for several of the plans (Vons was the major exception) through revisions of the actuarial methods and assumptions used for funding purposes. The more significant changes involved an increase in the investment return assumption and adoption of the market value method of asset valuation. As a result, overall Merchandising contributions declined by $4.0 million in 1983. Vons is currently reviewing their benefit plans and reductions in pension funding are anticipated for 1984. In addition, Merchandising's funding ratio was impacted by a plan amendment which changed the benefit calculation from a career average to a final pay method. This amendment resulted in an increase in the present value of accumulated benefits and a reduction of the funding ratio. Taken by itself, this amendment would serve to increase future funding requirements, but considered in relation to the favorable effects of the abovementioned changes in actuarial assumptions, we should continue to experience further declines in contribution levels.

- During 1983, Household Manufacturing combined eight separate pension plans into one uniform plan covering all salaried employees. As part of this consolidation, a consistent benefit calculation method was adopted which assumed a higher level of social security integration. While this had the immediate effect of lowering the present value of accumulated benefits and increasing the funding ratio, it also served to reduce the pension contribution by approximately $3.3 million. Over time this reduction in contribution level will bring the funding ratio closer to target levels. In addition, further modifications in funding assumptions are being considered for 1984 including an increase in the investment return assumption from 7% to 8%.

- National Car presently is studying the funding issue and is likely to make changes in 1984 that will reduce or eliminate funding for at least several years into the future.

- We currently are exploring the possibility of making contributions to the Household International Tax Reduction Investment Plan, a Section 401(k) plan, using excess pension plan funds. If this approach is approved by the U.S. Treasury Department, it will give us additional means to control our funding status.

- On a companywide basis, the decision was made to pay investment manager and trustee fees out of pension fund assets beginning in 1984. Previously these expenses were paid by the sponsoring companies. This decision will result in redirecting approximately $2.2 million of assets per year out of pension funds and back into operations.

In spite of these efforts, however, the funding ratio on a combined basis increased during 1983 to 146.9%. Household Merchandising was the only business to report a decline in funding ratio; this primarily was the result of abovementioned plan amendment which increased our real obligation to employees. The overall increase in funding ratios is principally due to increased market value of pension fund assets resulting from favorable investment performance during 1983. To illustrate this point the Pooled Investment Fund, which represents substantially all of Household's pension assets, experienced an overall return of 15% primarily on the strength of an improved equity market. It should be noted that a lower investment return assumption of 11% is used to develop the internal funding ratios. This was felt to be a more realistic assumption as it is unlikely that pension assets will continue to generate a 15% return over a long period of time. An in-depth review of the investment performance of pension fund assets is presented in section two of this report.

While this is not the long-term direction we want the funding ratio to take, it certainly is a "good" problem to have. Over the long-run, we expect the specific actions described above together with continuous monitoring of contribution levels to lower Household's overall funding ratio. Due to strong investment performance in the last two years, many other corporations presently are faced with similar excess funding conditions in pension plans. Several corporations have utilized this opportunity to invest more funds in operations and/or improve reported income by terminating existing plans. Household has taken a long-range (5 to 10 years) view of the pension funding issue and expects over the long-run, to arrive at and maintain an acceptable funding ratio.

Multiemployer Plans

As indicated earlier, a substantial percentage (22%) of Household's employees are covered under multiemployer pension plans. These plans also accounted for 53% of Household's 1983 pension expense. Certain key data related to Household's participation in multiemployer plans is summarized as follows (dollar amounts in millions):

	Plan Participants	Pension Expense	Estimated Potential Withdrawal Liability
Household International and Financial Services	------ No such plans exist	------	
Merchandising	16,200	$23.1	$50.2
Manufacturing	100	.1	*
Rental and Leasing	300	.4	*
	16,600	$23.6**	$50.2

* Amount presently not available.
** Excludes $1.0 million relating to the Air Travel business which was sold in July 1983.

Multiemployer pension plans are generally established in accordance with collective bargaining agreements and are administered by the union representing the employees. Usually many employers participate in a plan, and often an employer may participate in more than one plan. Within Household, multiemployer plan participants at Vons account for over 95% of total companywide participation.

