

Holiday Inns, Inc.

March 22, 1985

Dear Shareholder:

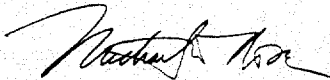
You are cordially invited to attend the Annual Meeting of Shareholders of Holiday Inns, Inc. on Friday, May 3, 1985 at 11:00 A.M., Memphis time, at Founders Hall, Holiday City, 3728 Lamar Avenue, Memphis, Tennessee. Your Board of Directors and management look forward to greeting those shareholders who are able to attend.

Several important proposals are being presented to shareholders for their approval at the Annual Meeting. Your Board of Directors has unanimously recommended a vote FOR each of them. The reasons for the Board's recommendation, as well as other important information concerning such proposals, are contained in the accompanying Proxy Statement/Prospectus, which you are urged to read carefully.

It is important that your shares are represented and voted at the meeting, whether or not you plan to attend. Accordingly, please sign, date and mail the enclosed proxy at your earliest convenience.

Your interest and participation in the affairs of the Company are greatly appreciated.

Sincerely,



Michael D. Rose  
Chairman of the Board and  
Chief Executive Officer

3742 Lamar Avenue  
Memphis, TN 38195 USA

MICROFILMED BY  
**Q-DATA**  
ST. PETERSBURG, FL U.S.A.

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**HOLIDAY INNS, INC.**  
**3742 LAMAR AVENUE**  
**MEMPHIS, TENNESSEE 38195**

**NOTICE OF ANNUAL  
MEETING OF SHAREHOLDERS**  
**To Be Held May 3, 1985**

NOTICE IS HEREBY GIVEN that the Annual Meeting of the Shareholders of Holiday Inns, Inc., a Tennessee corporation (the "Company"), will be held at Founders Hall, Holiday City, 3728 Lamar Avenue, Memphis, Tennessee, on Friday, May 3, 1985, at 11:00 A.M., Memphis time, for the following purposes:

1. To elect directors;
2. To approve and adopt an Agreement and Plan of Merger pursuant to which, among other things, the Company will become a wholly-owned subsidiary of a new Delaware holding company which has the name of "Holiday Corporation" and the shareholders of the Company will become the stockholders of such holding company;
3. If proposal 2 is not approved and adopted, to approve an amendment to the Company's Restated Charter to change the name of the Company to "Holiday Corporation;"
4. To approve the 1985 Long Term Performance Plan;
5. To approve the 1985 Restricted Stock Plan;
6. To approve an amended Savings and Retirement Plan;
7. To ratify the appointment of Arthur Andersen & Co. as the Company's independent public accountants; and
8. To transact such other business as may properly be brought before the meeting or any adjournment thereof.

March 4, 1985, is the record date for the determination of shareholders entitled to notice of and to vote at the meeting and any adjournment thereof.

JEROME A. BROADHURST  
*Secretary*

Memphis, Tennessee  
March 22, 1985

**IMPORTANT**

All shareholders are cordially invited to attend the Annual Meeting in person.

Whether or not you plan to attend the Annual Meeting in person, you are urged to complete, date and sign the enclosed proxy and return it in the enclosed business reply envelope. The envelope requires no postage if mailed in the United States. It is important that your shares be represented at the Annual Meeting in order that the presence of a quorum may be assured. Any shareholder who signs and sends in a proxy may revoke it at any time before it is voted. Your cooperation in promptly returning your proxy will help limit expenses incident to proxy solicitation.

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# HOLIDAY INNS, INC.

3742 Lamar Avenue  
Memphis, Tennessee 38195

## PROXY STATEMENT/PROSPECTUS

For Annual Meeting of Shareholders  
To be held on May 3, 1985

### INTRODUCTION

This Proxy Statement is being furnished to holders of shares of Common Capital Stock, par value \$1.50 per share ("Common Stock"), and shares of Stock Dividend Convertible Special Stock, Series A (Stock Dividend at Rate of \$1.70 Market Value of Common Stock), par value \$1.12½ per share ("Series A Stock"), of Holiday Inns, Inc., a Tennessee corporation (the "Company" or "Holiday Inns"), in connection with the solicitation of proxies by the Board of Directors of the Company for use at the Annual Meeting of Shareholders scheduled to be held on Friday, May 3, 1985, at 11:00 A.M., Memphis time, at Founders Hall, Holiday City, 3728 Lamar Avenue, Memphis, Tennessee and at any adjournment thereof (the "Annual Meeting"). The principal executive offices of the Company and Holiday Corporation, a Delaware corporation ("Holiday Corporation"), are located at 3742 Lamar Avenue, Memphis, Tennessee 38195 and the telephone number at such offices is (901) 362-4001.

At the Annual Meeting, shareholders will be asked to (i) elect directors, (ii) approve and adopt an Agreement and Plan of Merger, dated as of February 8, 1985 (the "Plan of Merger"), by and among the Company, Holiday Corporation and a wholly-owned subsidiary of Holiday Corporation pursuant to which the Company will become a wholly-owned subsidiary of Holiday Corporation and the shareholders of the Company will become the stockholders of Holiday Corporation; (iii) if proposal (ii) is not approved and adopted, approve an amendment to the Company's Restated Charter to change the name of the Company to "Holiday Corporation;" (iv) approve the 1985 Long Term Performance Plan; (v) approve the 1985 Restricted Stock Plan; (vi) approve an amended Savings and Retirement Plan; (vii) ratify the appointment of Arthur Andersen & Co. as the Company's independent public accountants; and (viii) transact such other business as may properly be brought before the Annual Meeting. The transactions contemplated by the Plan of Merger (the "Reorganization") and the proposals set forth above are more fully described in this Proxy Statement/Prospectus.

The Reorganization will result in certain significant changes which may have an anti-takeover impact. See "Certain Significant Differences Between Corporate Charters and Bylaws" and "Certain Significant Differences Between Tennessee and Delaware Corporation Laws."

This Proxy Statement/Prospectus is first being mailed to the holders of shares of Holiday Inns Common Stock and Holiday Inns Series A Stock on or about March 22, 1985.

Holiday Corporation has filed a Registration Statement under the Securities Act of 1933 with the Securities and Exchange Commission covering the maximum of 30,996,135 shares of Holiday Corporation Common Stock and 364,372 shares of Holiday Corporation Series A Stock to be issued in connection with the Reorganization. This Proxy Statement also constitutes the Prospectus of Holiday Corporation filed as part of such Registration Statement.

**THE SECURITIES OF HOLIDAY CORPORATION ISSUABLE IN CONNECTION WITH THE REORGANIZATION HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROXY STATEMENT/PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

The date of this Proxy Statement/Prospectus is March 22, 1985. 1

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## AVAILABLE INFORMATION

Holiday Corporation has filed a Registration Statement on Form S-14 (the "Registration Statement") under the Securities Act of 1933 with the Securities and Exchange Commission (the "Commission") with respect to the shares of Holiday Corporation Common Stock and Holiday Corporation Series A Stock to be issued in connection with the Reorganization. This Proxy Statement/Prospectus does not contain all the information set forth in the Registration Statement, certain items of which are omitted in accordance with the Rules and Regulations of the Commission. For further information pertaining to Holiday Corporation and the Holiday Corporation Common Stock and Holiday Corporation Series A Stock offered hereby, reference is made to the Registration Statement and the exhibits thereto, which may be inspected without charge at the office of the Commission at 450 Fifth Street N.W., Washington, D.C. 20549, and copies of which may be obtained from the Commission at prescribed rates.

In addition, the Company is subject to the informational requirements of the Securities Exchange Act of 1934 and, in accordance therewith, files reports, proxy statements and other information with the Commission. Such reports, proxy statements and other information can be inspected and copies made at the public reference facilities of the Commission, Room 1024, 450 Fifth Street N.W., Washington, D.C. 20549; Room 1102, Jacob K. Javits Federal Building, 26 Federal Plaza, New York, New York 10278; Museum Square Building, 5757 Wilshire Boulevard, Suite 500 East, Los Angeles, California 90036; and Room 1204, Everett McKinley Dirksen Building, 219 South Dearborn Street, Chicago, Illinois 60604; and copies of such materials can be obtained from the public reference section of the Commission at 450 Fifth Street N.W., Washington, D.C. 20549, at prescribed rates. Reports, proxy statements and other information concerning the Company should also be available for inspection at the offices of the New York, Midwest, Philadelphia and Pacific Stock Exchanges. It is expected that Holiday Corporation will be subject to the same informational requirements following the consummation of the Reorganization.

No person has been authorized to give any information or to make any representation not contained in this Proxy Statement/Prospectus in connection with the solicitations made hereby and the offer of Holiday Corporation Common Stock and Holiday Corporation Series A Stock pursuant hereto and, if given or made, such information or representation must not be relied upon as having been authorized by the Company or Holiday Corporation. This Proxy Statement/Prospectus does not constitute an offer to sell, or a solicitation of an offer to purchase, any securities, or solicitation of a proxy, in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. Neither the delivery of this Proxy Statement/Prospectus nor any distribution of the securities to which this Proxy Statement/Prospectus relates shall, under any circumstances, create any inference that there has been no change in the affairs of either the Company or Holiday Corporation since the date of this Proxy Statement/Prospectus.

## SUMMARY

The following is a brief summary of certain information contained elsewhere in this Proxy Statement/Prospectus. This summary is not intended to be complete and is qualified in its entirety by reference to the more detailed information appearing elsewhere herein. Shareholders are urged to review the entire Proxy Statement/Prospectus carefully.

### General

At the Annual Meeting, shareholders will be asked to (i) elect directors, (ii) approve and adopt an Agreement and Plan of Merger pursuant to which the Company will become a wholly-owned subsidiary of Holiday Corporation and the shareholders of the Company will become the stockholders of Holiday Corporation; (iii) if proposal (ii) is not approved and adopted, approve an amendment to the Company's Restated Charter to change the name of the Company to "Holiday Corporation;" (iv) approve the 1985 Long Term Performance Plan; (v) approve the 1985 Restricted Stock Plan; (vi) approve an amended Savings and Retirement Plan; (vii) ratify the appointment of Arthur Andersen & Co. as the Company's independent public accountants; and (viii) transact such other business as may properly be brought before the Annual Meeting.

Upon consummation of the Reorganization, the shareholders of the Company will become the stockholders of Holiday Corporation and the internal affairs of Holiday Corporation will be governed by the laws of the State of Delaware and Holiday Corporation's Restated Certificate of Incorporation and Bylaws which differ in certain respects from the laws of the State of Tennessee and the Company's Restated Charter and Bylaws which currently govern the internal affairs of the Company. The Reorganization will also result in certain significant changes which may have an anti-takeover impact and make tender offers, proxy contests and certain mergers more difficult, including the following: (i) the classification of the Board of Directors of Holiday Corporation into three classes having staggered terms and from which directors may be removed only by the stockholders for cause, (ii) the requirement of a vote of 75% of Holiday Corporation's voting stock and a majority of the unaffiliated stockholders in order to approve certain mergers, business combinations and other similar transactions with a holder of 10% or more of the voting power of Holiday Corporation or certain parties related to such 10% holder unless such a transaction is approved by members of the Board who are unaffiliated with the persons seeking to effect the transaction or certain minimum price and procedural requirements are met, (iii) the authorization of the Board of Directors of Holiday Corporation to redeem shares of capital stock of Holiday Corporation to the extent necessary to prevent the loss of, or to reinstate, certain governmental licenses or franchises for the conduct of Holiday Corporation's business, (iv) the prohibition of the taking of stockholder action by written consent without a meeting and the elimination of the right of stockholders to call special meetings, (v) the requirement of a vote of 75% of the voting power of Holiday Corporation to amend the Bylaws of Holiday Corporation and (vi) the requirement of a vote of 75% of Holiday Corporation's voting stock and a majority of the unaffiliated stockholders in order to amend the provision set forth in (ii) above. See "Certain Significant Differences Between Corporate Charters and Bylaws" and "Certain Significant Differences Between Tennessee and Delaware Corporation Laws."

### Record Date; Voting Rights

Only holders of record of shares of Holiday Inns Common Stock and Holiday Inns Series A Stock at the close of business on March 4, 1985 are entitled to notice of and to vote at the Annual Meeting.

At the Record Date, 28,559,843 shares of Holiday Inns Common Stock and 364,372 shares of Holiday Inns Series A Stock were outstanding and held of record by 21,909 and 1,347 holders respectively. Each such share of Holiday Inns Common Stock will be entitled to one vote on the approval and adoption of the Plan of Merger and on the other proposals before the Annual Meeting. Each such share of Holiday Inns Series A Stock will be entitled to three-fourths (3/4) of a vote on the approval and adoption of the Plan of Merger and on the other proposals before the Annual Meeting. **Holders of shares of Holiday Inns Common Stock and Holiday Inns Series A Stock will not be entitled to any dissenters' rights in connection with the Reorganization or any of the other proposals set forth in the Notice of Annual Meeting.**

The affirmative vote of the holders of a majority of the voting power of the outstanding shares of Holiday Inns Common Stock and Holiday Inns Series A Stock, voting together as a single class, is required to approve and adopt the Plan of Merger.

The affirmative vote of the holders of a majority of the voting power of the outstanding shares of Holiday Inns Common Stock and Holiday Inns Series A Stock, voting together as a single class, is required to approve the amendment to the Company's Restated Charter to change the name of the Company to "Holiday Corporation" if the Reorganization is not approved and adopted. If the Reorganization is approved and adopted by the shareholders of the Company, the Company will maintain its present name and will become a wholly-owned subsidiary of a Delaware corporation which has the name "Holiday Corporation," and no other shareholder vote will be required. See "The Change of Name Proposal."

A plurality of the votes of shares of Holiday Inns Common Stock and shares of Holiday Inns Series A Stock is required to elect the nominees for Directors. The nominees elected as Directors of the Company will serve until the next Annual Meeting of Shareholders or until their successors are duly elected and qualified; provided, however, that, if the Reorganization is consummated, the nominees for Directors of the Company who are elected at the Annual Meeting will become the Directors of Holiday Corporation and Messrs. Goegle, Schorr and Solomonson will become the Directors of the Company. The Board of Directors of Holiday Corporation will be divided into three classes having staggered terms (with four directors in two of the classes and five directors in the other class). See "Election of Directors of the Company" and "Certain Significant Differences Between Corporate Charters and Bylaws."

The affirmative vote of the holders of a majority of the voting power of the outstanding shares of Holiday Inns Common Stock and the outstanding shares of Holiday Inns Series A Stock, voting together as a single class, is required to approve each of the 1985 Long Term Performance Plan, the 1985 Restricted Stock Plan and the amended Savings and Retirement Plan. See "Approval of 1985 Long Term Performance Plan," "Approval of 1985 Restricted Stock Plan" and "Approval of Amended Savings and Retirement Plan."

Although the Board of Directors is not required by Tennessee law to obtain approval of its selection of the Company's accountants, it has followed the policy of obtaining such an advisory vote in past years. In order to ratify the appointment of Arthur Andersen & Co. as the Company's independent public accountants, the affirmative vote of the holders of a majority of the voting power of the outstanding shares of Holiday Inns Common Stock and shares of Holiday Inns Series A Stock, voting together as a single class, is sought. Upon consummation of the Reorganization, Arthur

Andersen & Co. will become the independent public accountants for Holiday Corporation and its consolidated subsidiaries, including the Company. See "Ratification of Independent Public Accountants."

### **Reorganization Proposal**

In accordance with the Plan of Merger, the proposed Reorganization will be effected by means of the merger of Merger Co., Inc., a Tennessee corporation and wholly-owned subsidiary of Holiday Corporation, with and into the Company, which will be the surviving corporation in the Merger. At the Effective Time (i) each share of Holiday Inns Common Stock (including shares held in the treasury of the Company) and each share of Holiday Inns Series A Stock outstanding immediately prior to the Effective Time, will be converted into one share of Holiday Corporation Common Stock and one share of Holiday Corporation Series A Stock, respectively, (ii) each share of capital stock of Holiday Corporation outstanding immediately prior to the Effective Time (all of which is presently owned by the Company) will be cancelled, and (iii) each share of capital stock of Merger Co. outstanding immediately prior to the Effective Time (all of which is presently owned by Holiday Corporation) will be converted into shares of capital stock of Holiday Inns, the surviving corporation in the Merger. Accordingly, the shareholders of the Company will become the stockholders of Holiday Corporation which will, in turn, own all of the capital stock of Holiday Inns, the surviving corporation in the Merger. The Holiday Corporation Common Stock and Holiday Corporation Series A Stock to be issued in the Merger will generally be entitled to the same rights, powers, qualifications, limitations and restrictions as the presently outstanding Holiday Inns Common Stock and Holiday Inns Series A Stock. See "Certain Differences Between Corporate Charters and Bylaws," "Certain Significant Differences Between Tennessee and Delaware Corporation Law" and "Holiday Corporation Capital Stock."

Each outstanding certificate representing shares of Holiday Inns Common Stock will continue to represent the same number of shares of Holiday Corporation Common Stock and each outstanding certificate representing shares of Holiday Inns Series A Stock will continue to represent the same number of shares of Holiday Corporation Series A Stock. **THUS, IT WILL NOT BE NECESSARY FOR SHAREHOLDERS OF HOLIDAY INNS, INC. TO EXCHANGE THEIR EXISTING STOCK CERTIFICATES FOR STOCK CERTIFICATES OF HOLIDAY CORPORATION.**

If the Reorganization is effected, the Company will become a wholly-owned subsidiary of Holiday Corporation; however, except as set forth in this Proxy Statement/Prospectus, such holding company structure will not result in any substantial change in the business, management, location of principal offices, assets or liabilities of the Company. Pursuant to the Plan of Merger, Holiday Corporation will assume the Company's obligations under the Company's 8% Convertible Subordinated Guaranteed Debentures due 1985. Thus, each holder of such debentures will have the right to convert such debentures into the same number of shares of Holiday Corporation Common Stock as the number of shares of Holiday Inns Common Stock into which such debentures would have been convertible immediately prior to the Effective Time. Holiday Corporation will also assume all other obligations in connection with such debentures, including, without limitation, all obligations for the payment, when due, of interest and premium, if any, thereon and principal thereof. The consolidated financial condition, assets and liabilities of Holiday Corporation immediately after the Effective Time will be substantially identical to those of the Company and its subsidiaries immediately prior to the Effective



Time. A copy of the Company's 1984 Annual Report, including financial statements, is being sent to shareholders along with this Proxy Statement Prospectus, and additional copies of such Annual Report are available for review at the principal executive offices of the Company and will be sent to shareholders upon request.

Except as set forth in this Proxy Statement/Prospectus, the Company's pension plan and all other employee benefit plans will not be changed by the Reorganization, although such plans may be expanded to include employees of Holiday Corporation. The options and rights to acquire Holiday Inns Common Stock under the Company's 1981 Restricted Stock Incentive Plan, Long Term Performance Plan, Employee Stock Ownership Plan and 1977 Incentive Stock Option Plan which are outstanding at and immediately prior to the Effective Time will be converted into options or rights to purchase the same number of shares of Holiday Corporation Common Stock on the same terms and conditions as in effect immediately prior to the Reorganization, and future options and rights granted under such Plans will be exercisable for shares of Holiday Corporation Common Stock. Each share of Holiday Inns Common Stock currently held under the Plans will be converted into one share of Holiday Corporation Common Stock, and thereafter all purchases and sales for such Plans will be of Holiday Corporation Common Stock. All shares of Holiday Corporation Common Stock required in the future for purposes of the foregoing Plans will be acquired by the Company either in the open market or directly from Holiday Corporation, and Holiday Corporation will assume the obligation to provide such shares. Adoption and approval of the Reorganization will constitute approval of such assumption by Holiday Corporation. Holiday Corporation will become a participating employer in the Company's pension plan, but will not assume any obligations under such plan. For information concerning the effect of the Reorganization on the 1985 Long Term Performance Plan, the 1985 Restricted Stock Plan and the amended Savings and Retirement Plan, see "Effect of Reorganization on Adoption of Certain Benefit Plans," "Approval of 1985 Long Term Performance Plan," "Approval of 1985 Restricted Stock Plan" and "Approval of Amended Savings and Retirement Plan."

**THE BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE REORGANIZATION PROPOSAL AND UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE REORGANIZATION PROPOSAL. PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE VOTED FOR THE REORGANIZATION PROPOSAL UNLESS A VOTE AGAINST THE PROPOSAL OR ABSTENTION IS SPECIFICALLY INDICATED.**

#### **Effective Time of the Reorganization**

The Reorganization will become effective as provided in the Plan of Merger, upon an appropriate filing by the Secretary of State of the State of Tennessee of articles of merger, together with an executed copy of the Plan of Merger. Such filing is expected to be made as soon as practicable following shareholder approval of the Reorganization and the satisfaction or waiver of the conditions to the Plan of Merger. The Effective Time of the Plan of Merger may also be deferred for a reasonable period of time if either the Board of Directors or the Executive Committee of the Board of Directors or any authorized officer of the Company determines such deferral to be in the best interests of the Company and its shareholders.

