

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2001-05-10** | Period of Report: **2001-03-31**
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FILER

HELLER FINANCIAL INC

CIK: **46738** | IRS No.: **361208070** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-06157** | Film No.: **1628780**
SIC: **6153** Short-term business credit institutions

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

- Quarterly report for the period ended March 31, 2001 pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission file number 1-6157

Heller Financial, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

36-1208070

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

500 W. Monroe Street, Chicago, Illinois

(Address of principal executive offices)

60661

(Zip Code)

(312) 441-7000

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

45,858,511 shares of Class A Common Stock, \$.25 par value, outstanding at April 26, 2001.

51,050,000 shares of Class B Common Stock, \$.25 par value, outstanding at April 26, 2001.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HELLER FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(in millions, except for information on shares)

ASSETS

March 31,

December 31,

	2001 —	2000 —
	(unaudited)	(audited)
Cash and cash equivalents	\$ 1,260	\$ 732
Receivables (Note 2)		
Commercial loans		
Term loans	4,532	4,973
Revolving loans	2,053	2,052
Real estate loans	2,771	2,686
Factored accounts receivable	2,249	2,615
Equipment loans and leases	3,590	3,640
	—————	—————
Total receivables	15,195	15,966
Less: Allowance for losses of receivables (Note 2)	339	342
	—————	—————
Net receivables	14,856	15,624
Equity and real estate investments	751	795
Debt securities	886	755
Operating leases	655	695

Investments in international joint ventures	211	216
Lending partnerships	328	267
Goodwill	448	458
Other assets	606	519
	<hr/>	<hr/>
Total assets	\$ 20,001	\$ 20,061
	<hr/>	<hr/>

LIABILITIES AND STOCKHOLDERS' EQUITY

Senior debt

Commercial paper and short-term borrowings	\$ 4,138	\$ 5,127
Notes and debentures (Note 3)	11,595	10,525
	<hr/>	<hr/>
Total senior debt	15,733	15,652

Credit balances of factoring clients	827	982
Other payables and accruals	846	840
	<hr/>	<hr/>
Total liabilities	17,406	17,474

Minority interest	13	12
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Stockholders' equity

Non-redeemable Preferred Stock	400	400
Class A Common Stock (\$.25 par; 500,000,000 shares authorized; 46,936,792 shares issued and 45,820,401 shares outstanding)	12	12
Class B Common Stock (\$.25 par; 300,000,000 shares authorized; 51,050,000 shares issued and outstanding)	13	13
Additional paid in capital	1,640	1,631
Retained earnings	605	554
Treasury stock (1,116,391 shares) (Note 5)	(26)	(19)
Accumulated other comprehensive income	(62)	(16)
	_____	_____
Total stockholders' equity	2,582	2,575
	_____	_____
Total liabilities and stockholders' equity	\$ 20,001	\$ 20,061
	_____	_____

The accompanying Notes to Consolidated Condensed Financial Statements
are an integral part of these statements.

HELLER FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(in millions, except for per share information)

	For the Three Months Ended March 31,	
	2001	2000
	(unaudited)	
Interest income	\$ 403	\$ 361
Interest expense	249	215
	_____	_____

Net interest income	154	146
Fees and other income	71	88
Factoring commissions	16	17
Income of international joint ventures	12	10
	_____	_____
Operating revenues	253	261
Operating expenses	111	117
Provision for losses	31	30
Small Business Finance charge	12	–
	_____	_____
Income before taxes, minority interest, and cumulative effect of change in accounting for derivatives	99	114
Income tax provision	31	38
Minority interest	–	1
	_____	_____
Income before cumulative effect of change in accounting for derivatives	68	75
	_____	_____
Cumulative effect on prior years of change in accounting for derivatives (net of taxes)	(4)	–
	_____	_____
Net income	\$ 64	\$ 75
	_____	_____

Dividends on preferred stock	\$	7	\$	7
		<u> </u>		<u> </u>
Net income applicable to common stock	\$	57	\$	68
		<u> </u>		<u> </u>
Basic net income applicable to common stock per share (Note 6)		0.59		
	\$	<u> </u>	\$	<u>0.70</u>
Diluted net income applicable to common stock per share (Note 6)		0.58		
	\$	<u> </u>	\$	<u>0.70</u>

The accompanying Notes to Consolidated Condensed Financial Statements
are an integral part of these statements.