The significance of multiemployer plans lies not only in the year-to-year costs but perhaps even more importantly, in the potential liabilities which may be assessed against employers participating in such plans. The Multiemployer Pension Plan Amendment Act of 1980 ("MEPPA") stipulates that a substantial liability may be imposed on an employer who withdraws from a multiemployer plan which is not adequately funded. In general, an employer's contribution to a multiemployer plan is determined through collective bargaining and established as a fixed contribution rate per hour or week worked. MEPPA provides that regardless of the negotiated contribution rate, an employer that voluntarily or involuntarily withdraws from a plan will be held liable for a portion of the unfunded liability for pension benefits. While at one time these plans generally were viewed by employers as defined-contribution plans, changes due to the enactment of MEPPA have altered the substance of multiemployer plans to more of a defined-benefit structure. Because of the potential significance of the withdrawal liability issue, we have attempted to identify Household's potential withdrawal liability. This data is difficult to obtain from many of the unions who administer these plans, particularly where our participation in such plans is relatively small. Only Household Merchandising has been able to obtain an approximation of the potential withdrawal liability. Since this business represents the majority of Household's participation in multiemployer plans, we believe it is indicative of the magnitude of Household's potential exposure.

Legislation intended to limit employers' exposure to the withdrawal liability provisions of MEPPA has been introduced each year since MEPPA was enacted but has failed to pass. We will continue to monitor legislation in this area as it could have a significant impact on Household. Additionally, we will continue to review multiemployer plans with respect to their possible impact on strategic decisions such as divestitures and relocations.

Profit Sharing Plans

Retirement benefits also are provided to employees through eleven defined-contribution profit sharing plans. There are two plans covering Household International and Financial Services employees, seven plans covering certain Household Merchandising personnel and two plans covering certain Household Manufacturing personnel.

Employer contributions to profit sharing plans for the last three years are as follows (in millions):

	1983	1982	1981
Household International and Financial Services	$6.5	$6.1	$0.5
Merchandising	2.8	2.3	2.1
Manufacturing	-	0.4	0.7
	$9.3	$8.8	$3.3

Effective January 1, 1984, Household initiated a new companywide defined contribution plan entitled the Tax Reduction Investment Plan ("TRIP"). The TRIP plan is an investment and savings plan designed to give the employee maximum flexibility in building a financial reserve for retirement or other future needs. The plan provides for employee contributions of up to 15% of salary, and matching employer contributions on the first 6%. Additionally, within certain restrictions, employee contributions may be designated as "pretax contributions" which allows the employee to shelter that portion of his income from federal income taxes. The plan also gives employees three different funds in which to invest contributions and subject to certain restrictions provides for borrowing or withdrawal of funds during active service. To date, response to this plan has been very good with slightly over 80% of eligible employees enrolling in the plan.

The significant point with respect to the introduction of the TRIP plan is that this plan will in substance replace some existing profit sharing plans. The largest profit-sharing plan, the Household ~~International~~ Employee Stock Ownership Plan ("HESOP") and the

Manufacturing plans have already been replaced by the TRIP plan. (HESOP will technically continue for some period to handle forfeitures but no new contributions will be made to the plan.) Replacement of other profit sharing plans with the TRIP plan is currently being considered as total benefit packages for various employee groups are being evaluated.

From a cost standpoint our experience through the first six months indicates that the cost of the TRIP plan in the form of employer matching contributions should approximate $7.5 million for 1984. In general, it is expected that the cost of TRIP will be somewhat less than the cost of an existing profit-sharing plan. To illustrate this point, the 1983 contribution to the HESOP plan was $5.7 million while the 1984 matching TRIP contribution for this same group of employees is estimated to be only $4.0 million. This savings may be offset on a companywide basis, however, as the TRIP plan is available to employees not previously covered by any profit-sharing plan such as T.G.&Y. or National Car Rental. Therefore, although the cost per employee of TRIP may be less than the profit sharing plans, the total companywide cost may increase as a result of an expanded participant base.

Tax Credit ESOPS

Since the Tax Reduction Act of 1975, the tax law has included provisions which allow an additional tax credit to employers provided the funds are placed in an employee stock ownership plan. These plans have been known as TRASOP's or tax reduction act stock ownership plans. The regulations provided for credits based on investment tax credit utilized in the employer's income tax return. Under these rules, TRASOP plans were established for employees at Household International, HFC, Vons and National Car Rental.