#### **Conditions to the Reorganization**

The Reorganization is conditioned on (a) approval by the affirmative vote of a majority of the voting power of the outstanding Holiday Inns Common Stock and Series A Stock, voting together as a

single class, (b) receipt of an opinion of counsel dated as of the Effective Time as described in this Proxy Statement/Prospectus under the heading "Federal Income Tax Consequences of the Reorganization," (c) approval for listing, subject to notice of issuance, by the New York Stock Exchange of the Holiday Corporation Common Stock and Series A Stock to be issued or initially reserved for issuance in connection with the Merger and (d) the effectiveness under the Securities Act of 1933 of a registration statement relating to the shares of Holiday Corporation Common Stock and Holiday Corporation Series A Stock to be issued in connection with the Merger.

The Plan of Merger may be terminated and the transactions therein may be abandoned at any time prior to the Effective Time, either before or after shareholder approval, if the Board of Directors or the Executive Committee of the Company determines such action to be in the best interests of the Company and its shareholders. In addition, the terms of the Plan of Merger may be amended before or after approval by the shareholders; provided, however, that the Plan of Merger may not be amended after shareholder approval if such amendment would (1) alter or change the amount or kind of shares or other consideration to be received by shareholders in the Merger, (2) alter or change any term of the Restated Certificate of Incorporation of Holiday Corporation, (3) alter or change any of the terms and conditions of the Plan of Merger, if such alteration or change would adversely affect the shareholders of the Company or (4) otherwise violate applicable law.

#### **Principal Reasons for the Reorganization**

A holding company structure has been adopted by a number of large industrial and financial corporations. This type of corporate structure broadens the range of options available to the Company in financing future operations. In addition, it may facilitate acquisitions, especially should Holiday Corporation decide at some future date to expand its present operations or to establish new operations in regulated industries. The holding company structure could facilitate the segmentation of present and future businesses, the management, operation and financing of which could be more efficiently accomplished by taking advantage of the versatility and flexibility of such a holding company structure. The Company will explore these possibilities if the Reorganization is effected. The Company has no plans, agreements or understandings with respect to the issuance of any shares of Holiday Corporation capital stock other than in the Reorganization and pursuant to the Company's existing stock option and other employee benefit plans.

Management and the Company's Board of Directors chose Delaware as the state of incorporation for Holiday Corporation for several reasons. For many years, Delaware has followed a policy of encouraging incorporation in that state and, in furtherance of that policy, has adopted comprehensive, modern and flexible corporate laws which are periodically updated and revised to meet changing business needs. As a result, many major corporations have initially chosen Delaware for their domicile or have subsequently reincorporated in Delaware in a manner similar to that proposed herein.

Because of Delaware's long-standing policy of encouraging incorporation in the state and consequently its preeminence as the state of incorporation for many major corporations, the Delaware Courts have developed a considerable expertise in dealing with corporate issues. A substantial body of case law has developed construing Delaware law and establishing public policies with respect to Delaware corporations. It is anticipated that Delaware corporate law will continue to be interpreted and explained in a number of significant court decisions, which may provide greater predictability with respect to the Company's corporate legal affairs. For a discussion of certain differences in

shareholders' rights and governance of the internal affairs of Holiday Corporation under the Delaware General Corporation Law and the Tennessee General Corporation Act, see "Certain Significant Differences Between Tennessee and Delaware Corporation Laws" and "Certain Significant Differences Between Corporate Charters and Bylaws."

The Board of Directors has noted the continuance of unsolicited takeover offers and other purchases of shares which are often followed by non-negotiated mergers or similar transactions that involve the elimination of the then-remaining public stockholders. The Board of Directors believes that the Reorganization will increase the probability that, if an unsolicited attempt is made to take over Holiday Corporation, the public stockholders will be treated fairly by virtue of the provisions in Holiday Corporation's Restated Certificate of Incorporation and Bylaws which (i) provide for the creation of a classified board of directors from which directors may only be removed by the stockholders for cause, (ii) limit the rights of stockholders to amend Holiday Corporation's Restated Certificate of Incorporation and Bylaws, (iii) eliminate the right of stockholders to call special meetings and to take action without a meeting, and (iv) require that certain business combinations either meet certain minimum price and procedural requirements, are approved by the members of the Board of Directors who are unaffiliated with the persons seeking to effect such combinations or are approved by supermajority stockholder vote. These provisions will also encourage any person intending to attempt such a takeover to negotiate with the Board of Directors and curtail such person's use of his dominant interest to control both sides of the negotiations. Under such circumstances, the Board of Directors may be better able to make and implement reasoned business decisions and protect the interests of the stockholders.

Unapproved, non-negotiated takeover attempts present to stockholders the risk of a takeover on terms which may be less favorable than would be available in a transaction negotiated with and approved by the Board of Directors. Although there can be no certainty as to the result of any particular negotiation, the Board of Directors believes that the interests of the stockholders would best be served if any acquisition of the Company results from arms-length negotiations which reflect the Board's careful consideration of the proposed terms of any transaction, including the value of the consideration to be paid to all stockholders and the tax effects of the transaction, as well as the compatibility of the management and business of the acquirer with that of the Company and the acquirer's plans and proposals with respect to the management, business and operations of the Company after the consummation of such transaction.

The "minimum price/supermajority" provision of Holiday Corporation's Restated Certificate of Incorporation is intended to prevent certain potential inequities arising from business combinations with a significant stockholder which often accompany a two-step transaction by requiring the approval of such business combinations by 75% of the voting power of all the holders of Holiday Corporation voting stock and a majority of the voting power of all the holders of Holiday Corporation voting stock other than stock beneficially owned by such significant stockholder, unless (i) such transaction is approved by the members of the Board who are unaffiliated with such significant stockholder or (ii) such significant stockholder meets certain minimum price and procedural requirements. See "Special Vote Required for Certain Business Combinations."

In many unsolicited takeover attempts the acquirer seeks representation on the target company's board of directors in order to maximize the likelihood that the acquisition proposal will be approved and implemented by the target company. If the target company resists the efforts of the acquirer to

obtain such board representation, the acquiror may commence a proxy contest to have himself or his nominees, or both, elected to the target company's board of directors in lieu of a majority of the target's directors or in lieu of the entire board of directors of the target company. In some instances, the acquiror may not be truly interested in acquiring the target company but will use the threat of a proxy contest or a tender offer as a means of forcing the target company to repurchase the acquiror's equity position at a substantial premium above the then current market price of the target company's securities. If the true purpose of a proxy fight, a tender offer or other takeover attempt is to force the target company to repurchase a substantial equity position at a premium price, the board of directors of the target company faces the risk that the company's business and management will be seriously disrupted. Additionally, a repurchase could result in the diversion to an acquiror of corporate resources otherwise needed by the target company and in some cases a lowering of the market price of the target company stock.

The provision in Holiday Corporation's Restated Certificate of Incorporation which provides for a classified Board of Directors from which Directors may only be removed by stockholders for cause will make it more difficult for a significant stockholder to change the composition of the Board of Directors in a relatively short period of time and, accordingly, will provide the Board of Directors and stockholders time to review any proposal such stockholder may make and to pursue alternative courses of action which are fair to all the stockholders of Holiday Corporation. See "Classified Board."

Although the changes to be effected by the Reorganization are intended to encourage persons seeking to acquire control of the Company to initiate such an acquisition through arms-length negotiations with the Board of Directors, they could also have the effect of discouraging a third party from making a tender offer (including an offer at a substantial premium over the then current market value of the Company's stock) or otherwise attempting to obtain control of the Company even though such an attempt might be beneficial to the Company and its stockholders. Since the changes may have the effect of giving the Board of Directors more bargaining power in negotiations with potential acquirors, they could also result in the Board of Directors' using such bargaining power not only to try to negotiate a favorable price for an acquisition but also to negotiate more favorable terms for management or the Board of Directors. In addition, since the changes are designed to discourage accumulations of large blocks of the Company's stock acquired for the purpose of exercising control over the Company or encouraging the Company to repurchase such blocks at a premium, the Reorganization could tend to reduce the temporary fluctuations in the market price of the Company's stock which might result from such accumulations. As a result, stockholders could be deprived of certain opportunities to sell their stock at a temporarily higher market price.

Finally, the Reorganization may make it more difficult for holders of a majority of the outstanding shares of the Company's stock to change the composition of the Board of Directors in circumstances which do not involve a takeover attempt or a related business combination, but where the reason for such change may be the performance of the incumbent directors. However, the Board of Directors feels that the benefits of seeking to protect the Company's ability to negotiate effectively with unfriendly acquirors, through directors who have previously been elected by the stockholders and who are familiar with the Company, outweigh the disadvantages arising out of the Reorganization.

The Board of Directors has no knowledge of any effort to gain control of the Company or to organize a proxy contest. Subsequent to the announcement of the Company Self Tender, Ivan Boesky

and certain related parties filed a Schedule 13D with the Securities and Exchange Commission reflecting beneficial ownership of more than 5% of Holiday Inns Common Stock. An amendment to the Schedule 13D was filed shortly thereafter reflecting beneficial ownership of less than 5%. To the knowledge of the Company, there have been no other recent accumulations of Holiday Inns Common Stock, and the Reorganization is not being proposed in response to any accumulations of Holiday Inns Common Stock.

In considering the Reorganization, shareholders should be aware that the Reorganization is not designed to prevent tender offers for the Company or to assure that shareholders would receive a premium price for their shares if a tender offer were to be made. Moreover, the changes will not preclude the Board of Directors from either opposing or approving any future takeover proposal.

**1985 Long Term Performance Plan; 1985 Restricted Stock Plan; and Amended Savings and Retirement Plan.**

The Board of Directors has adopted, subject to shareholder approval, (i) the 1985 Long Term Performance Plan, (ii) the 1985 Restricted Stock Plan and (iii) certain amendments to the Savings and Retirement Plan. Descriptions of such plans are set forth under "Approval of 1985 Long Term Performance Plan," "Approval of 1985 Restricted Stock Plan" and "Approval of Amended Savings and Retirement Plan," and the complete texts of the 1985 plans are attached hereto as Exhibits D and E, respectively.

The Board of Directors recommends that shareholders vote FOR approval of the 1985 Long Term Performance Plan, the 1985 Restricted Stock Plan and the amended Savings and Retirement Plan.

Approval of the Reorganization will also be deemed to constitute approval of Holiday Corporation's assumption of certain benefit plans of the Company as set forth in "Compensation Pursuant to Plans" and any other modifications to the Company's benefit plans required or contemplated by the Reorganization.

## INFORMATION CONCERNING THE ANNUAL MEETING

### The Annual Meeting

The Annual Meeting is scheduled to be held on Friday, May 3, 1985, at 11:00 A.M., Memphis time, at Founders Hall, Holiday City, 3728 Lamar Avenue, Memphis, Tennessee. At the Annual Meeting, holders of Holiday Inns Common Stock and Holiday Inns Series A Stock will be asked to (i) elect directors; (ii) approve and adopt the Plan of Merger pursuant to which the Company will become a wholly-owned subsidiary of Holiday Corporation and the shareholders of the Company will become the stockholders of Holiday Corporation; (iii) if proposal (ii) is not approved and adopted, approve an amendment to the Company's Restated Charter to change the name of the Company to "Holiday Corporation;" (iv) approve the 1985 Long Term Performance Plan; (v) approve the 1985 Restricted Stock Plan; (vi) approve an amended Savings and Retirement Plan; (vii) ratify the appointment of Arthur Andersen & Co. as the Company's independent public accountants; and (viii) transact such other business as may properly be brought before the Annual Meeting.

Upon consummation of the Reorganization, the shareholders of the Company will become the stockholders of Holiday Corporation and the internal affairs of Holiday Corporation will be governed by the laws of the State of Delaware and Holiday Corporation's Restated Certificate of Incorporation and Bylaws which differ in certain respects from the laws of the State of Tennessee and the Company's Restated Charter and Bylaws which currently govern the internal affairs of the Company. The Reorganization will also result in certain significant changes which may have an anti-takeover impact and make tender offers, proxy contests and certain mergers more difficult, including the following: (i) the classification of the Board of Directors of Holiday Corporation into three classes having staggered terms and from which directors may be removed only by the stockholders for cause, (ii) the requirement of a vote of 75% of Holiday Corporation's voting stock and a majority of the unaffiliated stockholders in order to approve certain mergers, business combinations and other similar transactions with a holder of 10% or more of the voting power of Holiday Corporation or certain parties related to such 10% holder unless such a transaction is approved by members of the Board who are unaffiliated with the persons seeking to effect the transaction or certain minimum price and procedural requirements are met, (iii) the authorization of the Board of Directors of Holiday Corporation to redeem shares of capital stock of Holiday Corporation to the extent necessary to prevent the loss of, or to reinstate, certain governmental licenses or franchises for the conduct of Holiday Corporation's business, (iv) the prohibition of the taking of stockholder action by written consent without a meeting and the elimination of the right of stockholders to call special meetings, (v) the requirement of a vote of 75% of the voting power of Holiday Corporation to amend the Bylaws of Holiday Corporation and (vi) the requirement of a vote of 75% of Holiday Corporation's voting stock and a majority of the unaffiliated stockholders in order to amend the provision set forth in (ii) above. See "Certain Significant Differences Between Corporate Charters and Bylaws" and "Certain Significant Differences Between Tennessee and Delaware Corporation Laws."

### Record Date; Voting Rights

Only holders of record of shares of Holiday Inns Common Stock and Holiday Inns Series A Stock at the close of business on March 4, 1985 (the "Record Date") are entitled to notice of and to vote at the Annual Meeting. At the Record Date, 28,559,843 shares of Holiday Inns Common Stock and 364,372 shares of Holiday Inns Series A Stock were outstanding and held of record by 21,909 and 1,347 holders respectively. Each such share of Holiday Inns Common Stock will be entitled to one vote on the approval and adoption of the Plan of Merger and on the other proposals before the Annual Meeting. Each such share of Holiday Inns Series A Stock will be entitled to three-fourths (3/4) of a vote on the approval and adoption of the Plan of Merger and on the other proposals before the Annual Meeting. **Holders of shares of Holiday Inns Common Stock and Holiday Inns Series A Stock will not be entitled to any dissenters' rights in connection with the Reorganization or any of the other proposals set forth in the Notice of Annual Meeting.**

The affirmative vote of the holders of a majority of the voting power of the outstanding shares of Holiday Inns Common Stock and Holiday Inns Series A Stock, voting together as a single class, is required to approve and adopt the Plan of Merger.

The affirmative vote of the holders of a majority of the voting power of the outstanding shares of Holiday Inns Common Stock and Holiday Inns Series A Stock, voting together as a single class, is required to approve the amendment to the Company's Restated Charter to change the name of the Company to "Holiday Corporation" if the Reorganization is not approved and adopted. If the Reorganization is approved and adopted by the shareholders of the Company, the Company will maintain its present name and will become a wholly-owned subsidiary of a Delaware corporation which has the name "Holiday Corporation," and no other shareholder vote will be required. See "The Change of Name Proposal."

A plurality of the votes of shares of Holiday Inns Common Stock and shares of Holiday Inns Series A Stock is required to elect the nominees for Directors. The nominees elected as Directors of the Company will serve until the next Annual Meeting of Shareholders or until their successors are duly elected and qualified; provided, however, that, if the Reorganization is consummated, the nominees for Directors of the Company who are elected at the Annual Meeting will become the Directors of Holiday Corporation and Messrs. Goeglein, Schorr and Solomonson will become the Directors of the Company. The Board of Directors of Holiday Corporation will be divided into three classes having staggered terms (with four directors in two of the classes and five directors in the other class). See "Election of Directors of the Company" and "Certain Significant Differences Between Corporate Charters and Bylaws."

The affirmative vote of the holders of a majority of the voting power of the outstanding shares of Holiday Inns Common Stock and the outstanding shares of Holiday Inns Series A Stock, voting together as a single class, is required to approve each of the 1985 Long Term Performance Plan, the 1985 Restricted Stock Plan and the amended Savings and Retirement Plan. See "Approval of 1985 Long Term Performance Plan," "Approval of 1985 Restricted Stock Plan" and "Approval of Amended Savings and Retirement Plan."

Although the Board of Directors is not required by Tennessee law to obtain approval of its selection of the Company's accountants, it has followed the policy of obtaining such an advisory vote in past years. In order to ratify the appointment of Arthur Andersen & Co. as the Company's independent public accountants, the affirmative vote of the holders of a majority of the voting power of the outstanding shares of Holiday Inns Common Stock and shares of Holiday Inns Series A Stock, voting together as a single class, is sought. Upon consummation of the Reorganization, Arthur Andersen & Co. will become the independent public accountants for Holiday Corporation and its consolidated subsidiaries, including the Company. See "Ratification of Independent Public Accountants."

### **Proxies**

Shares of Holiday Inns Common Stock and Holiday Inns Series A Stock represented by properly executed proxies received by the Company at or prior to the Annual Meeting will, unless such proxies have been previously revoked, be voted in accordance with the instructions indicated on such proxies. If no instructions are indicated, such shares of Holiday Inns Common Stock and Holiday Inns Series A Stock will be voted in favor of the election of the Board of Directors' nominees for directors; the approval and adoption of the Plan of Merger, the 1985 Long Term Performance Plan, the 1985 Restricted Stock Plan and the amended Savings and Retirement Plan; the ratification of the appointment of Arthur Andersen & Co.; and in the discretion of the proxy holders as to any other matters which may properly come before the Annual Meeting. The Board of Directors of the Company does not know of any matters, other than those set forth in the Notice of Meeting, which are to come before the Annual Meeting.

A holder of shares of Holiday Inns Common Stock or Holiday Inns Series A Stock who has given a proxy may revoke it at any time before it is voted by filing with the Secretary of the Company, at the address of the Company set forth on the first page hereof, written notice of revocation or a duly executed proxy bearing a later date or by attending the Annual Meeting and voting in person (although attendance at the Annual Meeting will not in and of itself constitute revocation of a proxy).

For shareholders participating in the Employee Stock Ownership Plan of the Company, the Trustee, First Tennessee Bank N.A., Memphis, Tennessee, will vote any shares that it holds for a participant's account in accordance with the confidential voting instructions returned by the participant to the Trustee. If no such instructions are returned, the participant's shares held by the Trustee will not be voted.

The Company will bear the costs of solicitation of proxies from its shareholders. In addition to the use of the mails, proxies may be solicited by the directors, officers and employees of the Company by telephone, by telegram or by personal contact. Such persons will receive no additional compensation for such services, but may be reimbursed for out-of-pocket expenses in connection with such services. Arrangements will also be made with brokerage firms and other custodians, nominees and fiduciaries for the forwarding of solicitation materials to the beneficial owners of shares of Holiday Inns Common Stock and Holiday Inns Series A Stock held of record by such persons, and the Company will reimburse such brokers, custodians, nominees and fiduciaries for reasonable out-of-pocket expenses incurred by them in connection therewith. In addition, the Company has retained D. F. King & Co., 60 Broad Street, New York, New York 10249, and Hill & Knowlton, Inc., 420 Lexington Avenue, New York, New York 10012, professional proxy solicitation firms, to aid in the solicitation of proxies at fees estimated to be approximately \$15,000 and \$20,000, respectively, plus, in each case, reimbursement of out-of-pocket costs and expenses.

### **ELECTION OF DIRECTORS OF THE COMPANY**

The Company's Bylaws provide for a Board of not less than 3 nor more than 17 members and authorize the Board to determine the number within that range from time to time by the affirmative vote of a majority of the members then in office. The Board currently consists of 14 members. One of the current directors is not standing for re-election at the Annual Meeting. Pursuant to the Bylaws of the Company, the Board has reduced the size of the Board to 13 members, effective on the date of the Annual Meeting. The Board of Directors recommends that the 13 incumbent Directors named below be elected. All the nominees, except Mr. Sells, were previously elected to the Board by the Company's shareholders at the 1984 Annual Meeting. Mr. Sells was elected to the Board at a regular meeting of the Board of Directors held in February, 1985.