**CONSOLIDATED CONDENSED STATEMENTS OF
CHANGES IN STOCKHOLDERS' EQUITY**
(in millions)
(unaudited)

	Non- Redeemable Preferred Stock	Class A Common Stock	Class B Common Stock	Treasury Stock (Note 6)	Add'l Paid In Capital	Accum. Other Compre- hensive Income	Retained Earnings	Total	Compre- hensive Income
BALANCE AT DECEMBER 31, 1999	\$400	\$12	\$13	\$ (9)	\$1,626	\$(27)	\$332	\$2,347	
Comprehensive Income:									
Net income	-	-	-	-	-	-	75	75	\$ 75
Other comprehensive income, net of tax:									
Unrealized loss on securities, net of tax benefit of \$3	-	-	-	-	-	-	-	(7)	(7)
Foreign currency translation adjustments, net of tax of \$ (16)	-	-	-	-	-	-	-	1	1
Other comprehensive income	-	-	-	-	-	(6)	-	-	(6)
Comprehensive income	-	-	-	-	-	-	-	-	\$ 69

Repurchase of Class A Common Stock	-	-	-	(13)	-	-	(13)	
Vesting of restricted shares	-	-	-	-	1	-	1	
Preferred stock dividends	-	-	-	-	-	-	(7)	(7)
Common stock dividends	-	-	-	-	-	-	(9)	(9)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
BALANCE AT MARCH 31, 2000	\$400	\$12	\$13	\$(22)	\$1,627	\$(33)	\$391	\$2,388
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
BALANCE AT DECEMBER 31, 2000	\$400	\$12	\$13	\$(19)	\$1,631	\$(16)	\$554	\$2,575
Comprehensive Income:								
Net income before cumulative effect of change in accounting for derivatives	-	-	-	-	-	-	68	68
Other comprehensive income, net of tax:								
Transition adjustment related to change in accounting for derivatives, net of tax of \$ (2)	-	-	-	-	-	-	-	(4)
Unrealized loss on qualifying cash flow hedges, net of tax of \$ (1)	-	-	-	-	-	-	-	(2)
Unrealized loss on securities, net of tax benefit of \$ 5	-	-	-	-	-	-	-	(8)
Foreign currency translation adjustments, net of tax of \$ (7)	-	-	-	-	-	-	-	(32)
Other comprehensive Income	-	-	-	-	-	(46)	-	(46)
Comprehensive income	-	-	-	-	-	-	-	\$ 22
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Issuance of Class A Common Stock	-	-	-	-	8	-	-	8
Repurchase of Class A Common Stock	-	-	-	(7)	-	-	-	(7)
Vesting of restricted shares	-	-	-	-	1	-	-	1
Preferred stock dividends	-	-	-	-	-	-	(7)	(7)
Common stock dividends	-	-	-	-	-	-	(10)	(10)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
BALANCE AT MARCH 31, 2001	\$400	\$12	\$13	\$(26)	\$1,640	\$(62)	\$605	\$2,582
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The accumulated other comprehensive income balance included \$0 million of unrealized losses, net of tax, on securities available for sale at March 31, 2001 and 2000, and unrealized losses, net of tax, on qualifying cash flow hedges of \$(1) million and \$0 million at March 31, 2001 and March 31, 2000, respectively. Accumulated other comprehensive income also included deferred foreign currency translation

adjustments, net of tax, of \$(57) million and \$(33) million at March 31, 2001 and March 31, 2000, respectively, and \$(4), net of tax, for the transition adjustment related to the change in accounting for derivatives at March 31, 2001.

The accompanying Notes to Consolidated Condensed Financial Statements
are an integral part of these statements.

HELLER FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(in millions)

	For the Three Months Ended March 31,	
	2001	2000
OPERATING ACTIVITIES	(unaudited)	
Income before cumulative effect of change in accounting for derivatives	\$ 68	\$ 75
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for losses	31	30
Amortization and depreciation	14	18
Losses from equity investments	9	1
Provision for deferred taxes	7	11
(Decrease) increase in accounts payable and accrued liabilities	(17)	64
Undistributed income of international joint ventures	(8)	(5)
Decrease in interest payable	(15)	(6)
Net decrease (increase) in other assets	14	(16)
Other	(15)	(3)
	_____	_____

Net cash provided by operating activities	88	169
INVESTING ACTIVITIES		
Longer-term loans funded	(941)	(1,420)
Collections of principal	389	714
Securitized, participations, syndications and loan sales	619	525
Net decrease (increase) in short-term loans and advances to factoring clients	512	(271)
Investment in operating leases	(27)	(298)
Investment in equity interests and other investments	(149)	(44)
Sales of investments and equipment on lease	55	40
Other	—	(54)
	<hr/>	<hr/>
Net cash provided by (used for) investing activities	458	(808)
FINANCING ACTIVITIES		
Senior note issuances	1,787	1,357
Retirement of notes and debentures	(802)	(409)
Decrease in commercial paper and other short-term borrowings	(989)	(281)
Net increase in advances from affiliates	2	—
Issuance of Class A Common Stock	8	—