The Economic Recovery Act of 1981, as modified by the Deficit Reduction Act of 1984, changed the TRASOP regulations. Effective January 1, 1983 the TRASOP credit is no longer based on available investment tax credit but rather on a flat percentage (0.5%) of compensation of employees covered by such plans. The Household International TRASOP plan currently is in the process of being amended to permit the new compensation-based tax credit contributions. As part of this process, the plan is being expanded to a companywide plan covering all Household International employees.

From a financial statement perspective, the TRASOP plans have no effect on Household's net income as the contribution to the plan is funded entirely by tax credits. These plans, however, are important to an understanding of the broad spectrum through which long-term benefits are provided to Household's employees.

Other Postretirement Benefits

In addition to pension and profit sharing plans, retirement benefits are provided through various health care and life insurance plans. There is a wide diversity among Household's companies with regard to plan provisions, retiree contribution levels, and eligibility requirements. Approximately 48% of Household's retirees are covered by some form of medical benefits program and approximately 60% are covered by a life insurance or death benefit program. This does not include death benefits provided under pension plans. Nearly all of Household's businesses account for the cost of these benefits on a pay-as-you-go basis. The expense is charged to income as benefits are actually paid to retirees or premiums are paid to insurance companies. The annual expense under current accounting procedures is approximately $4.6 million.

In a recent discussion memorandum entitled "Employers' Accounting for Pensions and Other Postemployment Benefits," the Financial Accounting Standards Board ("FASB") has proposed that these plans be accounted for in a manner similar to pension plans. Basically this would require that the cost of retirees medical and life insurance benefits be accrued during the service lives of the employees who would be expected to ultimately receive these benefits. Based on preliminary data developed with the assistance of our actuaries, Household's annual expense for postretirement benefits computed under the FASB's proposal would range between $8 and $16 million depending on the actuarial method and assumptions used to determine the future obligations and the Company's total obligation for postretirement benefits is estimated to be between $71 and $124 million. Overall, we believe Household's present unrecorded "liability" for such plans is less than many other major employers and the proposed accounting is not likely to have a significant adverse effect on the Corporation.

The FASB recently proposed that employers, beginning with 1984 annual reports, disclose the types of postretirement plans provided to employees and the cost of such benefits currently being charged to income. We are actively participating in the FASB's discussion of this subject and will closely monitor further developments in this area.

Corporate Controller's Office
August 6, 1984

EXHIBIT A

HOUSEHOLD INTERNATIONAL, INC.
PENSION PLAN ANALYSIS
COMBINED COMPANY SPONSORED PLANS (ALL BUSINESSES)

(All Dollar Amounts, Except Per Participant Data, are Stated in Thousands)

	1983	1982	1981
Funding Status			
Funding Ratio (market value of pension plan assets ÷ present value of accumulated benefits)....	146.9%	140.6%	
Present Value of Accumulated Benefits..................	$ 361,581	$ 333,898	
Market Value of Pension Plan Assets..................	$ 531,119*	$ 469,598	
Market Value of Pension Plan Assets Over/(Under) Present Value of Accumulated Benefits..............	$ 169,538	$ 135,700	
Contributions/Pension Expense			
Actual Company Contribution..........................	$ 21,878	$ 29,535	$ 35,075
Minimum Required Contribution........................	$ 14,305	$ 22,137	$ 21,894
Maximum Tax Deductible Contribution..................	$ 31,194	$ 46,534	$ 42,524
Pension Expense......................................	$ 21,382	$ 35,699	$ 35,015
As Percentage of Payroll.............................	2.0%	3.3%	3.3%
Per Active Plan Participant..........................	$ 766	$ 1,243	$ 1,212
Benefits Paid			
Retirement Benefits Paid.............................	$ 24,540	$ 21,301	$ 16,411
Per Retired Participant..............................	$ 3,782	$ 3,569	$ 3,020
Participants Data			
Retired Participants:			
Retirees and beneficiaries...........................	6,757	6,488	5,968
Terminated with vested benefits......................	4,185	3,685	3,134
Active Participants:			
Active participants excluding layoffs and leaves of absence...........................	34,170	27,929	28,710
Ratio of Retired to Active Participants..............	19.8%	23.2%	20.8%

* Total assets invested in Household International Pooled Investment Fund were $480.2 million at December 31, 1983. The remainder primarily represents assets of foreign pension plans and pension contributions accrued but not yet remitted to the plan funds.