The nominees who are elected as Directors of the Company will serve until the next Annual Meeting of Shareholders or until their successors are duly elected and qualified; provided, however, that, if the Reorganization is consummated, the nominees for Directors of the Company who are elected at the Annual Meeting will become the Directors of Holiday Corporation and Messrs. Goeglein, Schorr and Solomonson will become the Directors of the Company. The Board of Directors of Holiday Corporation will be divided into three classes having staggered terms (with four directors in two of the classes and five directors in the other class). Accordingly, upon consummation of the Reorganization, Messrs. Clarke, Dixon and Sells and Ms. Young will become members of Class I of the Holiday Corporation Board and will hold office until Holiday Corporation's 1986 Annual Meeting of Stockholders; Messrs. Farley, Salmon, Schorr and Solomonson will become members of Class II of the Holiday Corporation Board and will hold office until Holiday Corporation's 1987 Annual Meeting



of Stockholders; and Messrs. Evans, Goeglein, McClure, Rose and Terry will become members of Class III of the Holiday Corporation Board and will hold office until Holiday Corporation's 1988 Annual Meeting of Stockholders. See "Reorganization Proposal" and "Certain Significant Differences Between Corporate Charters and Bylaws." If the Reorganization Proposal is not approved, the nominees, if elected, will serve until the Company's 1986 Annual Meeting of Shareholders or until their successors are duly elected and qualified.

In the event any nominee is unable or declines to serve as director at the time of the Annual Meeting, the proxy will be voted for any substitute nominee selected by the current Board of Directors. Management has no reason to believe, at this time, that the persons named will be unable or will decline to serve if elected, and each nominee has informed the Company that, if elected, such person will serve.

Certain information is given below with respect to each nominee for election as a director. Except as otherwise indicated, each nominee has had the same principal occupation or employment during the past five years.

<u>Name and Principal Occupation</u>	<u>Age</u>	<u>Director Since</u>	<u>Common Stock Owned Beneficially as of December 31, 1984(1)(2)</u>	
			<u>Number of Shares</u>	<u>Percent of Class</u>
WILLIAM N. CLARKE ..... Financial Consultant and Of Counsel to the law firm of Cadwalader, Wickersham & Taft, New York, New York. Until June 30, 1984, he was a partner in the firm.	67	1961	2,000	.01
MEAD DIXON ..... Chairman of the Board of Harrah's, the Company's casino gaming subsidiary.	65	1980	16,965(3)	0.06
NICHOLAS M. EVANS ..... President, Consumer Products Group, The Bristol-Myers Co. since 1984. Prior to that time, he was President of the Drackett Co., a subsidiary of The Bristol-Myers Co. He is also senior vice president of The Bristol-Myers Co.	54	1976	100	—
JAMES B. FARLEY ..... Chairman of the Board, Booz, Allen & Hamilton, Inc., Management Consultants, New York, New York. He is also a director of Ashland Oil, Inc.	54	1982	200	—
RICHARD J. GOEGLIN ..... President and Chief Operating Officer of the Company. He was Executive Vice President of the Company from 1978 to 1984 and President and Chief Executive Officer of Harrah's from 1980 to 1984.	50	1978	21,726	0.08

Common Stock  
Owned Beneficially  
as of December 31, 1984(1)(2)

<u>Name and Principal Occupation</u>	<u>Age</u>	<u>Director Since</u>	<u>Number of Shares</u>	<u>Percent of Class</u>
ARCHIBALD MCCLURE Vice President, Illinois Institute of Technology, Chicago, Illinois. He is also a director of First Illinois Corporation and the First Illinois Bank of Wilmette.	62	1976	100	—
MICHAEL D. ROSE Chairman of the Board and Chief Executive Officer of the Company. He is also a director of First Tennessee National Corporation and Po Folks, Inc.	43	1978	54,647	0.19
WALTER J. SALMON The Stanley Roth, Sr., Professor of Retailing, the Graduate School of Business Administration, Harvard University. He is also a director of Carter Hawley Hale Stores, Inc., Hannaford Brothers Company, Luby's Cafeterias, Inc., Stride Rite Corporation, The Quaker Oats Company and Zayre Corporation.	54	1981	300	—
JAMES L. SCHORR Executive Vice President of the Company since 1980. He was President of the Company's Hotel Group from 1980 to 1984.	42	1980	13,962	0.05
BOAKE A. SELLS President and Director since August, 1984, and Vice Chairman from June, 1983, to August, 1984, of Dayton Hudson Corporation. Prior to that time he was President, Cole National Corporation.	47	1985	1,000(4)	—
CHARLES D. SOLOMONSON Executive Vice President, Chief Financial and Administrative Officer of the Company. He is also a director of Commerce Union Bank of Memphis.	54	1980	13,063	0.05
RONALD TERRY Chairman of the Board and Chief Executive Officer, since 1973, of First Tennessee National Corporation, Memphis, Tennessee, a multi-bank holding company.	54	1979	200(5)	—
SHIRLEY YOUNG President of Grey Strategic Marketing, Inc., a subsidiary of Grey Advertising, Inc. Prior to 1983, she held several positions with Grey Advertising, Inc., including Executive Vice President of Marketing, Planning and Strategy and head of the Marketing Research Department. She is also a director of Dayton Hudson Company.	48	1983	300	—

Note: Each director has sole voting and investment power in the shares stated except as noted below.

- (1) Includes shares which may be acquired by the exercise of stock options. As of December 31, 1984, directors holding currently exercisable stock options and the number of shares subject to such options were as follows: Mr. Rose 1,899, Mr. Schorr 1,725, and Mr. Solomonson 1,264.
- (2) For purposes of calculating the percent of class owned by directors, the number of shares outstanding at December 31, 1984 has been adjusted to reflect the self tender offer under which the Company repurchased approximately 6.3 million shares of its Common Stock on February 5, 1985 (the "Company Self Tender").
- (3) Excludes shares held by the Estate of William F. Harrah and by the William F. Harrah Trust for Issue. See "Principal Shareholders" on pages 25 and 26.
- (4) These shares were acquired by Mr. Seils on February 13, 1985.
- (5) Excludes shares held by banking subsidiaries of First Tennessee National Corporation in various fiduciary capacities.

At December 31, 1984, directors and officers of the Company as a group had beneficial ownership of 164,204 shares (0.58%) of Common Stock (including 16,916 shares subject to stock options, but excluding the 3,424,093 (11.97%) shares then owned by the Harrah Estate and the Harrah Trust for Issue which are controlled by Mr. Dixon); ownership percentages have been calculated in the same manner as noted in footnote (2) above. The number of shares of Common Stock beneficially owned by directors and officers and their percentage ownership will not change as a result of the Reorganization; accordingly, directors and officers will own the same number of shares of Holiday Corporation Common Stock as they owned of Holiday Inns Common Stock.

## COMPENSATION, MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

### Compensation of Directors

Directors who are not employees of the Company or its subsidiaries are paid a monthly fee of \$1,333 plus \$1,000 for each board meeting and \$500 for each committee meeting attended. Committee chairmen are paid an additional \$500 for each committee meeting attended. The Board of Directors met five times in 1984. Under the provisions of the Company's compensation deferral program, directors may defer the receipt of all or a portion of their directors' fees. Presently, Mr. Farley, Mr. Terry and Ms. Young are deferring fees. Amounts, while deferred, earn interest at a rate based on a calculated average prime interest rate. Amounts deferred may be paid in a lump sum or in up to 10 equal installments as selected by the Director when making the deferral election.

### Audit Committee

The Audit Committee (1) recommends annually to the Board of Directors the independent public accountants for the Company and its subsidiaries; (2) meets with the independent public accountants concerning its audit, its evaluation of the Company's financial statements, accounting developments that may affect the Company, and nonaudit services; (3) meets with management and the internal auditors concerning similar matters and (4) makes recommendations to all of the aforesaid groups that it deems appropriate. Messrs. Farley, McClure, Salmon and Terry are members of the Audit Committee, which met three times in 1984.

## Committee on Directors

The Committee on Directors is the nominating committee of the Board of Directors. It considers and makes recommendations to the Board of Directors concerning the size and composition of the Board, the number of non-management directors, the qualifications of members and potential nominees for membership, the compensation of directors, membership of committees of the Board and certain administrative matters. Messrs. Clarke and Farley and Ms. Young are members of this committee, which met three times in 1984. The Committee on Directors considers nominees recommended by shareholders. Detailed resumes of business experience and personal data of potential nominees may be submitted to the corporate secretary at the address shown on the front page of this Proxy Statement/Prospectus.

## Executive Committee

The Company's Bylaws provide that during the intervals between meetings of the Board of Directors, the Executive Committee, unless restricted by resolution of the Board, possesses and may exercise, under the control and direction of the Board, all of the powers of the Board of Directors in the management and control of the business of the Company. Action taken by the Executive Committee is reported to the Board of Directors at its first meeting thereafter and is subject to revision or rescission by the Board; however, rights of third parties may not be affected by any such action of the Board. Four meetings of the Executive Committee were held during 1984. Members of the Executive Committee are Messrs. Goeglein, Rose, Schorr, Solomonson and Terry.

## Executive Compensation Committee

The Executive Compensation Committee determines the annual salary of top-level corporate officers and administers the Company's bonus, stock option and other incentive plans. Messrs. Clarke and Evans are members of this committee, which met four times in 1984.

## EXECUTIVE COMPENSATION

The table below sets forth the cash compensation during 1984 of (1) each of the five most highly compensated executive officers of the Company and (2) all executive officers of the Company as a group. Compensation of former executive officers, while they served as such, is reported in the group totals.

<u>Name of Individual or Number of Persons in Group</u>	<u>Capacities in Which Served</u>	<u>Cash Compensation (1)(2)(3)(4)</u>
Michael D. Rose .....	Chairman of the Board and Chief Executive Officer	341,767
Richard J. Goeglein .....	President and Chief Operating Officer	250,158
James L. Schorr .....	Executive Vice President	238,503
Charles D. Solomonson .....	Executive Vice President, Chief Financial and Administrative Officer	209,281
Mead Dixon .....	Chairman of the Board, Harrah's	226,464
All executive officers as a Group (14) including those named above .....		2,565,102

- (1) Includes salary and bonus under annual bonus plan, including any salary or bonus deferred under the Company's compensation deferral program described in footnote 3 below.
- (2) Includes executive auto allowances, relocation expense payments and payments made to reimburse executive officers for expenses incurred in obtaining tax related financial counseling services under the Company's executive financial counseling program.
- (3) Includes compensation deferred under the Company's compensation deferral program under which an executive may defer up to 12% of his salary and 100% of any bonus payment. Such amounts, while deferred, earn interest at a rate based on a calculated average prime interest rate.
- (4) Compensation other than that disclosed in this table or in "Compensation Pursuant to Plans" does not exceed the lesser of \$25,000 or 10% of annual cash compensation for any executive officer, nor does such other compensation exceed the lesser of an amount equal to \$25,000 times the number of executive officers as a group or 10% of the total cash compensation of all executive officers as a group.

### COMPENSATION PURSUANT TO PLANS

All the following plans will be assumed by Holiday Corporation (except for the Pension Plan as to which Holiday Corporation will become a participating employer) if the Reorganization is approved and amendments to the Savings and Retirement Plan are approved. The following describes these plans prior to amendment. See pages 49 through 57 for information concerning the proposed benefit plans of Holiday Corporation.

#### **Savings and Retirement Plan**

As a supplement to the pension plan, the Company maintains a savings plan for salaried employees of the Company and certain subsidiaries. On January 1, 1985 the name of this plan was changed from "Supplemental Retirement and Savings Plan" to "Savings and Retirement Plan". Participants may make basic contributions of up to 6% of their salaries plus a supplemental contribution of up to an additional 10% of their salaries. The Company contributes an amount equal to at least 25% of the basic contributions. For 1984, the matching contribution was 25%. The funds are invested and paid, with any gains or losses, to participants generally upon retirement or termination of employment. Termination of employment prior to retirement or eight years of credited service results in reduced payment of accumulated Company contributions with gains or losses thereon. Company contributions and related earnings accruing to executive officers in 1984 were as follows: Mr. Rose \$9,565, Mr. Goeglein \$7,127, Mr. Schorr \$6,955, Mr. Solomonson \$5,475, and for the 14 executive officers as a group \$41,424. Mr. Dixon does not participate in this plan. Company contributions and related earnings thereon for all participating employees as a group in 1984 amounted to \$2,022,082.

The total Company contributions and related earnings for the five year period 1980-1984 accruing to (i) the executive officers named in the Cash Compensation Table on page 18, (ii) all current executive officers as a group, (iii) all other current officers as a group, and all participating employees as a group were as follows: Mr. Rose \$49,427, Mr. Goeglein \$28,133, Mr. Schorr \$26,851, Mr. Solomonson \$23,896; all current executive officers as a group (13) \$188,249; all other current officers as a group (13) \$100,350; and all participating employees as a group (an average of 6,617) \$9,159,897.

### **Annual Bonus Plan**

Under the annual bonus plan, officers and key employees of the Company and its subsidiaries receive cash bonuses ranging up to 81% of annual salary based on their level of management and the attainment of individual and corporate objectives for the previous fiscal year. Corporate objectives typically relate to pre-tax income targets, and in certain instances other targets such as return on sales and return on equity. The maximum bonus paid to an executive officer of the Company for 1984 amounted to 48% of that officer's base salary. In 1984, the Company paid \$4,398,487 in annual bonus awards to 574 key employees of the Company and its subsidiaries.

The total bonus awards paid under the plan for the five year period 1980-1984 (including the bonuses paid for the year 1984) were as follows: Mr. Rose \$555,700, Mr. Goeglein \$343,000, Mr. Schorr \$309,500, Mr. Solomonson \$312,300; all current executive officers as a group \$2,433,147; all other current officers as a group \$789,564; and all participating employees as a group (an average of 524) \$20,356,852. Mr. Dixon does not participate in this plan.

### **Restricted Stock Incentive Plan**

In 1981, the Company's shareholders approved the 1981 Restricted Stock Incentive Plan under which key executives of high caliber and potential may be awarded shares of Holiday Inns Common Stock by the Executive Compensation Committee, subject to restrictions on transfer and subject to forfeiture during a specified period or periods. A maximum of 200,000 shares may be awarded under the plan. During 1981, Messrs. Rose, Schorr, Goeglein, and Solomonson were awarded 32,500; 15,000; 10,000; and 9,000 shares, respectively, of Holiday Inns Common Stock under the plan. Restrictions on their shares lapse in installments over a five-year period ending in January 1986. In 1983 an additional award of 17,500 shares of stock was made to Mr. Rose. The restrictions on those shares lapse over a three-year period ending in January 1986. In 1984, Mr. Goeglein was awarded 10,000 shares of Holiday Inns Common Stock under the plan; in 1984 two other executive officers were awarded a total of 8,000 shares under the plan. Restrictions on these shares lapse in installments over a five-year period ending in January 1989. Additionally in 1984, the Company awarded to Mr. Rose the right to receive 60,000 shares; ownership of these shares will be transferred to Mr. Rose in five equal annual installments commencing January 1, 1987. As restrictions on the awards lapse, participants receive supplemental cash payments in an amount equal to 50% of the fair market value of the shares with respect to which such restrictions lapse.

The value of the January 1, 1985 installments, including the supplemental cash payments to executive officers, were as follows: Mr. Goeglein \$292,571, Mr. Schorr \$243,809, Mr. Solomonson \$146,285, and for the 14 executive officers as a group \$786,690. Mr. Rose did not receive a January 1, 1985 installment. Mr. Dixon does not participate in this plan.

The total value of the installments, including the supplemental cash payments, from January 1, 1982, until January 1, 1985, to executive officers were as follows: Mr. Rose \$1,513,947, Mr. Goeglein \$560,251, Mr. Schorr \$645,329, Mr. Solomonson \$387,197, and for the 14 executive officers as a group \$3,210,749. No other employees are participants in this plan.

Under the former Restricted Stock Award Plan of Harrah's, Mr. Dixon received restricted shares of Holiday Inns Common Stock and cash right awards. In 1984, restrictions on a portion of these shares lapsed and cash payments were made to Mr. Dixon in an aggregate value of \$185,186. The total value of shares and cash payments received from 1980 to 1984 by Mr. Dixon was \$750,655.

## Long Term Performance Plan

Key executive employees who make, influence or have principal responsibility for long-term strategic planning decisions may receive awards under the Company's long-term performance plan. Under the plan, participants are assigned an initial award by the Executive Compensation Committee of the Board of Directors (the "Committee") to be earned-out over a performance period of two or more fiscal years as determined by the Committee. The initial award is based upon the participant's responsibility level and such other considerations as the Committee may deem appropriate. The Committee determines the final award for each participant based on the degree of attainment of performance objectives established for the performance period. At the completion of the period, the initial award is multiplied in turn by two factors to determine the final award. The first factor is an earnings per share ratio consisting of the Company's average earnings per share during the performance period, divided by its average earnings per share during the last two years before the performance period. The second factor is a percentage taken from a matrix of performance objectives. For corporate participants, the matrix will have on one axis a range of objectives for corporate return on equity for the period, and on the other axis, a range of objectives for average earnings per share for the period. Final awards are paid one-half in Holiday Inns Common Stock and one-half in immediate or deferred cash payments. No payment may be made if the minimum performance objectives are not met. No payments to any participant may exceed 200% of the participant's base salary at the end of the performance period, unless the Committee determines that the participant's performance during the period justifies a greater payment. Performance periods generally last five years and initial awards are generally granted every other year. There are currently awards outstanding for two performance periods, 1981-85 and 1983-87. The Committee has converted the five-year performance period of 1983-87 to a four-year performance period of 1983-86 to make it consistent with the proposed 1985 Long Term Performance Plan. See "Approval of 1985 Long Term Performance Plan" below. As 1985 is the last year of the 1981-85 performance period, final awards for that performance period will be paid in 1986.

Awards are paid under this plan as performance periods end. Total payments made for performance periods which ended between 1980-1984 are as follows: Mr. Rose \$537,745, Mr. Goeglein \$336,913, Mr. Schorr \$267,522, Mr. Solomonson \$203,233; all current executive officers as a group \$1,523,793; all other current officers as a group \$111,572; and all participating employees as a group (14) \$2,865,407. Mr. Dixon is not a participant in this plan.

## Executive Life and Health Insurance

The Company has established a group term insurance plan for certain key employees to induce experienced personnel to remain with the Company. The Company pays the annual premiums. The plan provides \$100,000 level term life insurance to each plan participant. In addition, the Company provides its executives with health and dental care plans which provide identical coverage as that provided for all of its salaried employees under a contributory health care plan. The Company pays the annual premiums on the executive health care policies. Payments for both life insurance and the additional cost to the Company for health care insurance premiums related to the executive plan amounted to \$1,152 each for Messrs. Rose, Goeglein, Schorr and Solomonson, \$2,106 for Mr. Dixon and \$13,788 for the 14 executive officers as a group in 1984.

## Employee Stock Ownership Plan

The Company has an Employee Stock Ownership Plan ("ESOP") which qualifies as a tax credit employee stock ownership plan as defined under the Internal Revenue Code. The ESOP applies to all employees who completed 1,000 hours of service in the 12-month eligibility period. In 1984, the company contributed \$1,761,012 to the ESOP for the 1983 plan year. The amounts contributed are used to purchase shares which are held by a trustee on the employees' behalf until termination of employment. Each eligible employee including the Company's executive officers received the equivalent of approximately 1.75 shares of Holiday Inns Common Stock from the 1983 contribution. The total amount contributed by the Company in 1983 and 1984 for the 1982 and 1983 plan years was \$2,465,982.

## Stock Option Plan

Under the Company's 1977 Incentive Stock Option Plan, the option price is 100% of the fair market value of the stock on the date of grant. Options under the plan have a maximum ten-year term after they are granted. The Executive Compensation Committee of the Board of Directors may award stock appreciation rights which give the option holder the right to surrender all or any portion of his or her option in exchange for cash or Holiday Inns Common Stock (as determined by the Committee) equal in value to the difference between the market price and the option price of the shares covered by the surrender. The Company has a short-term loan program whereby employees who are not corporate officers may borrow the exercise price of their stock option from the Company to enable these employees to exercise their options. The loan is repaid by the immediate sale of the shares acquired by exercising the options. The Company pays the interest on these loans and the brokerage commission incurred in selling the shares. No incentive stock option granted under the plan or related stock appreciation right is exercisable until all previously granted incentive stock options and related stock appreciation rights have either been exercised in full or expired. The following table shows as to the executive officers listed in the compensation table on page 18 and as to all executive officers as a group (i) the number of shares subject to options granted during 1984, (ii) the average per share exercise price of options granted, (iii) the number of shares subject to options exercised (all with stock appreciation rights) during 1984, and (iv) the net value realized (market value less any exercise price) in shares or cash on options exercised.

	Options Granted December 31, 1983 through December 28, 1984		Options Exercised December 31, 1983 through December 28, 1984	
	Number of Shares	Average Per Share Exercise Price	Number of Shares(1)	Net Value Realized
Michael D. Rose .....	1,869	\$40.56	3,611	\$ 79,782
Richard J. Goeglein .....	1,541	40.56	—	—
James L. Schorr .....	1,541	40.56	—	—
Charles D. Solomonson .....	1,519	40.56	—	—
Mead Dixon .....	—	—	—	—
All executive officers as a group (14) including those named above .....	35,365	40.26	7,971	202,832

(1) Includes shares not issued if stock appreciation rights related to the underlying options were exercised.



The following table sets forth certain information with respect to options granted and options exercised from December 29, 1979, through February 15, 1985.

	Options Granted December 29, 1979 through February 15, 1985		Options Exercised December 29, 1979 through February 15, 1985	
	Number of Shares	Average Per Share Exercise Price	Number of Shares(1)	Net Value Realized
Michael D. Rose .....	6,056	\$27.91	12,742	\$ 179,131
Richard J. Goeglein .....	4,776	27.96	4,855	62,251
James L. Schorr .....	4,339	29.91	2,792	45,911
Charles D. Solomonson .....	4,148	29.15	5,413	48,424
Mead Dixon .....	--	--	--	--
All current executive officers as a group (14) including those named above .....	62,175	34.26	43,255	732,180
All other current officers (13) .....	31,945	25.69	26,127	577,284
All employees .....	693,274	30.47	507,218	8,311,491

(1) Includes shares not issued if stock appreciation rights related to the underlying options were exercised.

As of December 28, 1984, there were 464 employees eligible to participate in the stock option plan, including 13 executive officers. As of December 28, 1984, \$28.97 was the average per share option price of the shares subject to outstanding options, the expiration dates of which ranged from March 18, 1987, to December 13, 1994.

### Pension Plan

The Company maintains a pension plan for certain officers and employees. Since the Company's annual contribution to the plan with respect to an individual person is not and cannot readily be separately or individually calculated by the plan's actuaries, the amounts included in the compensation table do not include any compensation attributable to the Company's plan. Pension payments are based on the average of the five consecutive highest of the last ten years of annual salaries (excluding bonuses and other compensation), years of service and social security payments to be received. The following table sets forth the estimated annual benefits payable upon retirement at age 65 under the Company's pension plan for certain average annual salaries and years of service:

Average Annual Salary	Estimated Annual Retirement Benefits		
	10 Years of Service	20 Years of Service	30 Years of Service
\$125,000	\$20,000	\$ 40,000	\$ 53,125
150,000	24,000	48,000	63,750
175,000	28,000	56,000	74,375
200,000	32,000	64,000	85,000
225,000	36,000	72,000	95,625
250,000	40,000	80,000	106,250
275,000	44,000	88,000	116,875
300,000	48,000	96,000	127,500
325,000	52,000	104,000	138,125
350,000	56,000	112,000	148,750
375,000	60,000	120,000	159,375

Retirement benefits are integrated with Social Security benefits under an "offset" formula applicable to all participants. Amounts shown above would be reduced by 2% of the participant's estimated primary Social Security benefit for each year of credited service after 1977 (1½% for each credited year of service before 1978) up to a maximum reduction equal to 50% of the Social Security benefit. The amounts shown in the table are the maximum amounts of straight life annuity payments that may be made under the plan. The retirement plan provides participants with several options, such as joint and survivor annuities, for retirement benefit payments which would reduce the payment amounts shown in the table. The plan benefits shown above may be limited by other requirements of law. Under the Federal tax laws as presently in effect, benefits payable from the plan may not exceed \$90,000 per year.

The credited years of service under the pension plan for each of the individuals named in the compensation table and their salaries included in the compensation table and covered by the plan are as follows: Michael D. Rose, 11 years (\$341,767); Richard J. Goeglein, 6 years (\$250,158); James L. Schorr, 10 years (\$238,503), and Charles D. Solomonson, 6 years (\$209,281). Mr. Dixon is not covered by the Company's pension plan, but is covered by an unfunded executive retirement plan established by Harrah's; under that plan, Mr. Dixon will receive a maximum of \$60,000 per year for 15 years commencing upon his retirement.

### **Supplemental Retirement Plan**

In 1984, the Executive Compensation Committee approved a Supplemental Retirement Plan that is intended to provide participating employees in the Company's pension plan an increase in retirement benefits to compensate for any loss of benefits resulting from restrictions imposed by Section 415 of the Internal Revenue Code. These restrictions limit the maximum annual retirement benefit under a qualified plan to the lesser of \$90,000 or 100% of the employee's highest average annual compensation for three consecutive years. The Supplemental Retirement Plan provides that the Company will pay an eligible employee in retirement benefits an amount that would have been payable under the pension plan without regard to the limitations of Section 415 less the benefit actually payable by the pension plan giving effect to these limitations. At present, no employee is receiving benefits under the Supplemental Retirement Plan. By providing a means to have these supplemental benefits, the plan is designed to enable the Company to attract and retain qualified high level executives.

The Company has agreed to provide Mr. Solomonson with a supplemental executive retirement plan designed to give him a specific level of annual retirement pay upon his retirement at or after age 55. This level of annual retirement pay begins at \$37,000 annually should he retire at age 55 and gradually increases to \$190,000 annually should he retire at age 65 or older. Any benefits that Mr. Solomonson would receive under the Company's pension plan would be credited toward the amounts payable under his supplemental executive retirement plan.

### **CERTAIN RELATIONSHIPS**

On January 1, 1982, the Company entered into a new employment agreement with Michael D. Rose. The Company agreed to continue the employment of Mr. Rose as President and Chief Executive Officer for five years at a minimum base salary of \$295,000 per year plus employee benefits. If the management or control of the Company substantially changes or if the Board determines such a change is imminent, he may resign and receive a payment equal to 80% of what he would have received during the balance of the five-year term at his then current compensation.

On September 1, 1984, the Company entered into an employment agreement with Richard J. Goeglein. The Company agreed to continue the employment of Mr. Goeglein, currently serving as

President and Chief Operating Officer, for five years at a minimum base salary of \$265,000 per year plus employee benefits. If the Company breaches the terms of this agreement by diminishing Mr. Goeglein's duties or benefits or otherwise, he may resign and receive a payment equal to 80% of what he would have received during the balance of the five-year term at his then current compensation.

On December 21, 1984, the Company entered into severance agreements with Charles D. Solomonson, Executive Vice President and Chief Financial and Administrative Officer, and Craig H. Norville, Vice President and General Counsel, under which Messrs. Solomonson and Norville would be entitled to severance compensation in the event that either of them has their employment terminated under certain circumstances following a change in control of the Company. The amount of compensation would be equal to 299% of the average of the annual compensation payable to each of them by the Company for the five calendar years preceding the calendar year in which the change of control occurred. The maximum amount of compensation which would be payable to Messrs. Solomonson and Norville, if their employment were terminated at this time, would be \$1,013,600 and \$310,880, respectively.

### CERTAIN TRANSACTIONS

In connection with the Harrah's acquisition, Mr. Goeglein relocated to Reno, Nevada. On March 13, 1980, a subsidiary of the Company loaned Mr. Goeglein \$165,000 to purchase a condominium in Reno. The loan bore interest at 10½% per annum, payable monthly, and was secured by a first mortgage on the condominium. This loan was repaid in full on October 25, 1984. Upon Mr. Goeglein's return to Memphis to serve as President and Chief Operating Officer, the Company loaned him \$100,000 on August 29, 1984 to purchase a house in Memphis. The loan bears interest at 13% per annum, payable quarterly, and is unsecured. The loan principal is due on August 29, 1989.

Mr. Terry is Chairman and Chief Executive Officer of First Tennessee Bank N.A., Memphis, which has granted to the Company and a nonconsolidated subsidiary lines of credit totaling \$6,500,000 with interest at prime. The average outstanding balance under these lines of credit was \$424,389 during 1984. On December 28, 1984, there was no balance outstanding under these lines of credit. In addition, the Company maintains deposit accounts with First Tennessee Bank. The average deposit balance during 1984 was \$3,585,091, and the deposit balance on December 28, 1984, was \$5,647,965. In addition to the foregoing, First Tennessee Bank is the co-trustee of the Company's Savings and Retirement Plan, the sole trustee of the Company's Employee Stock Ownership Plan, and the Company's stock transfer agent and registrar. Fees paid to the bank for services in such capacities during 1984 amounted to \$143,306. The Company had miscellaneous other transactions with First Tennessee Bank in 1984, but the aggregate amount of all such transactions was not significant.

Until June 30, 1984 Mr. Clarke was a partner in the law firm of Cadwalader, Wickersham & Taft, which was paid \$160,006 in 1984 for legal services rendered to the Company.

Mr. Dixon is sole executor of the estate of William F. Harrah. The estate owns a corporation which purchased property from Harrah's in 1975, and as part of the consideration issued a note of \$1,004,240 dated December 30, 1975, payable in 10 annual installments of \$100,424 plus 8% interest and secured by a mortgage on the property. At December 28, 1984, the balance on the note was \$199,848.

### PRINCIPAL SHAREHOLDERS

The table below sets forth as of February 15, 1985, certain information regarding the beneficial owners of more than 5% of any class of the Company's voting securities. Of the shares beneficially owned, each owner has sole voting and investment power unless otherwise indicated.

<u>Title of Class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Number of Shares Beneficially Owned(1)</u>	<u>Percent of Class(1)</u>
Common Stock	Mead Dixon		
	• Individually	16,965	0.06
	• As Executor of Estate of William F. Harrah P.O. Box 281 Reno, NV 89504	1,525,540(2)	5.33
	• As Trustee of William F. Harrah Trust for Issue P.O. Box 281 Reno, NV 89504	1,898,553(3)	6.63
	Total	3,441,058	12.02
Series A Stock	M.E. Moore 1120 Empire Central Place Suite 204 Dallas, TX 75247	86,883	23.84
Series A Stock	R.A. Lile 555 Pleasant Valley Drive Little Rock, AR 72207	21,350(4)	5.86

- (1) The number of shares of Holiday Inns Common Stock and Holiday Inns Series A Stock beneficially owned by these individuals and their percentage ownership will not change as a result of the Reorganization; accordingly, these individuals will own the same number of shares of Holiday Corporation Common Stock and Holiday Corporation Series A Stock, respectively.
- (2) Mr. Dixon shares investment power with a Nevada probate court, but he has sole voting power with restrictions.
- (3) Mr. Dixon is a co-trustee with Lloyd T. Dyer and Joseph W. McMullen; the trustees share investment power with a Nevada probate court.
- (4) Includes 850 shares in trust over which Mr. Lile has shared voting and investment power and 500 shares owned by a charitable foundation of which he is president.

### **REORGANIZATION PROPOSAL**

The following discussion summarizes certain aspects of the proposed Reorganization (the "Reorganization Proposal"). This summary is not intended to be complete and is qualified in its entirety by reference to the Plan of Merger, a copy of which is attached as Exhibit A, the Restated Certificate of Incorporation of Holiday Corporation, a copy of which is attached as Exhibit B, and the Bylaws of Holiday Corporation, a copy of which is attached as Exhibit C. Copies of the Company's Restated Charter and Bylaws are available for inspection at the principal executive offices of the Company and copies will be sent to the holders of shares of Holiday Inns Common Stock and Holiday Inns Series A Stock upon request.

#### **General Description**

The Company's Board of Directors has unanimously approved the Reorganization Proposal and, for the reasons described below, unanimously recommends that the Company's shareholders approve and adopt the Reorganization Proposal.

The Reorganization involves the formation of a new holding company structure in which Holiday Corporation will be the parent holding company and sole shareholder of Holiday Inns, Inc. Upon the consummation of the Reorganization in accordance with the terms, and subject to the satisfaction of

the conditions, of the Plan of Merger, (i) the shareholders of the Company will become the stockholders of Holiday Corporation, (ii) the Company will become a wholly-owned subsidiary of Holiday Corporation and (iii) the internal affairs of Holiday Corporation will be governed by the laws of the State of Delaware and Holiday Corporation's Restated Certificate of Incorporation and Bylaws which differ in certain material respects from the laws of the State of Tennessee and the Company's Restated Charter and Bylaws which currently govern the internal affairs of the Company. The Reorganization will also result in certain significant changes which may have an anti-takeover impact and make tender offers, proxy contests and certain mergers more difficult, including the following: (i) the classification of the Board of Directors of Holiday Corporation into three classes having staggered terms and from which directors may be removed only by the stockholders for cause, (ii) the requirement of a vote of 75% of Holiday Corporation's voting stock and a majority of the unaffiliated stockholders in order to approve certain mergers, business combinations and other similar transactions with a holder of 10% or more of the voting power of Holiday Corporation or certain parties related to such 10% holder unless such a transaction is approved by members of the Board who are unaffiliated with the persons seeking to effect the transaction or certain minimum price and procedural requirements are met, (iii) the authorization of the Board of Directors of Holiday Corporation to redeem shares of capital stock of Holiday Corporation to the extent necessary to prevent the loss of, or to reinstate, certain governmental licenses or franchises for the conduct of Holiday Corporation's business, (iv) the prohibition of the taking of stockholder action by written consent without a meeting and the elimination of the right of stockholders to call special meetings, (v) the requirement of a vote of 75% of the voting power of Holiday Corporation to amend the Bylaws of Holiday Corporation and (vi) the requirement of a vote of 75% of Holiday Corporation's voting stock and a majority of the unaffiliated stockholders in order to amend the provision set forth in (ii) above. See "Certain Differences Between Corporate Charters and Bylaws" and "Certain Significant Differences Between Tennessee and Delaware Corporation Law."

### **The Merger**

In accordance with the Plan of Merger, the proposed Reorganization will be effected by means of the merger (the "Merger") of Merger Co., Inc., a Tennessee corporation ("Merger Co.") and wholly-owned subsidiary of Holiday Corporation, with and into the Company, which will be the surviving corporation in the Merger. At the Effective Time (as hereinafter defined) of the Merger, (i) each share of Holiday Inns Common Stock (including shares held in the treasury of the Company) and each share of Holiday Inns Series A Stock outstanding immediately prior to the Effective Time, will be converted into one share of Holiday Corporation Common Stock and one share of Holiday Corporation Series A Stock, respectively, (ii) each share of capital stock of Holiday Corporation outstanding immediately prior to the Effective Time (all of which is presently owned by the Company) will be cancelled, and (iii) each share of capital stock of Merger Co. outstanding immediately prior to the Effective Time (all of which is presently owned by Holiday Corporation) will be converted into shares of capital stock of Holiday Inns, the surviving corporation in the Merger. Accordingly, the shareholders of the Company will become the stockholders of Holiday Corporation which will, in turn, own all of the capital stock of Holiday Inns.

### **Holiday Corporation Capital Stock**

The Holiday Corporation Common Stock and Holiday Corporation Series A Stock to be issued in the Merger will generally be entitled to the same rights, powers, qualifications, limitations and restrictions as the presently outstanding Holiday Inns Common Stock and Holiday Inns Series A Stock; provided, however, that the rights of stockholders of Holiday Corporation will be governed by the laws of the State of Delaware and Holiday Corporation's Restated Certificate of Incorporation and Bylaws, which differ in certain material respects from the laws of the State of Tennessee and the

Company's Restated Charter and Bylaws which currently govern the rights of shareholders of the Company. See "Certain Differences Between Corporate Charters and Bylaws" and "Certain Significant Differences Between Tennessee and Delaware Corporation Law."

Both the Company's Restated Charter and Holiday Corporation's Restated Certificate of Incorporation authorize 125,150,000 shares of capital stock of which 120,000,000 shares are Common Capital Stock, par value \$1.50 per share (the "Common Stock"), 150,000 shares are Cumulative Preferred Stock, par value \$100.00 per share (the "Preferred Stock"), and 5,000,000 shares are Special Stock (the "Special Stock"). Shares of Preferred Stock and Special Stock may be issued from time to time in one or more series. Currently one such series has been issued by the Company, and Holiday Corporation's Restated Certificate of Incorporation provides that such series will remain outstanding as Special Stock of Holiday Corporation after the Reorganization. This series, which consists of 1,600,000 shares, is designated as "Stock Dividend Convertible Special Stock, Series A (stock Dividend at Rate of \$1.70 Market Value of Common stock) par value \$1.12½ per share (the "Series A Stock").

Dividends will be payable on Holiday Corporation Common Stock when and as declared by the Board of Directors of Holiday Corporation out of funds legally available for such purpose. The holders of shares of Holiday Corporation Common Stock are entitled in the event of any liquidation, dissolution or winding up of the affairs of Holiday Corporation to share pro rata in all lawful distributions of the remaining assets of Holiday Corporation, subject to the rights of the Series A Stock to share pro rata in such distributions as if converted to Holiday Corporation Common Stock. In addition, the Series A Stock is entitled to certain preferential rights in the case of voluntary liquidations and dissolutions (currently \$105 per share plus accrued and unpaid dividends).

The holders of Holiday Corporation Common Stock will be entitled to one vote per share and, except where Delaware law or the Restated Certificate of Incorporation grants separate class voting rights, vote together with the holders of Series A Stock as a single class. The holders of Series A Stock are entitled to three-fourths of a vote per share. Stockholders will not be entitled to cumulative voting rights in the election of directors. Holders of Holiday Corporation Common Stock do not have any conversion or preemptive rights and no redemption or sinking fund provisions apply to the Holiday Corporation Common Stock.

The amount of Holiday Corporation Series A Stock may be increased and additional classes of stock having rights prior to those of the Common Stock may be created by a majority vote of the holders of the Holiday Corporation Series A Stock and the Holiday Corporation Common Stock, voting as a single class. The Board of Directors of Holiday Corporation may create additional series of Special Stock up to an aggregate of 5,000,000 shares, including outstanding shares of Holiday Corporation Series A Stock, without a vote of its stockholders, and shares of such additional series may have rights prior to those of the Holiday Corporation Common Stock. Holiday Corporation has the right, in certain events, to redeem shares of the Holiday Corporation Series A Stock. The Series A Stock is convertible into Holiday Corporation Common Stock at the rate of one and one-half shares of Common Stock per share of Series A Stock, subject to readjustment in certain events to prevent dilution of the conversion right and also in the event Holiday Corporation fails to declare any of the semi-annual dividends on the Series A Stock which are payable in Common Stock at the annual rate of \$1.70 market value of Common Stock per share of Series A Stock.

Presently the Company has no Preferred Stock issued or outstanding, and Holiday Corporation has no present plans to issue Preferred Stock.

The Holiday Inns Restated Charter and the Holiday Corporation Restated Certificate of Incorporation authorize the respective Boards of the Company and Holiday Corporation to determine with respect to the Special Stock and, in the case of Holiday Corporation, the Preferred Stock, the terms

and rights of such stock, including the following: (i) the designation of any series of such stock, (ii) the rate, timing of, conditions and preferences with respect to dividends and whether such dividends are cumulative, (iii) the right, if any, to convert or exchange such stock for stock of any other series or class, (iv) the price, timing and conditions regarding the redemption of such stock and whether or not a sinking fund should be established for such stock, (v) the rights and preferences of such stock in the event of voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company or Holiday Corporation and (vi) the voting rights of such stock.

### **Holiday Corporation Stock Certificates**

At the Effective Time, each outstanding share of Holiday Inns Common Stock will automatically be converted into one share of Holiday Corporation Common Stock and each outstanding share of Holiday Inns Series A Stock will automatically be converted into one share of Holiday Corporation Series A Stock. Each outstanding certificate representing shares of Holiday Inns Common Stock will continue to represent the same number of shares of Holiday Corporation Common Stock and each outstanding certificate representing shares of Holiday Inns Series A Stock will continue to represent the same number of shares of Holiday Corporation Series A Stock. **THUS, IT WILL NOT BE NECESSARY FOR SHAREHOLDERS OF HOLIDAY INNS, INC. TO EXCHANGE THEIR EXISTING STOCK CERTIFICATES FOR STOCK CERTIFICATES OF HOLIDAY CORPORATION.** When presently outstanding certificates are presented for transfer after the Reorganization, new certificates for stock of Holiday Corporation will be issued. New certificates will also be issued upon the request of any shareholder, subject to normal requirements as to proper endorsement, signature guarantee, if required, and payment of applicable taxes. The transfer agent, registrar and paying agents for Holiday Inns Common Stock and Series A Stock will become the same for Holiday Corporation Common Stock and Series A Stock.

It is anticipated that at the Effective Time, the Holiday Corporation Common Stock and the Holiday Corporation Series A Stock will be listed on the New York Stock Exchange, Inc. (the "NYSE") and traded without interruption, and delivery of the existing Holiday Inns, Inc. stock certificates will constitute "good delivery" for transactions in the shares of Holiday Corporation Common Stock and Holiday Corporation Series A Stock following the Merger.