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EXHIBIT B

HOUSEHOLD INTERNATIONAL, INC.
PENSION PLAN ANALYSIS
CORPORATE AND FINANCIAL SERVICES
COMBINED PLANS

(All Dollar Amounts, Except Per Participant Data, are Stated in Thousands)

	1983	1982	1981
Funding Status			
Funding Ratio (market value of pension plan assets + present value of accumulated benefits)....	164.6%	157.9%	
Present Value of Accumulated Benefits................	$ 90,670	$ 86,273	
Market Value of Pension Plan Assets..................	$ 149,215	$ 136,185	
Market Value of Pension Plan Assets Over/(Under) Present Value of Accumulated Benefits..............	$ 58,545	$ 49,912	
Contributions/Pension Expense			
Actual Company Contribution..........................	$ 743	$ 5,001	$ 5,877
Minimum Required Contribution........................	$ 759	$ 4,540	$ 3,836
Maximum Tax Deductible Contribution..................	$ 743	$ 7,877	$ 7,464
Pension Expense......................................	$ (977)*	$ 6,721	$ 5,877
As Percentage of Payroll.............................	N.M.	5.5%	4.6%
Per Active Plan Participant..........................	N.M.	$ 1,495	$ 1,193
Benefits Paid			
Retirement Benefits Paid.............................	$ 4,568	$ 3,114	$ 2,301
Per Retired Participant..............................	$ 9,342	$ 7,176	$ 5,681
Participants Data			
Retired Participants:			
Retirees and beneficiaries...........................	488	489	434
Terminated with vested benefits......................	941	846	678
Active Participants:			
Active participants excluding layoffs and leaves of absence....................................	4,336	4,596	4,494
Ratio of Retired to Active Participants..............	11.3%	10.6%	9.7%

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* Pension expense for 1982 for the Household International Retirement Income Plan (U.S. Plan covering all Corporate and Financial Services personnel) was accrued at $5.2 million. Subsequent to December 31, 1982, but prior to the actual contribution, the actuarial valuation was revised to reduce the funding ratio. The resulting 1982 contribution was $3.5 million. The $1.7 million excess pension accrual was reversed in 1983, thus creating a net credit to expense for 1983.

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EXHIBIT C

HOUSEHOLD INTERNATIONAL, INC.
PENSION PLAN ANALYSIS
MERCHANDISING
COMBINED PLANS

(All Dollar Amounts, Except Per Participant Data, are Stated in Thousands)

	1983	1982	1981
Funding Status			
Funding Ratio (market value of pension plan assets ÷ present value of accumulated benefits)....	137.6%	151.7%	
Present Value of Accumulated Benefits...............	$ 105,025	$ 81,681	
Market Value of Pension Plan Assets.................	$ 144,545	$ 123,934	
Market Value of Pension Plan Assets Over/(Under) Present Value of Accumulated Benefits..............	$ 39,520	$ 42,253	
Contributions/Pension Expense			
Actual Company Contribution.........................	$ 8,299	$ 12,323	$ 10,708
Minimum Required Contribution.......................	$ 8,298	$ 11,793	$ 10,231
Maximum Tax Deductible Contribution.................	$ 9,718	$ 15,660	$ 13,801
Pension Expense.....................................	$ 8,602	$ 12,329	$ 10,709
As Percentage of Payroll............................	1.3%	1.8%	1.7%
Per Active Plan Participant.........................	$ 707	$ 1,006	$ 915
Benefits Paid			
Retirement Benefits Paid............................	$ 6,084	$ 4,768	$ 4,239
Per Retired Participant.............................	$ 2,994	$ 2,561	$ 2,429
Participants Data			
Retired Participants:			
Retirees and beneficiaries..........................	2,225	2,032	1,862
Terminated with vested benefits.....................	1,478	1,327	1,080
Active Participants:			
Active participants excluding layoffs and leaves of absence..............................	17,878	12,160	12,250
Ratio of Retired to Active Participants.............	12.4%	16.7%	15.2%