### **Operations after the Merger**

If the Reorganization is effected, the Company will become a wholly-owned subsidiary of Holiday Corporation; however, except as set forth below, such holding company structure will not result in any substantial change in the business, management, location of principal offices, assets or liabilities of the Company. Pursuant to the Plan of Merger, Holiday Corporation will assume the Company's obligations under the Company's 8% Convertible Subordinated Guaranteed Debentures due 1985. Thus, each holder of such debentures will have the right to convert such debentures into the same number of shares of Holiday Corporation Common Stock as the number of shares of Holiday Inns Common Stock into which such debentures would have been convertible immediately prior to the Effective Time. Holiday Corporation will also assume all other obligations in connection with such debentures, including, without limitation, all obligations for the payment, when due, of interest and premium, if any, thereon and principal thereof. The consolidated financial condition, assets and liabilities of Holiday Corporation and its subsidiaries immediately after the Effective Time will be substantially identical to that of the Company and its subsidiaries immediately prior to the Effective Time. A copy of the Company's 1984 Annual Report, including financial statements, is being sent to shareholders along with this Proxy Statement/Prospectus, and additional copies of such Annual Report are available for review at the principal executive offices of the Company and will be sent to shareholders upon request.

If the Reorganization is effected, the nominees for Directors of the Company who are elected at the Annual Meeting will become the Directors of Holiday Corporation and Messrs. Goeglein, Schorr and Solomonson will become the Directors of the Company. See "Election of Directors of the Company."

Except as set forth below, the Company's pension plan and all other employee benefit plans will not be substantially changed by the Reorganization, although such plans may be assumed by Holiday Corporation or expanded to include employees of Holiday Corporation. The options and rights to acquire Holiday Inns Common Stock under the Company's 1981 Restricted Stock Incentive Plan, Long Term Performance Plan, Employee Stock Ownership Plan and 1977 Incentive Stock Option Plan (the "Plans") which are outstanding at and immediately prior to the Effective Time of the Reorganization will be converted into options or rights to purchase the same number of shares of Holiday Corporation Common Stock on the same terms and conditions as in effect immediately prior to the Reorganization, and future options and rights granted under such Plans will be for shares of Holiday Corporation Common Stock. Each share of Holiday Inns Common Stock currently held under the Plans will be converted into one share of Holiday Corporation Common Stock, and thereafter all purchases and sales in connection with such Plans will be of Holiday Corporation Common Stock. All shares of Holiday Corporation Common Stock required in the future for purposes of the foregoing Plans will be either acquired in the open market or issued from authorized and unissued or treasury stock of Holiday Corporation, and Holiday Corporation will assume the obligation to provide such shares. Adoption and approval of the Reorganization will constitute approval of such assumption by Holiday Corporation. Holiday Corporation will become a participating employer in the Company's pension plan, but will not assume any obligations under such plan. For information concerning the effect of the Reorganization on the 1985 Long Term Performance Plan, the 1985 Restricted Stock Plan and the amended Savings and Retirement Plan, see "Effect of Reorganization on and Adoption of Certain Benefit Plans," "Approval of 1985 Long Term Performance Plan," "Approval of 1985 Restricted Stock Plan" and "Approval of Amended Savings and Retirement Plan."

#### **Effective Time of the Reorganization**

The Reorganization shall be effective (the "Effective Time") as provided in the Plan of Merger, upon an appropriate filing by the Secretary of State of the State of Tennessee of articles of merger, together with an executed copy of the Plan of Merger. Such filing is expected to be made as soon as practicable following shareholder approval of the Reorganization and the satisfaction or waiver of the conditions to the Plan of Merger. The Effective Time may also be deferred for a reasonable period of time if either the Board of Directors or the Executive Committee of the Board of Directors or any authorized officer of the Company determines such deferral to be in the best interests of the Company and its shareholders.

The Plan of Merger may be terminated and the transactions contemplated therein may be abandoned at any time prior to the Effective Time, either before or after the approval of the Plan of Merger by the shareholders of the Company, if the Board of Directors or the Executive Committee of the Company determines such action to be in the best interests of the Company and its shareholders. In addition, the terms of the Plan of Merger may be amended before or after adoption and approval by the shareholders of the Company; provided, however, that the Plan of Merger may not be amended after shareholder approval if such amendment would (1) alter or change the amount or kind of shares or other consideration to be received by shareholders in the Merger, (2) alter or change any term of the Restated Certificate of Incorporation of Holiday Corporation, (3) alter or change any of the terms and conditions of the Plan of Merger, if such alteration or change would adversely affect the shareholders or (4) otherwise violate applicable law.



## **Conditions to the Reorganization**

The Reorganization is conditioned on (a) approval by the affirmative vote of a majority of the voting power of the outstanding Holiday Inns Common Stock and Series A Stock, voting together as a single class, (b) receipt of an opinion of counsel as of the Effective Time as described below under the heading "Federal Income Tax Consequences," (c) approval for listing, subject to notice of issuance, by the New York Stock Exchange of the Holiday Corporation Common Stock and Series A Stock to be issued or initially reserved for issuance in connection with the Merger and (d) the effectiveness under the Securities Act of 1933 of a registration statement relating to the shares of Holiday Corporation Common Stock and Holiday Corporation Series A Stock to be issued in connection with the Merger.

### **Federal Income Tax Consequences**

Holiday Inns has received an opinion of Messrs. Cadwalader, Wickersham & Taft substantially to the effect that, on the basis of facts and assumptions set forth in such opinion, and based upon the law as of the date of such opinion, for Federal income tax purposes:

(1) No gain or loss will be recognized by Holiday Inns, Holiday Corporation, Merger Co. or shareholders of Holiday Inns who receive Holiday Corporation stock for their Holiday Inns stock by reason of the Reorganization.

(2) The basis of the Holiday Corporation stock received by Holiday Inns shareholders will be the same as the basis of the Holiday Inns stock exchanged therefor.

(3) The holding period of Holiday Corporation stock received by Holiday Inns shareholders who hold Holiday Inns stock as a capital asset as of the Effective Time will include the period during which the Holiday Inns stock was held.

No information is provided herein as to any other Federal income tax consequences, including the application of section 306 of the Internal Revenue Code of 1954, as amended (the "Code"), to the sale or other disposition of the Holiday Corporation Series A Stock, or of any Holiday Corporation Common Stock received in exchange for Holiday Inns Common Stock that was received as a distribution with respect to Holiday Inns Series A Stock. Further, no information is provided herein as to any state, local or foreign tax consequences of the Reorganization.

It is contemplated that Holiday Corporation will report any future distributions of Holiday Corporation Common Stock as dividends on the Holiday Corporation Series A Stock as taxable distributions under section 305(b) of the Code. It is also contemplated that Holiday Corporation would report similarly any deemed distribution of Holiday Corporation Common Stock resulting from any increase in the number of shares of Holiday Corporation Common Stock into which the shares of Holiday Corporation Series A Stock may be converted as a result of Holiday Corporation not declaring and distributing Holiday Corporation Common Stock with respect to the Holiday Corporation Series A Stock.

Each shareholder is urged to consult his own tax advisor for purposes of determining all tax consequences to him of the Reorganization.

### **Vote Required**

Approval of the Plan of Merger requires the affirmative vote of a majority of the voting power of the outstanding shares of Holiday Inns Common Stock and Series A Stock, voting together as a single class at the Annual Meeting. A vote FOR the Plan of Merger will constitute approval of all other transactions and proceedings which are included in the Reorganization Proposal. Shareholders will not be entitled to any dissenters' rights in connection with the Reorganization Proposal. Mead Dixon, a member of the Company's Board of Directors, is the beneficial owner of 12.02% of the Company's Common Stock by virtue of his positions as Executor of the Estate of William F. Harrah and Trustee

of the William F. Harrah Trust for Issue. (See "Principal Shareholders.") Mr. Dixon has informed the Company that it is his intention to vote these shares FOR the Reorganization Proposal.

**THE BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE REORGANIZATION PROPOSAL AND UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE REORGANIZATION PROPOSAL. PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE VOTED FOR THE REORGANIZATION PROPOSAL UNLESS A VOTE AGAINST THE PROPOSAL OR ABSTENTION IS SPECIFICALLY INDICATED.**

#### **PRINCIPAL REASONS FOR THE REORGANIZATION**

A holding company structure has been adopted by a number of large industrial and financial corporations. This type of corporate structure broadens the range of options available to the Company in financing future operations. In addition, it may facilitate acquisitions, especially should Holiday Corporation decide at some future date to expand its present operations or to establish new operations in regulated industries. The holding company structure could facilitate the segmentation of present and future businesses, the management, operation and financing of which could be more efficiently accomplished by taking advantage of the versatility and flexibility of such a holding company structure. The Company will explore these possibilities if the Reorganization is effected. The Company has no plans, agreements or understandings with respect to the issuance of any shares of Holiday Corporation capital stock other than in the Reorganization and pursuant to the Company's existing stock option and other employee benefit plans.

Management and the Company's Board of Directors chose Delaware as the state of incorporation for Holiday Corporation for several reasons. For many years, Delaware has followed a policy of encouraging incorporation in that state and, in furtherance of that policy, has adopted comprehensive, modern and flexible corporate laws which are periodically updated and revised to meet changing business needs. As a result, many major corporations have initially chosen Delaware for their domicile or have subsequently reincorporated in Delaware in a manner similar to that proposed herein.

Because of Delaware's long-standing policy of encouraging incorporation in the state and consequently its preeminence as the state of incorporation for many major corporations, the Delaware Courts have developed a considerable expertise in dealing with corporate issues. A substantial body of case law has developed construing Delaware law and establishing public policies with respect to Delaware corporations. It is anticipated that Delaware corporate law will continue to be interpreted and explained in a number of significant court decisions, which may provide greater predictability with respect to the Company's corporate legal affairs. For a discussion of certain differences in shareholders' rights and governance of the internal affairs of Holiday Corporation under the Delaware General Corporation Law and the Tennessee General Corporation Act, see "Certain Significant Differences Between Tennessee and Delaware Corporation Laws" and "Certain Significant Differences Between Corporate Charters and Bylaws."

The Board of Directors has noted the continuance of unsolicited takeover offers and other purchases of shares which are often followed by non-negotiated mergers or similar transactions that involve the elimination of the then-remaining public stockholders. The Board of Directors believes that the Reorganization will increase the probability that, if an unsolicited attempt is made to take over Holiday Corporation, the public stockholders will be treated fairly by virtue of the provisions in Holiday Corporation's Restated Certificate of Incorporation and Bylaws which (i) provide for the creation of a classified board of directors from which directors may only be removed by the stockholders for cause, (ii) limit the rights of stockholders to amend Holiday Corporation's Restated Certificate of Incorporation and Bylaws, (iii) eliminate the right of stockholders to call special meetings and to take action without a meeting, and (iv) require that certain business combinations either meet certain minimum price and procedural requirements, are approved by the members of the Board Directors who are unaffiliated with the persons seeking to effect such business combinations or

are approved by supermajority stockholder vote. These provisions will also encourage any person intending to attempt such a takeover to negotiate with the Board of Directors and curtail such person's use of his dominant interest to control both sides of the negotiations. Under such circumstances, the Board of Directors may be better able to make and implement reasoned business decisions and protect the interests of the stockholders.

Unapproved, non-negotiated takeover attempts present to stockholders the risk of a takeover on terms which may be less favorable than would be available in a transaction negotiated with and approved by the Board of Directors. Although there can be no certainty as to the result of any particular negotiation, the Board of Directors believes that the interests of the stockholders would best be served if any acquisition of the Company results from arms-length negotiations which reflect the Board's careful consideration of the proposed terms of any transaction, including the value of the consideration to be paid to all stockholders and the tax effects of the transaction, as well as the compatibility of the management and business of the acquirer with that of the Company and the acquirer's plans and proposals with respect to the management, business and operations of the Company after the consummation of such transaction.

The "minimum price/supermajority" provision of Holiday Corporation's Restated Certificate of Incorporation is intended to prevent certain potential inequities arising from business combinations with a significant stockholder which often accompany a two-step transaction by requiring the approval of such business combinations by 75% of all the voting power of Holiday Corporation voting stock and a majority of the voting power of Holiday Corporation voting stock other than stock beneficially owned by such significant stockholder, unless (i) such transaction is approved by the members of the Board who are unaffiliated with such significant stockholder or (ii) such significant stockholder meets certain minimum price and procedural requirements. See "Special Vote Required for Certain Business Combinations."

In many unsolicited takeover attempts the acquirer seeks representation on the target company's board of directors in order to maximize the likelihood that the acquisition proposal will be approved and implemented by the target company. If the target company resists the efforts of the acquirer to obtain such board representation, the acquirer may commence a proxy contest to have himself or his nominees, or both, elected to the target company's board of directors in lieu of a majority of the target's directors or in lieu of the entire board of directors of the target company. In some instances, the acquirer may not be truly interested in acquiring the target company but will use the threat of a proxy contest or a tender offer as a means of forcing the target company to repurchase the acquirer's equity position at a substantial premium above the then current market price of the target company's securities. If the true purpose of a proxy fight, a tender offer or other takeover attempt is to force the target company to repurchase a substantial equity position at a premium price, the board of directors of the target company faces the risk that the company's business and management will be seriously disrupted. Additionally, a repurchase could result in the diversion to an acquirer of corporate resources otherwise needed by the target company and in some cases a lowering of the market price of the target company stock.

The provision in Holiday Corporation's Restated Certificate of Incorporation which provides for a classified Board of Directors from which directors may only be removed by stockholders for cause will make it more difficult for a significant stockholder to change the composition of the Board of Directors in a relatively short period of time and, accordingly, will provide the Board of Directors and stockholders time to review any proposal such stockholder may make and to pursue alternative courses of action which are fair to all the stockholders of Holiday Corporation. See "Classified Board."

Although the changes to be effected by the Reorganization are intended to encourage persons seeking to acquire control of the Company to initiate such an acquisition through arms-length negotiations with the Board of Directors, they could also have the effect of discouraging a third party from making a tender offer (including an offer at a substantial premium over the then current market

value of the Company's stock) or otherwise attempting to obtain control of the Company even though such an attempt might be beneficial to the Company and its shareholders. Since the changes may have the effect of giving the Board of Directors more bargaining power in negotiations with potential acquirors, they could also result in the Board of Directors using such bargaining power not only to try to negotiate a favorable price for an acquisition but also to negotiate more favorable terms for management or the Board of Directors. In addition, since the changes are designed to discourage accumulations of large blocks of the Company's stock acquired for the purpose of exercising control over the Company or encouraging the Company to repurchase such blocks at a premium, the Reorganization could tend to reduce the temporary fluctuations in the market price of the Company's stock which might result from such accumulations. As a result, shareholders could be deprived of certain opportunities to sell their stock at a temporarily higher market price.

Finally, the Reorganization may make it more difficult for holders of a majority of the outstanding shares of the Company's stock to change the composition of the Board of Directors in circumstances which do not involve a takeover attempt or a related business combination, but where the reason for such change may be the performance of the incumbent director. However, the Board of Directors feels that the benefits of seeking to protect the Company's ability to negotiate effectively with unfriendly acquirors, through directors who have previously been elected by the stockholders and who are familiar with the Company, outweigh the disadvantages arising out of the Reorganization.

The Board of Directors has no knowledge of any effort to gain control of the Company or to organize a proxy contest. Subsequent to the announcement of the Company Self Tender, Ivan Boesky and certain related parties filed a Schedule 13D with the Securities and Exchange Commission reflecting beneficial ownership of more than 5% of Holiday Inns Common Stock. An amendment to the Schedule 13D was filed shortly thereafter reflecting beneficial ownership of less than 5%. To the knowledge of the Company, there have been no other recent accumulations of Holiday Inns Common Stock, and the Reorganization is not being proposed in response to any accumulations of Holiday Inns Common Stock.

In considering the Reorganization, shareholders should be aware that the Reorganization is not designed to prevent tender offers for the Company or to assure that shareholders would receive a premium price for their shares if a tender offer were to be made. Moreover, the changes will not preclude the Board of Directors from either opposing or approving any future takeover proposal.

#### **CERTAIN SIGNIFICANT DIFFERENCES BETWEEN CORPORATE CHARTERS AND BYLAWS**

After the Effective Time, the rights of the holders of Holiday Corporation Common Stock and Holiday Corporation Series A Stock will be governed by the laws of the State of Delaware and Holiday Corporation's Restated Certificate of Incorporation (the "Delaware Certificate") and Bylaws (the "Delaware Bylaws") which differ in certain material respects from the laws of the State of Tennessee and the Company's Restated Charter (the "Tennessee Certificate") and Bylaws (the "Tennessee Bylaws") which currently govern the rights of shareholders of the Company. Certain significant differences between the Delaware Certificate and Delaware Bylaws, on the one hand, and the Tennessee Certificate and Tennessee Bylaws, on the other, are set forth below.

The following discussion of the differences between the Delaware Certificate and Bylaws and the Tennessee Certificate and Bylaws is qualified in its entirety by reference to the Delaware Certificate and Bylaws which are attached to this proxy statement as Exhibit B and Exhibit C, respectively. Copies of the Company's Restated Charter and Bylaws are available for inspection at the principal executive offices of the Company and copies will be sent to the holders of shares of Holiday Inns Common Stock and Holiday Inns Series A Stock upon request.

## **Classified Board**

The Tennessee Bylaws currently set the number of directors at not less than three nor more than seventeen, provide that a majority of the whole Board fix the specific number of directors within such limits and provide that all directors be elected at each annual meeting of stockholders. Although the Company's Board is not now classified, Tennessee law permits a corporation's board of directors to be classified into two or more classes the terms of which may be staggered so that only one class is elected each year. However, New York Stock Exchange policy provides that the NYSE will refuse to authorize listing of a Company's securities if such Company's Board of Directors is divided into more than three classes of directors.

Article SIXTH of the Delaware Certificate sets the number of directors of Holiday Corporation at not less than three nor more than seventeen, provides that the exact number of directors shall be determined by a majority of the entire Board within such limits and provides that the Board is divided into three classes serving staggered three-year terms. If the Reorganization is effected, the nominees for Directors of the Company who are elected at the Annual Meeting will become directors of Holiday Corporation. Accordingly, Messrs. Clarke, Dixon and Sells and Ms. Young will be elected to Class I and will hold office until Holiday Corporation's 1986 Annual Meeting; Messrs. Farley, Salmon, Schorr and Solomonson will be elected to Class II and will hold office until Holiday Corporation's 1987 Annual Meeting; and Messrs. Evans, Goeglein, McClure, Rose and Terry will be elected to Class III and will hold office until Holiday Corporation's 1988 Annual Meeting. See "Election of Directors of the Company." At each annual meeting of Holiday Corporation, commencing in 1986, approximately one-third of the Board of Directors will be elected to succeed those directors whose term has expired and to serve a three-year term.

Article SIXTH also provides that, notwithstanding the above, when any class or series of preferred stock has the right to elect a specified number of directors, then the election, term of office, filling of vacancies and other features of such directorships will be governed by the terms of the Delaware Certificate and the resolutions of the Board of Directors establishing such class or series, and such directors will not be classified (unless the Delaware Certificate or the resolutions of the Board of Directors establishing such class or series so provides).

The Board of Directors believes that a classified Board of Directors will help to promote the continuity and stability of the Board and the policies of the Board because a majority of the directors at any given time will have prior experience as directors of Holiday Corporation. There has been no problem in the past and there is no problem at the present time with the continuity and stability of the Board of Directors.

The classification of directors will also have the effect of making it more difficult for stockholders to change the composition of the Board of Directors in a relatively short period of time. At least two meetings of stockholders will generally be required to effect a change in a majority of the Board. Such a delay may help ensure that the Board and the stockholders, if confronted by a holder attempting to force a stock repurchase at a premium above market, a proxy contest or an extraordinary corporate transaction, will have sufficient time to review the proposal and appropriate alternatives and, if appropriate, seek a premium price in the transaction which is fair to all stockholders. The classified Board provision may, by reason of such delay, also discourage certain mergers, tender offers and other takeover attempts which some or a majority of the stockholders may deem to be in their best interests.

The classification provisions will apply to every election of directors, whether or not a change in the Board would be beneficial to Holiday Corporation and its stockholders and whether or not a majority of Holiday Corporation's stockholders believes that such a change would be desirable.

The limit on the maximum number of Directors and the granting of authority to the Board of Directors to determine the exact number of Directors prevent a third party from obtaining majority representation on the Board of Directors simply by enlarging the Board and filling the new directorships with its own nominees.

#### **Removal of Directors; Filling Vacancies on the Board of Directors**

Under Tennessee law and the Tennessee Bylaws, the holders of a majority of the voting stock present at a meeting at which a quorum is present have the power to remove any director, or the entire Board of Directors, without cause, at any meeting of shareholders called for that purpose, and Directors may be removed by a majority of the entire Board for cause. Tennessee law and the Tennessee Bylaws define "cause" as final conviction of a felony, declaration of unsound mind by court order, adjudication of bankruptcy, nonacceptance of office or conduct prejudicial to the interest of the corporation. Under Delaware law, a director on a classified board can be removed only by the holders of a majority of the stock entitled to vote for directors and only for cause, unless the certificate of incorporation provides otherwise. The Delaware Certificate contains no such provision. "Cause" is not defined in the Delaware corporate statute. Since there is no definition of "cause" in the Delaware statute, the resolution of any dispute as to what constitutes "cause" may become a matter for determination by the courts.

Under the Tennessee Bylaws and under the proposed Delaware Certificate, the Board of Directors has the power to fill all vacancies on the Board, whether such vacancies arise due to an increase in the number of directors, death, resignation, retirement, removal from office or otherwise. Under Tennessee law, a director elected to fill a vacancy would hold office for the unexpired term of his predecessor or, if there is no predecessor, until the next annual meeting of shareholders. Under the Delaware Certificate, any director elected by the Board to fill a vacancy would hold office for the unexpired portion of the term of the director whose place has been filled, and a director elected by the Board to fill a newly created directorship resulting from an increase in the number of directors will hold office until the next election of the class for which such director was chosen. If the size of the Board were increased, the additional directors would be apportioned among the three classes to make all classes as nearly equal as possible.

The provisions of the Delaware Certificate and Bylaws relating to the removal of directors and the filling of vacancies on the Board will preclude a third party from removing incumbent directors without cause and simultaneously gaining control of the Board by filling the vacancies created by such removal with its own nominees.

#### **No Stockholder Action by Written Consent; Special Meetings**

Under Tennessee law, any action by stockholders may be taken at a meeting of shareholders or by a written consent setting forth the action so taken signed by all the shareholders entitled to vote with respect to the subject matter thereof; provided, that if written notice is given not less than 20 nor more than 60 days prior to the date of the proposed action by written consent and if Section 14 of the Securities Exchange Act of 1934 is complied with, the action by written consent may be taken by the holders of 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 were present and voted. Under the Tennessee Bylaws,

special meetings of shareholders may be called by the President and must be called by the President or Secretary of the Company at the written request of a majority of the Board of Directors or a majority of the shareholders owning a majority of the Company's entire capital stock issued, outstanding and entitled to vote.

Under Delaware law, unless otherwise provided in the certificate of incorporation, any action required or permitted to be taken by stockholders at a meeting may be taken without a meeting, without prior notice and without a stockholder vote if a written consent setting forth the action so taken is signed by the holders of outstanding stock having the minimum number of votes that would be necessary to authorize such action at a meeting of stockholders at which all shares entitled to vote thereon were present and voted. Special meetings of stockholders may be called by the board of directors or by such person or persons as may be authorized by the certificate of incorporation or the bylaws.

The Delaware Certificate (Article EIGHTH) requires that stockholder action be taken only at an annual meeting or at a special meeting of stockholders and prohibits stockholder action by written consent in lieu of a meeting. The Delaware Certificate (Article SEVENTH) and Bylaws provide that special meetings of stockholders may be called only by the Chairman, the President, or a majority of the entire Board. Stockholders are not permitted to call a special meeting of stockholders or to require that the Board call such a special meeting. These provisions may have the effect of delaying consideration of a stockholder proposal until the next annual meeting unless a special meeting is called by the persons set forth above.

The provisions of the Delaware Certificate and Bylaws prohibiting stockholder action by written consent would give all the stockholders of Holiday Corporation entitled to vote on a proposed action the opportunity to participate in determining such proposed action and would prevent the holders of a majority of the voting power of Holiday Corporation from using the written consent procedure to take stockholder action. Moreover, a stockholder could not force stockholder consideration of a proposal (including a Business Combination, as defined below) over the opposition of the Chairman, the President and the Board by calling a special meeting of stockholders, prior to the time any of such persons believed such consideration to be appropriate.

#### **Special Vote Required for Certain Business Combinations**

Under Tennessee law, certain mergers, consolidations and sales of all or substantially all of the assets of the Company must be approved by the Board of Directors and submitted to a majority vote of the outstanding shares entitled to vote thereon for approval. Reclassifications of securities and recapitalizations of the Company involving amendments to the Tennessee Certificate also must be approved by the Board of Directors and submitted to a majority vote of the outstanding shares entitled to vote thereon for approval; provided that the holders of 10% of all outstanding shares entitled to vote on an amendment to the charter may propose such amendment to the Board of Directors, and, if the Board does not adopt a resolution and submit such resolution to shareholders within 90 days, the proponents of such proposal may call a shareholders' meeting at which such proposal will be submitted to a vote. Tennessee law also requires the approval of the holders of a majority of the shares of any class or series, voting as a separate class, in the case of certain mergers, consolidations, sales of all or substantially all of the assets of the Company and amendments to the Tennessee Certificate adversely affecting such class or series. Certain other transactions, such as sales of less than substantially all the assets and recapitalizations not involving any amendments to the Tennessee Certificate, do not require shareholder approval. In addition, the Tennessee Certificate and the Delaware Certificate require the

approval of the holders of a majority of the outstanding shares of Series A Stock, voting as a separate class, in connection with certain reclassifications and recapitalizations involving amendments to the Tennessee Certificate or the Delaware Certificate which affect the preferences, rights, privileges or immunities of the Series A Stock. See "Holiday Corporation Capital Stock."

Under Article NINTH of the Delaware Certificate, a "Business Combination" (as defined) transaction involving Holiday Corporation or a subsidiary of Holiday Corporation with, or proposed by or on behalf of, an "Interested Stockholder" (as defined) or certain related parties would be required to comply with certain specified conditions which are discussed below. If such a proposed Business Combination transaction does not meet the "minimum price" and procedural requirements specified in Article NINTH, then the transaction would require approval by (i) the affirmative vote of at least 75% of the votes entitled to be cast by the holders of all then outstanding shares of voting stock of Holiday Corporation ("Voting Stock") and (ii) the affirmative vote of not less than a majority of the votes entitled to be cast by holders of outstanding shares of Voting Stock, excluding shares held by the Interested Stockholder and certain related parties, if the Business Combination transaction is with or proposed by or on behalf of any of them (the "Unaffiliated Stock"), unless the Business Combination is approved by a majority of the Continuing Directors (as defined). If the requirements are met, the Business Combination would be subject to the present voting requirement under Delaware law, which for most types of Business Combination transactions on which a stockholder vote is required is the affirmative vote of the holders of a majority of the outstanding shares entitled to vote on the matter. If the vote required by Article NINTH is obtained in connection with a particular proposed Business Combination, then the specified conditions would not have to be met and approval by a majority of the Continuing Directors would not be necessary.

*Super-Majority Vote Required for Certain Business Combinations.* Under provisions of Delaware law, certain mergers, consolidations, reclassifications of securities, sales of substantially all the assets of Holiday Corporation and plans of dissolution of Holiday Corporation must be approved by the vote of the holders of a majority of the outstanding shares entitled to vote thereon. In addition, under rules of the NYSE, on which the shares of Holiday Corporation Common Stock and Holiday Corporation Series A Stock are expected to be listed upon consummation of the Reorganization, the issuance of additional shares of Holiday Corporation Common Stock aggregating more than 18.5% of the outstanding shares could, under certain circumstances, require the vote of a majority of the votes cast by the holders of shares entitled to vote thereon. Other transactions, such as certain sales of less than substantially all of the assets of Holiday Corporation, mergers involving a 90% owned subsidiary of Holiday Corporation, recapitalizations not involving any amendments to the Delaware Certificate, the making of investments, extensions of credit, the granting of security interests and the establishing of joint ventures do not require stockholder approval. Article NINTH would require the approval of (i) 75% of the Voting Stock, voting as a single class, and (ii) a majority vote of the Unaffiliated Stock, voting together as a single class, in addition to any class vote required by law or otherwise, as a condition to specified transactions with or for the benefit of an Interested Stockholder, except in cases in which either certain price criteria and procedural requirements are satisfied or the transaction is approved by a majority of the Continuing Directors. If the price criteria and procedural requirements were met or the requisite approval of the Continuing Directors were given with respect to a particular Business Combination, the voting requirements of Delaware law and, if applicable, the NYSE would apply.

An "Interested Stockholder" is defined in Article NINTH to include any person (other than Holiday Corporation, certain of its subsidiaries, employee benefit plans of Holiday Corporation and the



trustees or fiduciaries of such plans) who (i) is, or has announced or publicly disclosed a plan or intention to become, the beneficial owner of more than 10% of the Voting Stock or (ii) is an affiliate or associate of Holiday Corporation and at any time within the prior two-year period beneficially owned 10% or more of Holiday Corporation Voting Stock. A person is the "beneficial owner" of any Voting Stock which such person and certain related parties, directly or indirectly, owns, has the right to acquire or vote. The Board of Directors of the Company is not aware of any stockholder who would be an Interested Stockholder of Holiday Corporation upon the consummation of the Reorganization, except for Mead Dixon, who, as a result of his positions as Executor of the Estate of William F. Harrah and Trustee of the William F. Harrah Trust for Issue, is deemed a beneficial owner of 12.02% of the Company's Common Stock. See "Principal Shareholders" and "Reorganization Proposal—Vote Required."

A "Business Combination" is broadly defined to include the following transactions with, or proposed by or on behalf of, any Interested Stockholder or certain related parties: (a) a merger or consolidation of Holiday Corporation or any subsidiary with an Interested Stockholder or certain related parties; (b) any sale or other disposition by Holiday Corporation or any subsidiary of any assets or securities to an Interested Stockholder or certain related parties, or any other arrangement with or for the benefit of an Interested Stockholder or any such related party (including investments, loans, advances, guarantees, extensions of credit, creating security interests and participating in joint ventures) which (except for arrangements pursuant to which the Interested Stockholder or related parties would have any management responsibility over the Company's affairs, other than as a director, as to which arrangements the value tests referred to below would not apply) together with all other such arrangements (including all contemplated future events), involve assets or securities having a value (or involve aggregate commitments) of \$100,000,000 or more or constitute more than 5 percent of the book value of the total assets (in the case of transactions involving assets or commitments other than capital stock) or of the stockholders' equity (in the case of transactions in capital stock) of the entity in question (the "Substantial Part"), as reflected in the most recent fiscal year-end consolidated balance sheet of such entity existing at the time the stockholders of Holiday Corporation would be required to approve or authorize such transaction; (c) the adoption of any plan or proposal for the liquidation or dissolution of Holiday Corporation or for any amendment to Holiday Corporation's Bylaws; or (d) any reclassification of securities, recapitalization, merger or consolidation of Holiday Corporation with a subsidiary or any other transaction which has the effect, directly or indirectly, of increasing an Interested Stockholder's proportionate share of the outstanding capital stock of Holiday Corporation or a subsidiary.

A "Continuing Director" is any member of the Board of Directors of Holiday Corporation who is not affiliated with an Interested Stockholder and who either was a director of Holiday Corporation prior to the time any Interested Stockholder became an Interested Stockholder or was recommended or elected by a majority of the then Continuing Directors.

*Exceptions to Higher Vote Requirements.* The 75% vote of all holders of Voting Stock and the majority vote of the Unaffiliated Stock would not be required if either the transaction has been approved by a majority of the Continuing Directors or all of the minimum price criteria and procedural requirements described in paragraphs (a) and (b) below are satisfied.

(a) *Minimum Price Criteria.* In a Business Combination in which consideration is to be paid to Holiday Corporation stockholders, the consideration required to be paid must be either cash or the same type of consideration used by the Interested Stockholder in acquiring beneficial ownership of the

largest portion of its Voting Stock. In the case of payments to holders of Holiday Corporation Common Stock, the fair market value per share of such payments would have to be at least equal to the highest value determined under the following two alternatives: (i) the highest per share price paid by or on behalf of the Interested Stockholder during the two years prior to the public announcement of the proposed Business Combination (the "Announcement Date") or in the transaction in which it became an Interested Stockholder, whichever is higher, for any share of Holiday Corporation Common Stock beneficially owned by the Interested Stockholder or (ii) the fair market value per share of Holiday Corporation Common Stock on the Announcement Date or on the date on which the Interested Stockholder became an Interested Stockholder, whichever is higher. "Fair market value" is defined in Article NINTH to mean, in the case of exchange-listed or NASDAQ-quoted stock, the highest closing price or closing bid in the 30 days preceding the date in question, and if the stock is not listed or quoted, then the fair market value as determined by a majority of the Continuing Directors.

In the case of payments to holders of any class of Holiday Corporation capital stock, other than Holiday Corporation Common Stock, at the time outstanding, the fair market value per share of such payments would have to be at least equal to the higher of (a) the highest per share price determined with respect to such class of stock in the same manner as described in clauses (i) and (ii) above, and (b) the highest preferential amount per share to which the holders of such class of capital stock would be entitled in the event of a voluntary or involuntary liquidation of Holiday Corporation. The Interested Stockholder would be required to meet the minimum price criteria with respect to each class of Voting Stock, whether or not the Interested Stockholder beneficially owned shares of that class prior to proposing the Business Combination. If the minimum price criteria and the procedural requirements (discussed below) were not met with respect to each class of capital stock, then the 75% vote of all holders of Voting Stock and the majority vote of the Unaffiliated Stock would be required to approve the Business Combination, unless the transaction were approved by a majority of the Continuing Directors. If the Business Combination did not involve any cash or other property being received by any of the other stockholders, such as a sale of assets or an issuance of Holiday Corporation securities to an Interested Stockholder, then the price criteria discussed above would not apply and the 75% vote of all holders of Voting Stock and the majority vote of the Unaffiliated Stock would be required, unless the transaction were approved by a majority of the Continuing Directors.

(b) *Procedural Requirements.* Under Article NINTH, in order to avoid the special stockholder voting requirements, after an Interested Stockholder became an Interested Stockholder, it would have to comply with all of the procedural requirements described below, as well as the minimum price criteria described above, unless the Business Combination were approved by a majority of the Continuing Directors:

(1) Holiday Corporation, after the Interested Stockholder became an Interested Stockholder, must not have failed (a) to pay full periodic dividends on any of its outstanding capital stock as required by the terms of such stock or have reduced the rate of dividends paid on its Common Stock, unless such failure or reduction was approved by a majority of the Continuing Directors or (b) to increase the rate of dividends on the Common Stock to reflect any reclassifications or other similar transactions that reduce the number of shares of Holiday Corporation Common Stock outstanding, unless such failure was approved by a majority of the Continuing Directors. This provision is designed to prevent an Interested Stockholder from attempting to depress the market price of Holiday Corporation stock prior to proposing a Business Combination, thereby possibly reducing the consideration required to be paid pursuant to the minimum price provisions of Article NINTH.

(2) The Interested Stockholder must not have acquired any additional shares of Holiday Corporation capital stock directly from Holiday Corporation or otherwise, in any transaction subsequent to the transaction pursuant to which it became an Interested Stockholder, unless after giving effect to such acquisition there would be no increase in the Interested Stockholder's percentage beneficial ownership of any class of Holiday Corporation capital stock. This provision is intended to prevent an Interested Stockholder from purchasing additional shares of Holiday Corporation capital stock at prices which are lower than those set by the minimum price criteria of Article NINTH.

(3) A proxy or information statement describing the proposed Business Combination and complying with the requirements of the rules promulgated under the Securities Exchange Act of 1934 must be prepared and mailed by Holiday Corporation to all stockholders of Holiday Corporation at least 30 days prior to the consummation of the Business Combination. This provision is intended to ensure that Holiday Corporation stockholders would be fully informed of the terms and conditions of the proposed Business Combination prior to its completion even if the Interested Stockholder were not otherwise legally required to disclose such information to stockholders.

(4) The Interested Stockholder must not have made any major change in Holiday Corporation's business or equity capital structure without the approval of a majority of the Continuing Directors. This provision is intended to prevent the Interested Stockholder from attempting to depress the market price of Holiday Corporation stock prior to proposing a Business Combination or to otherwise take advantage of its equity position in Holiday Corporation to the detriment of all other stockholders.

*Vote Required to Amend or Repeal.* Under Delaware law, amendments to the certificate require the approval of the board of directors and the holders of a majority of the outstanding stock entitled to vote thereon and, in certain circumstances, of a majority of the outstanding stock of each class entitled to vote thereon as a class. Delaware law also permits provisions in the certificate which require a greater vote than the vote otherwise required by law for any corporate action. As permitted by these provisions, Article NINTH provides that, unless unanimously approved by the Board at a time when all of the Board is comprised of persons who would be eligible to serve as Continuing Directors, an affirmative vote of the holders of 75% or more of the outstanding shares of the Voting Stock and an affirmative vote of a majority of the Unaffiliated Stock would be required in order to amend, alter or repeal, or adopt any provisions inconsistent with, Article NINTH which is proposed by or on behalf of an Interested Stockholder or certain related parties.

*Certain Effects of Proposed Article NINTH.* The Board of Directors has noted the continuance of uninvited or unsolicited tender offers or other purchases of outstanding shares which are often followed by non-negotiated mergers or similar transactions that involve the elimination of the then-remaining public stockholders of the target company. The terms of those transactions may not reflect arm's-length bargaining and therefore may not assure fair treatment of the public stockholders remaining after the first step of the acquisition because the Interested Stockholder's dominant influence controls both sides of the negotiations. The purpose of proposed Article NINTH is to provide greater assurance that Holiday Corporation stockholders will receive fair and equitable treatment in a Business Combination involving Holiday Corporation or a subsidiary with or proposed by or on behalf of an Interested Stockholder or certain related parties. Federal securities laws and regulations applicable to Business Combination transactions submitted to stockholders govern the disclosure required to be

made to minority stockholders in order to consummate such a transaction but do not assure stockholders that the financial terms of a business combination will be fair to them or that they can effectively prevent its consummation. Moreover, certain Business Combination transactions are not required to be submitted to stockholders.

The Board of Directors believes that adoption of proposed Article NINTH is desirable notwithstanding that, under certain circumstances, Delaware law provides stockholders who object to a merger, consolidation, sale of assets or certain other corporate acts with the statutory right to dissent, have their shares "appraised" and receive the "fair value" of their shares in cash. However, under the Delaware statute, such appraisal rights are not available to holders of shares of stock, such as Holiday Corporation Common Stock, in certain acquisitions. Even if appraisal rights were available, an appraiser is not permitted to consider any appreciation resulting from a proposed business combination in determining the "fair value" of the stock. Moreover, the Board believes that such appraisal rights may not be an effective remedy because they can involve costly and protracted litigation.

Proposed Article NINTH is intended to prevent certain of the potential inequities of business combinations which are part of a "two-step" transaction. In the absence of proposed Article NINTH, a purchaser who acquired control of Holiday Corporation could subsequently, by virtue of such control, force the remaining stockholders to sell or exchange their shares at a price which would not reflect any premium such purchaser may have paid in order to acquire its controlling interest. Proposed Article NINTH should also discourage the accumulation of large blocks of Holiday Corporation stock which the Board of Directors believes can be disruptive to the stability of Holiday Corporation's important relationships with its employees, customers, suppliers, major lenders and regulatory authorities. The Board of Directors also believes such an accumulation could precipitate a change of control of Holiday Corporation on terms unfavorable to Holiday Corporation's other stockholders.

The term Business Combination also includes amendments to the Bylaws of the Company. This is designed to prevent an Interested Stockholder from adopting, without the approval of a majority of disinterested stockholders, Bylaws which may restrict the power of the Board or the ability of the Company to operate its business in the best interest of all stockholders.

It is anticipated that proposed Article NINTH may encourage companies interested in acquiring Holiday Corporation to negotiate in advance with the Board of Directors since the super-majority voting requirements would not be invoked if a majority of the Continuing Directors approve a Business Combination. In the event of a proposed acquisition of Holiday Corporation, the Board of Directors believes that the interest of Holiday Corporation stockholders will best be served by a transaction that results from negotiations based upon careful consideration of the proposed terms, such as the price to be paid minority stockholders, the form of consideration paid and tax effects of the transaction. Although there can be no certainty as to the result of any particular negotiation, the Board of Directors believes that the effect of promoting negotiation of any proposed acquisition of Holiday Corporation with the Board of Directors will be in the best interest of stockholders. However, if Article NINTH has the effect of giving management more bargaining power in negotiations with a potential acquirer, it could result in management's using the bargaining power not only to try to negotiate a favorable price for an acquisition but also to negotiate more favorable terms for management.