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EXHIBIT D

HOUSEHOLD INTERNATIONAL, INC.
PENSION PLAN ANALYSIS
MANUFACTURING
COMBINED PLANS

(All Dollar Amounts, Except Per Participant Data, are Stated in Thousands)

	1983	1982	1981*
Funding Status			
Funding Ratio (market value of pension plan assets ÷ present value of accumulated benefits)....	139.9%	123.3%	
Present Value of Accumulated Benefits................	$ 160,532	$ 161,192	
Market Value of Pension Plan Assets..................	$ 224,508	$ 198,704	
Market Value of Pension Plan Assets Over/(Under) Present Value of Accumulated Benefits..............	$ 63,976	$ 37,512	
Contributions/Pension Expense			
Actual Company Contribution..........................	$ 11,241	$ 11,061	$ 17,170
Minimum Required Contribution........................	$ 3,654	$ 4,709	$ 6,864
Maximum Tax Deductible Contribution..................	$ 18,837	$ 21,459	$ 19,699
Pension Expense......................................	$ 12,309	$ 15,519	$ 16,949
As Percentage of Payroll.............................	6.4%	8.1%	7.8%
Per Active Plan Participant..........................	$ 1,423	$ 1,532	$ 1,575
Benefits Paid			
Retirement Benefits Paid.............................	$ 13,864	$ 13,400	$ 9,854
Per Retired Participant..............................	$ 3,515	$ 3,670	$ 3,013
Participants Data			
Retired Participants:			
Retirees and beneficiaries...........................	4,009	3,944	3,651
Terminated with vested benefits......................	1,655	1,415	1,320
Active Participants:			
Active participants excluding layoffs and leaves of absence..	9,082	8,647	10,131
Ratio of Retired to Active Participants..............	44.1%	45.6%	36.0%

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* Wallace Murray Corporation, acquired in June 1981, is included in the 1981 data on a full year basis.

EXHIBIT E

HOUSEHOLD INTERNATIONAL, INC.
PENSION PLAN ANALYSIS
RENTAL AND LEASING
COMBINED PLANS

(All Dollar Amounts, Except Per Participant Data, are Stated in Thousands)

	1983	1982	1981
Funding Status			
Funding Ratio (market value of pension plan assets ÷ present value of accumulated benefits)....	240.0%	226.7%	
Present Value of Accumulated Benefits..............	$ 5,354	$ 4,752	
Market Value of Pension Plan Assets..............	$ 12,851	$ 10,775	
Market Value of Pension Plan Assets Over/(Under) Present Value of Accumulated Benefits..............	$ 7,497	$ 6,023	
Contributions/Pension Expense			
Actual Company Contribution..............	$ 1,595	$ 1,150	$ 1,320
Minimum Required Contribution..............	$ 1,594	$ 1,095	$ 963
Maximum Tax Deductible Contribution..............	$ 1,896	$ 1,538	$ 1,418
Pension Expense..............	$ 1,448	$ 1,130	$ 1,480
As Percentage of Payroll..............	1.5%	1.3%	1.8%
Per Active Plan Participant..............	$ 573	$ 616	$ 994
Benefits Paid			
Retirement Benefits Paid..............	$ 24	$ 19	$ 17
Per Retired Participant..............	$ 1,043	$ 905	$ 1,214
Participants Data			
Retired Participants:			
Retirees and beneficiaries..............	35	23	21
Terminated with vested benefits..............	111	97	56
Active Participants:			
Active participants excluding layoffs and leaves of absence..............	2,874	2,526	1,835
Ratio of Retired to Active Participants..............	1.2%	0.9%	1.1%

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Household International, Inc.
Annual Review of the Pooled Investment Fund (PIF)

I Investment Environment Overview

A. General Market Review

- Short-term rates remained high throughout the year due to a tight monetary policy.
- With a relatively low Consumer Price Index of 3.7%, stocks, bonds, and cash experienced high real returns.
- Stocks outperformed bonds and cash equivalents over the year.

B. Equity Market

- During the first half of 1983, the stock market continued an upward trend which began in August of 1982. Generally, the small capitalization issues outperformed large capitalization issues.
- However, during the second half of 1983 the market's return was basically flat. The small capitalization companies experienced a significant price correction. Large capitalization issues were the best performing stocks.
- For the year as a whole, small capitalization stocks outperformed large capitalization stocks.
- Over the entire year the best returns came from portfolios invested in stocks with low betas, low earnings growth rates and high dividend income.
- The best performing sectors were consumer durables, capital goods, and basic industries.
- The worst performing sectors were consumer non-durables, financial services, and utilities.

C. Fixed-Income Market

- With high short-term interest rates in 1983, short-term maturities outperformed long-term maturities.
- Baa quality bonds had the highest return while AAA quality bonds had the lowest return.
- The finance sector outperformed the other corporate bond sectors.

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D. Real Estate Market

- The overall real estate market benefited from the economic recovery in 1983.
- Retail properties in 1983 showed the greatest improvement over 1982 results. The improved results were attributable to increased consumer spending.
- Retail and apartment properties were the top two performing sectors in 1983. The lowest performing property types were hotels and office buildings.
- The best performing geographic locations were the East and West regions, specifically Boston, New York City, and San Francisco. The worst performing areas were the Midwest and Southern regions, including Houston which has been over built for several years.

E. General Market Review for six months ending June 30, 1984

- The equity markets have continued to decline in 1984. The S&P 500 Index return was -4.9% for the six-month period.
- Short-term maturities have outperformed long bonds thus far in 1984. The 90-day Treasury Bills have returned +5.0% through June 30 versus a decline of 5.9% and 1.2% for the Salomon Brothers Index and the Lehman Brothers Kuhn Loeb Government/Corporate Index (LBKL G/C), respectively.

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II. Household PIF Investment Performance Review

A. 1983 Performance Comparison

	1983	3 Years	5 Years
Household PIF Equity	19.3%	12.0%	19.4%
S&P 500	22.2	12.0	17.1
Northern Trust Equity (median)	20.0	13.9	19.3
Household PIF Fixed-Income	7.8	13.5	9.2
LBKL G/C	8.0	15.0	9.9
Salomon Brothers	4.6	14.1	6.8
Northern Trust Fixed-Income (median)	7.9	15.0	10.2
Household PIF Cash Equivalents	8.8	15.4	—
90-Day T-Bills	9.3	12.5	12.2
Household PIF Real Estate	13.5	12.5	14.7
Evaluation Assoc. (median)	13.1	14.0	14.7
FRC Property Index	13.3	13.0	15.5
Household PIF Total Fund	15.0	12.5	16.6
Northern Trust (median)	15.1	12.5	15.1
SEI (median)	15.1	13.8	13.9

B. One Year Ended December 31, 1983

- Our equities underperformed the indices in 1983. This was primarily due to the fact that the equity portfolios in aggregate were invested in the more risky growth stock sectors in an environment that favored high yielding, stable companies.

- The Household PIF fixed-income portfolio underperformed the Lehman Brothers Kuhn Loeb Government/Corporate Index as the majority of the portfolio was invested in government bonds with intermediate-term maturities. The average maturity for our fixed-income portfolio was 10.9 years versus an 8.7 year average maturity for the LBKL G/C.

- The cash portion of our fund slightly underperformed the 90-day T-Bill rate as it was invested with a slightly longer maturity than 90 days in an environment in which short-term maturities provided the best fixed-income investment.

- Pooled Fund real estate performance for 1983 was slightly above the median returns for both the Evaluation Associates index and Frank Russell Company (FRC) Property Index. These performance results were similar as the distribution by property type and geographic location was virtually the same.

- Household Total Fund performance for the year was approximately the same as both the SEI and Northern Trust median returns. This is generally explained by the similar asset allocation of the Pooled Fund and the average Northern Trust client in 1983.

C. Three Years Ended December 31, 1983

- During this period, fixed-income outperformed equities and real estate.

- The Pooled Fund's total performance was adversely affected by a less than average allocation to fixed-income, an above average investment in real estate and a median commitment to equities.