On the other hand, Article NINTH may make more difficult or discourage a merger or takeover of Holiday Corporation or the acquisition of control of Holiday Corporation by a principal stockholder and thus the removal of incumbent management. Also, Article NINTH may discourage some takeover attempts by persons intending to acquire Holiday Corporation in a two-step transaction in which

remaining stockholder interests would be eliminated by means of a Business Combination involving less consideration per share than the acquiring person would propose to pay for its initial interest in Holiday Corporation. In certain cases, Article NINTH's minimum price requirements, while providing objective pricing criteria, could be arbitrary and not indicative of current value. If purchases by an acquiror have taken place over a long period of time and there are current or subsequent declines in the market price of Holiday Corporation's stock, a principal stockholder may be unable or unwilling to enter into a Business Combination. Article NINTH, by requiring the 75% vote of all holders of Voting Stock and the majority vote of the Unaffiliated Stock to approve a Business Combination, would, absent approval by the Continuing Directors or satisfaction of the fair price and procedural criteria described above, enable a minority of such stockholders to prevent consummation of a Business Combination, notwithstanding the fact that a majority of all stockholders voted in favor of it. In addition, it may be difficult to obtain such 75% vote. At the 1982, 1983 and 1984 Annual Meetings of Shareholders of the Company there were represented in person or by proxy 74%, 78% and 80%, respectively, of the then outstanding Voting Stock. Some stockholders may find Article NINTH disadvantageous to the extent that it discourages takeovers which are not approved by a majority of the Continuing Directors but in which stockholders might receive, for at least some of their shares, a substantial premium above the market price at the time a tender offer or other acquisition is made. Thus, stockholders who might desire to participate in a tender offer may not be afforded the opportunity to do so. To the extent that proposed Article NINTH discourages tender offers or accumulations of Holiday Corporation stock, stockholders may be deprived of higher market prices for their stock which often prevail as a result of such events. To the extent that proposed Article NINTH discourages takeovers that would result in a change of Holiday Corporation's management, those changes will be less likely to occur if proposed Article NINTH is adopted. Proposed Article NINTH should not, in the opinion of the Board of Directors, however, prevent or discourage tender offers or other acquisitions in which the acquiring person or persons is prepared to pay the same price in a Business Combination to all stockholders in each class of Voting Stock and in which such payment meets the minimum price requirement.

#### **Redemption of Certain Stockholders' Interests**

Under Section 151(b) of the Delaware General Corporation Law, any stock of a corporation which has a license or franchise from a governmental agency to conduct its business, which license or franchise is conditioned upon some or all of the holders of the corporation's stock possessing prescribed qualifications, may be made subject to redemption by the corporation to the extent necessary to prevent loss of such license or franchise or to reinstate such license or franchise. There is no comparable provision under Tennessee law. Section E of Article FOURTH of the Delaware Certificate contains such a redemption provision applicable to governmental licenses or franchises held by Holiday Corporation or any of its subsidiaries. Under that provision, outstanding shares of Holiday Corporation Common Stock, or any other class or series of stock of Holiday Corporation, other than Holiday Corporation Series A Stock, may be redeemed, upon action of the Board of Directors, to the extent necessary to prevent the loss or secure the reinstatement of any such license or franchise. The redemption price of any stock so redeemed will be payable in cash, debt or equity securities of Holiday Corporation or another corporation, or any combination thereof, equal to the "Fair Market Value" (as defined in Section E of Article FOURTH of the Delaware Certificate) of the stock to be so redeemed. In the case of any securities to be included in such redemption price, such securities will be valued by a nationally recognized investment banking firm selected by the Board of Directors, which may be a firm which provides other investment banking, brokerage or other services to Holiday Corporation.

The purpose of the redemption provision of Section E of Article FOURTH is to protect the ability of Holiday Corporation to continue to engage in its governmentally licensed and franchised activities. A significant portion of Holiday Corporation's business will consist of the operation of casino gaming facilities under licenses granted and subject to regulation by local and state governmental authorities in Nevada and New Jersey. Nevada's gaming statutes and regulations provide that a person who has a material relationship to, or involvement with, a licensed company or its licensed subsidiaries may be required to apply for a finding of suitability or be licensed. This requirement will apply to certain officers and directors of Holiday Corporation and its subsidiaries, and to controlling persons, key employees and persons who exercise significant influence upon the management or affairs of Holiday Corporation or such subsidiaries. The statutes and regulations require under certain circumstances that filings with the Nevada Gaming Commission be made by a beneficial owner of 5% or more of a company's voting securities. A beneficial owner of 10% or more of a company's voting securities must be licensed by the Nevada Gaming Commission. The Licensing Board of Clark County, Nevada has similar authority. The regulations also provide that control of a company may not change without the prior approval of the Nevada Gaming Commission.

Under the New Jersey Casino Control Act (the "Act"), no hotel/casino facility may operate unless licenses are obtained from the New Jersey Casino Control Commission (the "New Jersey Commission"). The New Jersey Commission is authorized under the Act to adopt regulations covering a broad spectrum of gaming and gaming-related activities and to prescribe the methods and forms of applications for licenses.

The Act and regulations provide that certain persons may be required to be qualified for licensure or be licensed. This requirement currently applies to directors and certain officers of the Company and its subsidiaries, and to controlling persons, key employees and persons who exercise significant influence upon the management or affairs of the Company or its subsidiaries. If the Reorganization is approved and adopted, this requirement will also apply to Holiday Corporation. The Act contains a presumption that a beneficial owner of 5% of a company's voting securities is a controlling person. If the New Jersey Commission finds that a shareholder who is in a position to exercise control over a company licensed under the Act through ownership of its securities is required to be qualified, but is not qualifiable, for licensure under the Act, the Commission may, in accordance with the Act, terminate the company's involvement in casino gaming in New Jersey unless the shareholder disposes of voting securities sufficient to eliminate its status as a qualifier. In accordance with the New Jersey Commission's requirements, the Tennessee and Delaware Bylaws provide that the Board may from time to time determine whether the Company's and Holiday Corporation's standing with the New Jersey Commission is jeopardized by ownership of their respective securities by a particular shareholder and may, based on such determination, require such shareholder to dispose of sufficient securities to remove any question as to the shareholder's status as a qualifier, subject to applicable law.

It should be noted that the redemption provision in the Delaware Certificate does not require the Board of Directors to redeem stock even if the failure to effect such redemption would result in a loss of a governmental license or franchise. If a license or franchise would be lost because of a change of control of Holiday Corporation or the ineligibility of any of its stockholders, it is expected that the Board of Directors would consider, among other things, the importance of the license or franchise to Holiday Corporation's business and the amount and value of any stock required to be redeemed to avoid such loss in determining whether to effect redemption under the foregoing provision.

## **Amendment of Bylaws**

Currently, the Tennessee Bylaws may be amended by a vote of two-thirds of the members of the Board of Directors or by the shareholders at an annual or special meeting if approved by a majority of the votes cast. Under the Delaware Certificate (Article FIFTH), stockholders may adopt, alter, amend or repeal provisions of the Delaware Bylaws, including any new Bylaw provision adopted by the Board in the future, only by the affirmative vote of the holders of at least 75% of the votes entitled to be cast by the holders of outstanding shares then entitled to vote generally in the election of directors, voting together as a single class. The Board of Directors has the power to effect amendments to the Delaware Bylaws by a majority vote of the entire Board of Directors.

This increase in the stockholder vote required to amend the Delaware Bylaws will make it more difficult for a significant stockholder to make changes in the Bylaws, including changes designed to facilitate a Business Combination or the exercise of control over Holiday Corporation. For example, a 75% stockholder vote would be required in order to amend the Bylaws to change the date for the annual meeting of stockholders. The holders of a minority of the Company's stock could prevent the holders of a majority or more of the stock from amending the Bylaws. In addition, it may be difficult to obtain such 75% vote. At the 1982, 1983 and 1984 Annual Meetings of Shareholders of the Company there were represented in person or by proxy 74%, 78% and 80%, respectively, of the then outstanding Voting Stock. Shareholders should also note, however, that the requirement for a 75% vote would apply to any amendment of the Delaware Bylaws whether or not related to a Business Combination or the acquisition of control.

## **Vote Required to Amend or Repeal Certain Provisions of the Delaware Certificate**

Under Tennessee law, amendments to the Tennessee Certificate generally require the approval of the holders of a majority of all outstanding shares entitled to vote thereon and, where their preferences, pre-emptive rights, if any, rights in respect of the call of such shares or voting rights are altered, abolished or omitted and such shares are not listed on a national securities exchange, of a majority of all outstanding shares of each class or series. Under Delaware law, amendments of the Delaware Certificate generally require the approval of the holders of a majority of the outstanding stock entitled to vote thereon and of a majority of the outstanding stock of each class or series entitled to vote thereon as a class, including the holders of any class or series of stock whose rights are adversely affected. In addition, pursuant to the terms of the Series A Stock, certain amendments which affect the preferences, rights, privileges or immunities of such stock require the approval of the holders of two-thirds of the outstanding shares of the Series A Stock. See "Holiday Corporation Capital Stock." In addition, Article NINTH of the Delaware Certificate requires the vote of 75% of the Voting Stock and the vote of a majority of the Unaffiliated Stock for certain amendments to Article NINTH, unless certain Board approvals are obtained. See "Special Vote Required for Certain Business Combinations."

## **Existing Charter Provisions with a Possible Anti-Takeover Effect**

Both the Tennessee Certificate and the Delaware Certificate contain some provisions which may be viewed as having a possible anti-takeover effect.

The Holiday Inns Restated Charter and the Holiday Corporation Restated Certificate of Incorporation authorize the respective Boards of the Company and Holiday Corporation to determine with respect to the Special Stock and, in the case of Holiday Corporation, the Preferred Stock, the terms and rights of such stock, including the following: (i) the designation of any series of such stock, (ii) the rate, timing of, conditions and preferences with respect to dividends and whether such dividends are cumulative, (iii) the right, if any, to convert or exchange such stock for stock of any other series or

class, (iv) the price, timing and conditions regarding the redemption of such stock and whether or not a sinking fund should be established for such stock, (v) the rights and preferences of such stock in the event of voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company or Holiday Corporation and (vi) the voting rights of such stock.

Although neither Holiday Inns nor Holiday Corporation has any intention at the present time of doing so, either of them could issue previously authorized but unissued Special Stock or Preferred Stock which could, depending on the terms of such issue, either impede or facilitate the completion of a merger, tender offer or other takeover attempt. Although the Board of Directors would make any such determination to issue such stock based on its judgment as to the best interests of the stockholders, the Board could so act to discourage an acquisition attempt or other transaction that some or a majority of the stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over the then market price of such stock. It is not the present intention of the Board of Directors to seek stockholder approval prior to any issuance of stock within the proposed authorization of additional Special Stock or Preferred Stock, unless otherwise required by law. Frequently, opportunities arise that require prompt action, and it is the belief of the Board that the delay necessitated by stockholder approval of a specific issuance could be to the detriment of Holiday Corporation and its stockholders.

In addition, both the Tennessee Bylaws and the Delaware Certificate provide that the Board of Directors may fix the number of directors within the limits prescribed by the Tennessee Bylaws and the Delaware Certificate, respectively. The limit on the maximum number of directors and the granting of authority to the Board of Directors to determine the exact number of directors prevent a third party from obtaining majority representation on the Board of Directors simply by enlarging the Board and filling the new directorships with its own nominees.

#### **CERTAIN SIGNIFICANT DIFFERENCES BETWEEN TENNESSEE AND DELAWARE CORPORATION LAWS**

Because the Company's state of incorporation is Tennessee and Holiday Corporation's state of incorporation is Delaware, the Reorganization, if approved and adopted, will result in a number of differences in the applicable corporation laws which could affect the Company and its shareholders. Although it is not practical to compare all the differences between the corporation laws of Tennessee and Delaware, the following is a summary of certain of those differences which may significantly impact the rights of shareholders, and are not described under "Certain Significant Differences Between Corporate Charters and Bylaws."

##### **Mergers Without Shareholder Approval**

Under Tennessee law, no vote of shareholders of a corporation surviving a merger is required to authorize a merger if (a) the agreement of merger does not change the name or authorized shares of any class or otherwise amend the charter and (b) the number of shares issued or treasury shares delivered does not exceed 15% of the shares of such surviving corporation outstanding prior to the merger. Delaware law provides that no vote of stockholders of a corporation surviving a merger is necessary to authorize the merger if (a) the agreement of merger does not amend the certificate of incorporation, (b) each share of stock outstanding immediately prior to the effective date of the merger is to be an identical outstanding or treasury share of the surviving corporation and (c) the shares of common stock issued and the treasury shares of common stock delivered, plus those shares of common stock initially issuable upon conversion of any other shares, securities or obligations to be issued or delivered under such agreement of merger, do not exceed 20% of the shares of common stock



outstanding prior to the merger. Tennessee law provides that a corporation owning at least 90% of the outstanding shares of each class of another corporation may merge such other corporation into itself without approval of the shareholders of either corporation. Delaware Law contains a similar provision, but also provides that a corporation owning 90% of another corporation may merge itself into such other corporation.

### **Provisions Concerning Directors, Officers or Employees**

Tennessee and Delaware laws have similar provisions and limitations regarding indemnification by a corporation of its officers and directors, except that Tennessee law prohibits any indemnity provisions, whether contained in the charter, bylaws, agreement or otherwise, unless they are consistent with the Tennessee statute while Delaware law specifically states that its indemnity provisions are not to be deemed exclusive of any other rights which might be granted under bylaws, agreement or otherwise. The indemnification provisions of Delaware law apply to employees and agents as well as officers and directors, while Tennessee law provides that nothing in Tennessee corporate law shall affect the rights to indemnification to which company personnel other than officers and directors may be entitled by contract or otherwise under law.

The indemnity provisions in Article TENTH of the Delaware Certificate are substantially similar to the relevant provisions of Delaware law. Pursuant to the Delaware Certificate, Holiday Corporation will indemnify its past and present directors, officers, employees and agents and any person who is or was serving at the request of Holiday Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise (an "Indemnified Person") where Holiday Corporation is authorized to do so (i) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to the action, suit or proceeding for which indemnity is sought (the "Non-Party Directors"), (ii) by independent legal counsel ("Counsel") in a written opinion, or (iii) by the stockholders. An indemnified Person is entitled to indemnity:

(1) if he was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in right of Holiday Corporation) by reason of the fact that he is an Indemnified Person against expenses (including attorneys' fees), judgements, fines and amounts paid in settlement if the Non-Party Directors, Counsel or the stockholders determine that he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of Holiday Corporation, and with respect to any criminal action or proceeding, has no reasonable cause to believe his conduct was unlawful; and

(2) if he is or was a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of Holiday Corporation to procure judgment in its favor by reason of the fact that he is an indemnified person against expenses (including attorneys' fees) if the Non-Party Directors, Counsel or the stockholders determine that he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of Holiday Corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to Holiday Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnify for such expenses which the Court of Chancery or such other court shall deem proper.

In addition, the indemnity provisions are expressly stated to be non-exclusive, so as not to preclude any other claims for indemnity which may be lawfully brought.

Under Tennessee law, loans to officers and directors must be authorized by shareholder vote; under Delaware law, the board of directors may authorize such loans without stockholder approval.

Tennessee law also requires that shareholders approve the issuance of options or rights to purchase shares to directors, officers or employees. Under Delaware law, the board of directors may authorize the issuance of such options or rights.

#### **Dividends and Stock Repurchases**

Under Tennessee law, a corporation may pay dividends or repurchase its own shares out of unreserved and unrestricted earned surplus, or, in the case of dividends, out of net earnings of the current fiscal year and the preceding fiscal year taken as a single period provided that the corporation is not insolvent and will not be rendered insolvent by reason of such dividend or repurchase. Under certain circumstances and with the approval of the holders of a majority of outstanding stock entitled to vote thereon, repurchases may be made from unrestricted or unreserved capital surplus, provided that the corporation is not, and will not be rendered, insolvent thereby. Delaware law provides that a corporation may declare and pay dividends out of surplus, or if no surplus exists, out of net profits for the current or preceding fiscal year (provided that the amount of capital of the corporation is not less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets). Additionally, Delaware law provides that a corporation may redeem or repurchase its shares only out of surplus.

#### **Tender Offers**

Under Tennessee law, an offeror who owns 5% of any class of a corporation's stock, any portion of which was purchased within one year prior to the offer, must, before increasing ownership to 10% or more, make a public announcement of the offeror's intention and file a statement of such intent with the corporation and the commissioner of insurance. In Delaware, any offeror who seeks to increase ownership of a corporation to 5% or more via an offer to more than thirty of the corporation's shareholders must file a statement with the corporation at least twenty but not more than sixty days prior to the offer. Tendered shares may be withdrawn under Tennessee law within seven days from the effective date of the offer or after sixty days from such date. Delaware law allows withdrawal within twenty days from the date the offer is first made.

Tender offer statutes similar to the Delaware and Tennessee statutes have been held to be unconstitutional in a number of state and federal court decisions. The Illinois Business Take-Over Act, the provisions of which are similar to the Delaware and Tennessee Tender Offer Statutes in certain respects, was invalidated by the United States Supreme Court. The Delaware statute itself has been held unconstitutional by several federal district courts, and enforcement of the Delaware statute has repeatedly been enjoined by the United States District Court for the District of Delaware. Accordingly, until the issue of constitutionality is decided by clearly controlling appellate court decisions or clarifying legislation is adopted, the validity and efficacy of the Delaware statute and the Tennessee statute as protection against takeover attempts are doubtful.

#### **Appraisal Rights**

Under Delaware law, a stockholder of a corporation participating in certain transactions may, under varying circumstances, receive cash in the amount of the fair value of his shares (as determined by a court) in lieu of the consideration such shareholder would otherwise receive in any such transaction. Under Delaware law, such dissenters' rights of appraisal are not available to

(i) stockholders with respect to a merger or consolidation by a corporation the shares of which are either listed on a national securities exchange or are held of record by more than 2,000 holders if such stockholders receive only shares of the surviving corporation or shares of any other corporation which are either listed on a national securities exchange or held of record by more than 2,000 holders or (ii) stockholders of a corporation surviving a merger if no vote of the shareholders of the surviving corporation is required to approve the merger because, among other things, the number of shares to be issued in the merger does not exceed 20% of the shares of the surviving corporation outstanding immediately prior to the merger and if certain other conditions are met. At the Record Date, there were 21,909 and 1,347 holders of record of Holiday Inns Common Stock and Series A Stock, respectively. Delaware law does not provide stockholders of a corporation with voting rights or appraisal rights when the corporation acquires another business through the issuance of its stock either (i) in exchange for the assets of the business to be required, (ii) in exchange for the outstanding stock of the business to be acquired or (iii) in a merger of the corporation to be acquired with a subsidiary of the corporation. Tennessee law provides that unless the charter of a corporation otherwise provides, a shareholder does not have dissenters' appraisal rights as to any shares which, at the date of the meeting at which the corporate action with respect to which he would otherwise have the right to dissent is presented for action, are registered on a "national securities exchange" as defined under the Securities Exchange Act of 1934, as amended. All outstanding shares of the Company's capital stock are registered on a national securities exchange. Dissenters' appraisal rights are not available to shareholders of the Company with respect to the Reorganization.

#### **THE CHANGE OF NAME PROPOSAL**

The Board of Directors of the Company has unanimously approved the proposed change of name of Holiday Inns (the "Change of Name Proposal") and recommends that shareholders of Holiday Inns approve the Change of Name Proposal. Pursuant to the Change of Name Proposal, Article I of the Restated Charter of Holiday Inns would be amended in its entirety to read: "The name of this corporation is and shall be HOLIDAY CORPORATION." The affirmative vote of a majority of the voting power of the outstanding shares of Holiday Inns Common Stock and Holiday Inns Series A Stock, voting together as a single class, is required to approve the Change of Name Proposal if the Reorganization is not approved and adopted. If the Reorganization is approved and adopted by the shareholders of the Company, the Company will maintain its present name and will become a wholly-owned subsidiary of a Delaware corporation which has the name "Holiday Corporation," and no other shareholder vote will be required.

The purpose of the Change of Name Proposal is to give the Company a new corporate identity, reflecting the evolution of the Company from a one brand hotel company into a corporation with five distinctive hotel brands, five hotel/casinos operating in the four major U.S. gaming markets and a multi-state restaurant chain.

#### **EFFECT OF REORGANIZATION ON AND ADOPTION OF CERTAIN BENEFIT PLANS**

The Board recommends a vote for the approval of the 1985 Long Term Performance Plan, the 1985 Restricted Stock Plan, and the amended Savings and Retirement Plan, all of which are described below. The affirmative vote of the holders of a majority of the voting power of the outstanding shares of Holiday Inns stock, voting together as a single class, is required for approval of each of these plans.

For purposes of these plans, the vote of the shareholders of the Company approving such plans will be deemed the vote of the stockholders of Holiday Corporation approving such plans if the Reorganization is approved and adopted. Upon the Reorganization becoming effective, Holiday Corporation will

be the "Company" under these plans and the Company's common stock issued or issuable under the plans will be Holiday Corporation Common Stock. If the Reorganization is not approved, the Board nevertheless recommends a vote FOR the 1985 Long Term Performance Plan, the 1985 Restricted Stock Plan and the amended Savings and Retirement Plan and, upon their approval by the stockholders, such plans would then constitute plans of Holiday Inns, Inc.

Approval of the Reorganization by the shareholders of Holiday Inns will also be deemed to constitute approval of Holiday Corporation's assumption of certain benefit plans of the Company as set forth above in "Compensation Pursuant to Plans" and any other modifications to the Company's benefit plans required or contemplated by the Reorganization.