- Performance was also affected by having a lower commitment to high dividend income stocks in an environment in which they provided the best performance for equities.

D. Five Years Ended December 31, 1983

- Equities were the best performing asset class for the five-year period. Real estate and fixed-income ranked second and third, respectively.

- The Pooled Fund's overweighting in equities and real estate and underweighting in fixed-income, relative to other pension funds, contributed to the above median Total Fund performance results.

E. Six months ended June 30, 1984

- Preliminary performance results for the six-month period ended June 30, 1984, indicate that the Pooled Fund equity portfolio declined 8.0% and the total fixed-income portfolio had a return of -0.9%. The Total Fund return was approximately -4.1% through June 30.

- Household equity performance was significantly lower than the S&P 500 return of -4.9%. Our results are lower because we placed less emphasis on energy stocks which contributed greatly to the market's performance during the period. Our results, however, are in line with equity results of other pension funds.

- In comparison to the Northern Trust Composite, the Pooled Fund's equity return was slightly lower than the median equity return while the fixed income portfolio outperformed Northern's median. Total Fund performance was slightly better than the median return for the six-month period.

III. Portfolio Asset Review

A. Change in Market Value (000)

12/31/82 value	$408.6
Investment Income	60.6
Units Issued	14.0
Units Redeemed	(3.0)
12/31/83 value	$480.2

B. Asset Allocation Review

	12/31/82	12/31/83
Equities	61.1%	61.8%
Fixed Income	27.7	25.3
Cash Equivalents	1.1	3.6
Real Estate	10.1	9.3
TOTAL	100.0%	100.0%

- All changes in percentage allocation were due to investment experience. The Investment Committee did not make any changes related to asset allocation in 1983.
- While good statistical data is not available to compare our asset mix to the typical plan sponsor, we believe the Pooled Fund has generally been more heavily committed to equities and real estate. This asset mix reflects the Investment Committee's long-term investment policy.

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IV Investment Committee Review

A. 1983 Activities

- Due to the Investment Committee's decision to undertake an asset/liability study in 1983, no major changes were made within the Pooled Investment Fund.

- On January 1, the assets of the American/Union and Welch Furniture Profit Sharing Plans were merged into the Pooled Investment Fund.

- On September 15 a portion of the National Car Hourly Plan assets were invested in the Pooled Fund. The balance of their assets had been invested in an insurance contract with Travelers until March 31, 1984, when the assets were transferred into the Pooled Fund.

- In September, 1983, the Investment Committee undertook an asset/liability planning study with A. S. Hansen to evaluate our investment program relative to the funding needs and liabilites of our pension plans.

- The study was completed in January, 1984. A. S. Hansen proposed and the Investment Committee approved an asset mix for the Pooled Fund where we will place more emphasis on diversification by asset class. Initially, we will be increasing our commitment to aggressive equities and real estate. Due to the different return patterns of these asset classes, we expect to earn a superior, and yet stable, rate of return over time.

- The asset mix chosen was the most attractive given the overfunded nature of the majority of the pension plans. One of the primary inputs to the asset/liability study was the direction given by Household's new pension funding policy which was issued in January of 1983. This policy generally directs that pension plans should be funded at a level which is between 100 and 120% of accumulated benefits.

- The new asset mix adopted by the Investment Committee is outlined below.

Asset Class	Allocation Target Percentage for Asset Classes
Aggressive Equities	20%
Equities	40
Fixed-Income	20
Cash Equivalents*	5
Real Estate	15

* Represents the minimum cash equivalent commitment as Pooled Investment Fund managers have discretion to hold cash investments in their portfolios.

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B. 1984 Major Activities

- Assets will be reallocated between asset categories, in conjunction with the newly adopted allocation guidelines.
- Using the findings of the A. S. Hansen study, the Investment Committee is evaluating the diversification within each asset class. By year-end the Committee will have investigated the various styles of investment management within the equity and fixed-income areas, and will have researched opportunities in real estate. Along with this diversification analysis, several investment manager changes in the equity, fixed-income, and real estate categories will have been made. The Committee's objective is to replace those managers who did not perform in the upper quartile of their peer group over an investment cycle.
- In addition to its current performance measurement analysis, the Investment Committee will be launching a performance evaluation program to better evaluate each manager's performance by style versus strictly using the broad market indices, i.e. S&P 500.

Treasury Department
August 6, 1984

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NATIONAL CAR RENTAL SYSTEM, INC.

CAPITAL PROJECT AUTHORIZATION REQUEST

Proposal:

Expansion of National Car Rental's LaGuardia Airport operating site. We have outgrown our current facility, and are seeking Board approval to implement a long range expansion that will include capital expenditures of $5.8 million.

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Project Description:

Space for our car rental operation servicing LaGuardia Airport has always been restricted. The limited on-airport space is leased to Hertz and Avis, and off-airport space was limited by the surrounding residential area. Due to this fact, National was forced in 1974 to purchase a 2.47 acre parcel next to the airport and construct a check-in and maintenance facility and administrative office off-airport. The site had storage for 300 cars and has been too small for several years, limiting National's growth and market share.

In 1979, National approved the purchase of 1.9 acres of separate house lots directly across 96th Street from the existing location. The added site was to be developed for additional parking space. In 1980, National's properties attorney obtained permission from the city to purchase and close off that portion of 96th Street which separated the two parcels in order to establish a contiguous site. In the years since then, extensive time and effort has been devoted to acquiring the individual house lots. Delays were encountered in obtaining necessary zoning, and, in settlement, a small piece of land at the back end of the property had to be sold as a "buffer zone." The scope of the proposed project is the purchase of 96th Street, construction of a two-level parking structure on the site, and a limited remodeling of the existing facility to tie it into the overall site. The vehicle capacity would be expanded from 300 cars to 1000.

Strategic Justification:

1. To maintain fleet size and utilization factors consistent with demand.

2. To provide the ability to increase our market share in an area where we are below average (13.9% as opposed to 19.2%).

3. To add additional property to our present facility as an operating alternative if the New York Port Authority demands unreasonable concession fees.

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Capital Project Authorization Request
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Alternatives:

1. Operate from the existing facility. This will result in a no-growth situation with loss of market share not only in New York, but also nationwide as commercial accounts experience our inability to meet their needs in New York.

2. Obtain adequate land elsewhere. There is no space available on airport for National. Hertz operates on 4.3 acres on airport and Avis, on 4.1 acres. Each has an additional storage lot on airport for about 50 cars. Hertz also leases space for approximately 100 cars at the Marriott. Both have storage lots several miles away which are 15-20 minute drives in light traffic and up to one hour or more in heavy traffic. Even if we were able to find adequate property off-airport, operational problems abound, all of which translate into higher costs, loss of market share and greater losses. These are covered in the financial analysis which has been reviewed and approved by Household.

Spending Summary:

	Spent Prior to 1984	To be Spent	Total
Land	$654,150	$ 313.050	$ 967,200
Improvements	46,891	4,353,109	4,400,000
Professional Fees	147,012	293,988	441,000
Furniture and Equipment	0	5,000	5,000
Total	$848,053	$4,965,147	$5,813,200

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Major Assumptions:

1. LaGuardia will remain a vital part of the New York area air transportation system. There are no plans to reduce LaGuardia's role or relocate it. In fact, investment by others continues to be made as evidenced by Delta's $300,000,000 terminal building completed in 1983 and Eastern's shuttle terminal completed in 1980 at a cost of $150,000,000.

2. Both airline passenger traffic and the car rental market will continue to increase creating a growth environment for the next five to ten years. Deplaning passenger traffic increased by 3% (1982 over 1981) and by 2.3% (1983 over 1982). Year to date growth for total passengers is up 6.4% Yearly projections are not available. The only figure available for annual projections is a cumulative increase in 1990 over 1983 of 25.5%. Steady but moderate increases will take place. In approximately 1991,

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the passenger growth will cap out because of airside and landside constraints. The Port Authority sees no expansion capability at this time. The car rental market, however, will continue to grow for three reasons. First, in general, more people will rent cars. Second, our growth will continue as our share moves up from 13.9%. Third, we will have greater capacity for growth than our competitors and some of the business they are unable to handle will fall to us.

3. No other property will become available in the foreseeable future to offer a viable alternative. Our investigations continue to show no indications to the contrary.

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