### **APPROVAL OF 1985 LONG TERM PERFORMANCE PLAN**

The Board of Directors of the Company has adopted, subject to stockholder approval, the 1985 Long Term Performance Plan (the "Performance Plan"). The full text of the Performance Plan is set forth as Exhibit D hereto. The brief summary set forth below is not intended to be complete and reference should be made to Exhibit D for a complete statement of the terms and provisions of the Performance Plan.

#### **Administration**

The plan will be administered by the Executive Compensation Committee of the Board of Directors (the "Committee"). The Committee will have full power to approve participants, determine the size and timing of awards, established performance periods consisting of two or more consecutive fiscal years, administer performance criteria, approve payment of final awards, determine the form and manner of payment, and make any other determinations which it believes necessary or advisable for administration of the Performance Plan. No member of the Committee shall be eligible to receive an award under the Performance Plan.

If approved by the stockholders, the Performance Plan will be effective January 1, 1985. No initial award may be made after December 31, 1995.

#### **Awards**

The Performance Plan provides for the granting of contingent awards to selected key executive employees of the Company and its subsidiaries. Under the Performance Plan, participants are assigned an initial award by the Committee to be earned out over a performance period of two or more fiscal years as determined by the Committee. The initial award is based upon the participant's salary grade level, but the Committee has the right to use other considerations including the participant's responsibility level, recent performance and potential.

The Committee determines the final award for each participant based on the degree of attainment of the performance objectives established for the performance period. At the completion of the performance period, the initial award is multiplied by a percentage taken from a matrix of performance objectives. For corporate participants, the matrix will have on one axis a range of objectives for corporate return on equity for the period, and on the other axis, a range of objectives for average earnings per share for the period. For participants from the Company's operating groups, the matrix will have on one axis a range of objectives for average group return on invested capital for the period, and on the other axis a range of objectives for average group operating income for the period. The Committee may establish alternative performance objectives and different axis measurements for any given performance period, bearing in mind that a key objective of this Performance Plan is a close association between payments under the Performance Plan and returns to shareholders during each performance period.

The Committee may adjust any matrix objective, measurement of performance, or other computation for the purpose of preventing material distortion of final awards contrary to the purposes of the plan by reason of economic changes or trends or other events beyond the control of management of the Company, extraordinary items, accounting changes, acquisitions, divestitures, or changes in outstanding capital stock of the Company.

Normally, up to 50% of each final award will be paid in shares of the Company's common stock with the balance paid in cash, as the Committee may determine. No final awards may be made unless the average earnings per share during the period is a positive number. No payment may exceed 200% of the participant's base salary at the end of the performance period, unless the Committee determines that the participant's performance justifies a greater payment.

If the Company is acquired by a third party, the acquisition will automatically end all performance periods and participants will receive final awards in cash as soon as possible. The Reorganization will not be an acquisition by a third party for the purposes of the Performance Plan. Because the foregoing provision may impose additional costs upon the Company following a third party acquisition, it may tend to discourage any such acquisition. Any such award will be reduced to the extent necessary to prevent any excise tax under Section 280(G) of the Internal Revenue Code. Awards will be based on achievement of matrix objectives during the curtailed period and no final award in these circumstances will be less than the initial award.

#### **Eligibility**

It is anticipated that the Performance Plan will include approximately 30 key executives and that initial awards will be granted every two years starting in 1985. It is expected that each performance period will be four years in length and that no amounts will be paid under the Performance Plan until it has been in effect four years. Accordingly no employees or officers would have received any amounts under the plan if it had been in effect in 1984. Directors may only participate if they are employees. The Chief Executive Officer will select employees for participation in the plan and present such selections to the Committee. No employee will have a right to participate.

#### **Shares Subject to Performance Plan**

The number of shares of common stock that may be awarded under the Performance Plan may not exceed an aggregate of 200,000 shares, subject to adjustment by reason of stock dividends, stock splits, recapitalizations, reclassifications, mergers, consolidations, combinations or exchanges of shares, or similar corporate changes. No adjustments may be based on the issuance of stock warrants, rights or options, or the issuance of securities convertible to common stock. Shares available to the Performance Plan may be treasury shares or authorized and unissued shares, or any combination thereof. The shares available for the Performance Plan represent approximately one percent of the shares of common stock and common stock equivalents of Holiday Corporation that will be outstanding immediately after the Reorganization.

#### **Amendments to the Performance Plan**

The Board of Directors may amend the Performance Plan provided that no amendment to the plan or any matrix may adversely affect any participant in any performance period for which grants have been made without the consent of the participant and that no amendment may be made without shareholder approval, within 12 months, if the amendment (i) increases the maximum number of shares of common stock that may be paid out, (ii) increases the period during which initial awards may be made, (iii) permits an initial award to be made to a non-employee, (iv) modifies the requirements as to eligibility for participation, (v) changes the manner for valuing common stock for purposes of

computing stock to be paid under the plan or (vi) changes the provision in the plan as to qualification for membership on the Committee.

### **Tax Consequences**

The principal Federal income tax consequences of awards made under the Performance Plan are as follows. Recipients of an initial award will not realize any taxable income on the receipt of the initial award. Such persons will realize taxable income only at the completion of each applicable performance period in the amount or value of units that have been earned. If the participant has elected to defer all or a portion of such amount, the taxes on such amounts will similarly be deferred until such amounts are payable. The Company will be entitled to a tax deduction for Federal income tax purposes at the same time and in the same amount as a participant realizes taxable income.

### **APPROVAL OF 1985 RESTRICTED STOCK PLAN**

The Board of Directors of the Company has also adopted, subject to shareholder approval, the 1985 Restricted Stock Plan (the "Restricted Stock Plan"). The full text of this plan is set forth as Exhibit E hereto. The brief summary of the Restricted Stock Plan set forth below is not intended to be complete and reference should be made to Exhibit E for a complete statement of the terms and provisions of the Restricted Stock Plan.

The Restricted Stock Plan is intended to afford the Company additional means to further the earnings of the Company and facilitate securing, retaining, and motivating key employees of high caliber and potential, through periodic grants to them of awards of common stock (subject to certain transfer restrictions and forfeiture provisions as hereinafter noted). It is designed to take into account current tax and accounting regulations and competitive practices of other companies, and most importantly to best meet the present and future needs of the Company in attracting and retaining key employees with outstanding training, experience and ability.

### **Shares Subject to Restricted Stock Plan**

A maximum of 650,000 shares of common stock (adjusted in the event of certain capital changes) are reserved for issuance under the Restricted Stock Plan and may be authorized and unissued shares or treasury shares. Shares which are awarded and later forfeited shall again be available for issuance under the Restricted Stock Plan. At the present time this 650,000 share authorization represents approximately two percent of the shares of common stock and common stock equivalents of Holiday Corporation that will be outstanding immediately after the Reorganization.

### **Administration**

The Restricted Stock Plan shall be administered by the Executive Compensation Committee of the Board of Directors (the "Committee"). Committee members are ineligible to receive an award under the Restricted Stock Plan. The Restricted Stock Plan provides the Committee with a wide degree of flexibility in fashioning awards and determining the terms and conditions thereof to best satisfy the needs of the Company and its subsidiaries from time to time.

### **Eligibility**

The persons eligible to receive awards under the Restricted Stock Plan are key employees of the Company and its subsidiaries selected by the Chief Executive Officer of the Company and approved by the Committee who, in the judgment of the Committee, make significant contributions to the Company. Directors may also receive awards under the Restricted Stock Plan if they are key employees at the time of award. Awards need not be uniform and may be made on a selective basis. The Chief Executive Officer may recommend awards in recognition of outstanding performance.

It is estimated that approximately 350 key employees will initially be eligible to receive awards under the Restricted Stock Plan and no single initial award will exceed 2,000 shares. The individuals named in the compensation table of this Proxy Statement/Prospectus will be eligible to participate. The Restricted Stock Plan does not supersede the existing Restricted Stock Incentive Plan which will be assumed by Holiday Corporation. However, the Committee may take into account awards granted or outstanding under the Company's existing Restricted Stock Incentive Plan in determining whether to grant awards under the Restricted Stock Plan. If the Restricted Stock Plan had been in effect in 1984, Messrs. Schorr and Solomonson would have received awards of approximately 1,850 and 1,670 shares of Common Stock respectively. Messrs. Rose, Goeglein and Dixon would not have received awards.

#### **Awards**

Restricted stock awards will be in the form of shares of common stock of the Company, restricted as to transfer and subject to forfeiture during a specified period or periods. Each award shall be subject to such conditions, terms, and restrictions as shall be determined by the Committee. The Committee shall have the power to permit an acceleration of the expiration of the applicable restriction period with respect to any part or all of the shares awarded to a participant. If the Committee determines that listing, registration, or qualification of the common stock is required, or the consent or approval of any governmental regulatory body is required, or an agreement with the recipient respecting disposition of shares is necessary or desirable, such award shall not be made until such requirement has been effected to the satisfaction of the Committee.

In the event of a participant's termination of employment (except for death, disability, or retirement as discussed below) prior to the end of a restriction period, any shares upon which restrictions have not yet lapsed shall be automatically forfeited and returned to the Company without any payment to the participants or his successors, heirs, assigns or personal representatives.

The Committee from time to time shall establish policies and procedures applicable to awards that will govern the lapse or nonlapse of restrictions and the rights of participants and beneficiaries in the event of the death, disability or retirement of participants. These policies and procedures may differ with respect to awards granted at different times.

Shares awarded, and any right to vote such shares and to receive dividends thereon, may not be sold, assigned, transferred, exchanged, pledged, hypothecated, or otherwise encumbered during the restriction period applicable to such shares. During the restriction period, the recipient shall have all other rights of a stockholder, including, but not limited to, the right to receive dividends and vote such shares.

Certificates for restricted shares will be deposited with the Company or its designee during the restriction period. These certificates will bear such legend, if any, that the Committee deems appropriate. Upon the conclusion of the restriction period, the certificates representing those shares shall be released from custody of the Company and delivered to the participant, or his or her legal representative or beneficiary.

#### **General Provisions**

Upon issuance or transfer of shares of Common Stock under the Restricted Stock Plan, the Company has the right to withhold from any sums due to the recipient, or to require the recipient to remit to the Company, prior to delivery of any certificate, the tax required to be withheld by the Company as a result of such delivery. Dividend payments under the Restricted Stock Plan shall be net of an amount sufficient to satisfy withholding tax requirements.

The Restricted Stock Plan shall remain in effect until all shares awarded under the Plan are free of restrictions, but no award shall be made more than ten years after the date the Restricted Stock Plan is approved by the shareholders of the Company. Upon certain changes in the number of outstanding shares of Common Stock, the Committee shall adjust the number of shares to be issued under the Restricted Stock Plan and make corresponding equitable adjustments in restricted shares previously awarded.

The Committee may discontinue or amend the Restricted Stock Plan at any time, except that without stockholder approval, the Committee may not materially (a) increase either the maximum number of shares which may be issued under the Restricted Stock Plan (other than increases due to changes in capitalization), (b) increase the benefits accruing to participants under the plan, or (c) modify the requirements for eligibility for participation in the plan. The termination or any modification or amendment of the Restricted Stock Plan shall not, without the consent of a participant, affect a participant's rights under an award previously granted.

#### **Tax and Accounting Consequences**

A participant who receives a restricted stock award will realize ordinary income in an amount equal to the fair market value of shares on the date that all restrictions and risks of forfeiture terminate, unless the participant elects to be taxed on the fair market value of the shares on the date of the award. Participants may be prohibited from electing to be taxed upon the receipt of an award as one of the conditions determined by the Committee. The current intention of the Company is to make such a prohibition one of the conditions of each award. Ordinary income will be realized by a participant upon receipt of dividend payments. The Company will be entitled to a deduction for Federal income tax purposes at the same time and in the same amount as a participant realizes ordinary income.

When a participant disposes of shares of common stock acquired under the Restricted Stock Plan, any amount received in excess of the value of the shares on which the participant was previously taxed will be treated as long-term or short-term capital gain, depending upon the holding period following the date on which ordinary income is realized.

The fair market value of shares of restricted stock, generally determined at the time of grant, is charged to reported earnings over the restriction period.

#### **APPROVAL OF AMENDED SAVINGS AND RETIREMENT PLAN**

Holiday Corporation will assume and continue the Company's Savings and Retirement Plan (described above under "Compensation Pursuant to Plans"). The Board of Directors has adopted, subject to stockholder approval, amendments to the Savings and Retirement Plan.

#### **Discussion of Material Amendments to the Plan**

The following discussion briefly sets forth the material features of the plan, as amended (except for those features which are described under "Compensation Pursuant to Plans" above), and any material differences from the current plan:

(1) Under the current plan, the Company's matching contributions are funded by cash. Commencing January 1, 1985, the Company may use shares of the Company's common stock in addition to cash in order to fund the Company's matching contributions. The amended plan provides that the Company's matching contributions will be half in stock and half in cash. The Chairman of the Board of Directors of the Company, with approval of the Executive Compensation Committee, can alter the percentages of stock and cash contributed by the Company to the plan. The shares may be treasury shares and authorized and unissued shares, or a combination



thereof. The Company may also contribute cash to the plan with directions to acquire the Company's stock on the open market for investment in the plan. The Company's stock contributed to the plan will be invested in a separate investment fund maintained by the plan.

(2) In the current plan, participants may invest their own contributions in a guaranteed fund and an equity fund. In the amended plan, participants may also invest their contributions in the Company stock fund. Participants may alter and transfer their investments among the three funds, but the Company's stock contributed by the Company to the plan may not be transferred to another fund. Participants may not invest their contributions in the Company's stock until the issuance of such stock to participants has been effectively registered with the Securities and Exchange Commission. The Company intends to effect this registration as soon as practicable.

(3) Under the current plan, contributions by participants are on an after-tax basis. Pursuant to the amended plan, in addition to after-tax contributions, participants can contribute a certain percentage of their pay to the plan as pre-tax contributions pursuant to Section 401(k) of the Internal Revenue Code. The maximum percentage of pre-tax contributions is presently set at a maximum of 6% of pay for each participant, but this maximum can be adjusted by the Chairman of the Board for any particular period. In order to participate in the amended plan, an employee must contribute a minimum of 2% of his or her pay as a pre-tax contribution to the Plan.

(4) Under the current plan, the Company may contribute additional matching contributions (over a 25% base match) to the plan. Under the amended plan, the additional matching contribution by the Company can vary for each division of the Company based on that division's profit performance. Under the current plan, additional matching contributions by the Company are not flexible with respect to particular divisions. Under the amended plan, additional matching contributions for any division require the recommendation of the Chairman of the Board and approval of the Executive Compensation Committee. Under the current plan, additional matching contributions required the approval of the Company's Board of Directors or Executive Committee.

(5) Under the amended plan, participants will not have voting rights or any other decision rights on any Company stock in the plan except for the right to respond to third party tender or exchange offers or third party merger proposals. A third party is defined as anyone owning less than 50% of the common stock of the Company at the time of the proposal, other than the Company itself or affiliated companies.

(6) The amended plan contains recent ERISA and IRS requirements concerning spousal rights, breaks-in-service for pregnancy and adoption, procedures to handle divorce orders (qualified domestic relations orders), top heavy rules, and hardship withdrawals of section 401(k) pre-tax contributions.

(7) Under the current plan, 1,000 hours of service are required for eligibility and an employee must be employed by a participating division. Under the amended plan, an employee of a participating division must complete 1,000 hours of service and have 12 months of employment before becoming eligible. Actual participation begins on the January 1 or July 1 following completion of the service requirements. Under the current plan, the Board of Directors or the Executive Committee determines which subsidiaries of the Company participate in the plan. Under the amended plan, the Chairman of the Board will determine which subsidiaries will participate in the plan in addition to the Company.

(8) Under the current plan, participants may not borrow from their accounts. Under the amended plan, participants may borrow from their accounts subject to prescribed rules under the amended plan and IRS restrictions.

(9) Company employees who were participants in the current plan on December 31, 1984 are automatically participants in the amended plan as of January 1, 1985. It is expected that the amended plan will include employees of certain divisions who presently do not participate. The Company will undertake a communications and recruitment program to induce eligible employees to participate. At December 28, 1984, there were 6,217 participants in the plan.

#### **Vesting; Withdrawal Privilege; Miscellaneous**

Employee contributions are 100% vested immediately upon receipt by the plan. Company contributions gradually vest over an 8-year period. Employees can withdraw their own contributions and vested Company contributions, subject to certain withdrawal penalties prescribed by the plan. A participant's pre-tax contributions cannot be withdrawn prior to age 59½ except for death, disability, termination of employment, retirement, or financial hardship as set forth in the Plan.

New employees are permitted to rollover amounts from certain other qualified profit sharing or savings plans to the amended plan subject to IRS regulations and restrictions in the plan.

Under the current plan, forfeitures of Company contributions accrued to all participants. Under the amended plan, it is intended that forfeitures will accrue to participants of the participating division which employed the employee whose termination gave rise to the forfeiture.

#### **Shares Of Company Stock Allocated To The Plan**

The aggregate number of shares of the Company's common stock that may be issued from the Company's treasury stock or from authorized and unissued stock for matching contributions under the amended plan is 300,000 shares. These 300,000 shares constitute approximately one percent of the common stock and equivalents of Holiday Corporation that will be outstanding immediately after the reorganization. This number of shares is subject to adjustment by reason of stock dividends, stock splits, recapitalizations, reclassifications, mergers, consolidations, combinations, exchanges of shares, or similar corporate changes. The value of the shares of the Company's Common Stock in the plan including employee and Company contributions shall not exceed 50% of the total value of the plan assets.

#### **Amendments To The Plan**

The amended plan can be subsequently amended by the Company's Board of Directors or Executive Committee and, with respect to administrative requirements and required legal changes, by the Chairman of the Board. However, no amendment to the plan may be made without the vote of the Company's stockholders if the amendment would materially (a) increase the benefits accruing to participants under the amended plan, (b) increase the number of securities which may be issued under the plan, or (c) modify the requirements as to eligibility for participation in the plan.

#### **Company Contributions**

All officers of the Company who meet the eligibility requirements would be eligible to participate in the plan. See the description of the Savings and Retirement Plan under "Compensation Pursuant to Plans" above for a description of Company contributions and related earnings accruing to executive officers in 1984 under the current plan. If the amended plan had been in effect in 1984, there would be no change in Company contributions and related earnings accruing to executive officers, other officers, or employees under the plan. Except for increased Company contributions that may result from

admitting additional operating group and subsidiary employees to participate in the amended plan, the amended plan will not increase the amount of Company contributions to the plan.

### **IRS Requirements**

The amended Savings and Retirement Plan will be submitted to the Internal Revenue Service for a favorable determination letter as soon as practicable. Accordingly, the amended plan is subject to modification based upon requests and/or requirements of the Internal Revenue Service.

A copy of the amended plan has been filed with the Securities and Exchange Commission and reference should be made to such filed copy for a complete statement of the plan provisions.

### **RATIFICATION OF INDEPENDENT PUBLIC ACCOUNTANTS**

The Board of Directors, with the concurrence of the Audit Committee and subject to ratification by the shareholders, has appointed Arthur Andersen & Co. as the Company's independent public accountants for the 1985 fiscal year. Arthur Andersen & Co. has been the independent public accountants of the Company since 1971. A representative of Arthur Andersen & Co. will be present at the meeting and will be given an opportunity to make a statement and answer questions. The Board recommends that the appointment of Arthur Andersen & Co. be ratified. If the appointment is not ratified or if Arthur Andersen & Co. becomes incapable of action, or if their employment is terminated, the Board will appoint independent public accountants whose continued employment after the next Annual Meeting shall be subject to ratification by the shareholders. Upon consummation of the Reorganization, Arthur Andersen & Co. will become the independent public accountants for Holiday Corporation and its consolidated subsidiaries, including the Company.

### **EXPERTS**

The validity of the shares of Holiday Corporation Common Stock and Series A Stock to be issued in connection with the Reorganization will be passed upon by Craig H. Norville, Vice President and General Counsel of Holiday Corporation and of Holiday Inns. Mr. Norville beneficially owns 328 shares of Holiday Inns Common Stock.

Cadwalader, Wickersham & Taft are passing upon certain of the tax consequences of the Merger. See "Federal Income Tax Consequences."

### **SHAREHOLDER PROPOSALS**

For any proposal to be considered for inclusion in the Company's proxy statement and form of proxy for presentation at the Company's 1986 annual meeting of shareholders, it must be received at the Company's principal executive offices prior to November 22, 1985.

By Direction of the Board of Directors

HOLIDAY INNS, INC.  
Jerome A. Broadhurst, *Secretary*

Memphis, Tennessee  
March 22, 1985