Repurchase of Class A Common Stock	(7)	(13)
Cash dividends paid on preferred and common stock	(17)	(16)
Other	—	(1)
	_____	_____
Net cash (used for) provided by financing activities	(18)	637
	_____	_____
Increase (decrease) in cash and cash equivalents	528	(2)
Cash and cash equivalents at the beginning of the period	732	516
	_____	_____
Cash and cash equivalents at the end of the period	\$ 1,260	\$ 514
	_____	_____

The accompanying Notes to Consolidated Condensed Financial Statements
are an integral part of these statements.

HELLER FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(unaudited)

(1) Basis of Presentation

These consolidated condensed financial statements should be read in conjunction with the financial statements and notes included in the annual report on Form 10-K of Heller Financial, Inc. (including its consolidated subsidiaries, *Heller* or *the Company*, which may be referred to as *we*, *us* or *our*) for the year ended December 31, 2000. In management's opinion, all adjustments considered necessary for a fair presentation are included in these financial statements and were of a normal, recurring nature. Certain prior year amounts have been reclassified to conform to the current year's presentation.

(2) Impaired Receivables and Repossessed Assets

We do not recognize interest and fee income on impaired receivables or repossessed assets, both of which are classified as nonearning, as set forth in the following table:

	March 31, 2001	December 31, 2000
	_____	_____
	(in millions)	
Impaired receivables	\$ 294	\$ 285
Repossessed assets	21	22

Total nonearning assets	<u>\$ 315</u>	<u>\$ 307</u>
Ratio of total nonearning assets to total lending assets	<u>2.1%</u>	<u>1.9%</u>

Nonearning assets included \$30 million and \$37 million at March 31, 2001 and December 31, 2000, respectively, for our International Factoring and Asset Based Finance Segment.

The average investment in nonearning impaired receivables was \$291 million for the three months ended March 31, 2001 and \$211 million for the three months ended March 31, 2000.

Loan Modifications-

At March 31, 2001 and December 31, 2000, we did not have any loans that are considered troubled debt restructures. At March 31, 2001 there were no loans that were restructured and returned to earning status.

Allowance for Losses-

The change in the allowance for losses of receivables during the first three months of 2001 included an additional provision of \$31 million and gross writedowns and recoveries of \$44 million and \$13 million, respectively. Impaired receivables with identified reserve requirements totaled \$274 million at March 31, 2001 and \$260 million at December 31, 2000.

	<u>March 31, 2001</u>	<u>December 31, 2000</u>
	(in millions)	
Identified reserve requirement for impaired receivables	\$ 87	\$ 78
Additional allowance for losses of receivables	<u>252</u>	<u>264</u>
Total allowance for losses of receivables	<u>\$ 339</u>	<u>\$ 342</u>
Ratio of allowance for losses of receivables to nonearning impaired receivables	<u>115%</u>	<u>120%</u>

(3) Senior Debt - Notes and Debentures

We issued and retired the following notes and debentures during the three months ended March 31, 2001 (excluding unamortized premium and discount):

	<u>Principal Amount</u>
	(in millions)
Issuances:	
Variable rate notes due on various dates ranging from July 17, 2001 to June 20, 2004	\$ 168
Fixed rate notes with interest rates ranging from 5.58% to 6.40% due on various dates ranging from December 11, 2001 to March 15, 2006	1,619

\$	1,787
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Retirements:

Variable rate notes due on various dates ranging from January 12, 2001 to March 19, 2001	\$	290
Fixed rate notes with interest rates ranging from 5.48% to 7.27% due on various dates ranging from January 16, 2001 to March 1, 2001		512
	\$	802

At March 31, 2001, we have total committed credit and asset sale facilities totaling \$5.7 billion, of which \$5.6 billion was available for use at March 31, 2001.

We have approximately \$4.2 billion in available liquidity support, split equally between two bank credit facilities. One of these is a 5-year facility expiring in April 2005 and the other is a 364-day facility expiring in April 2001. See Note 10-*Subsequent Events*-for information on the renewal of our 364-day bank credit facility.

Also included in committed facilities are foreign bank credit facilities totaling \$1 billion (U.S. dollar equivalent) for our consolidated international subsidiaries and \$15 million under foreign currency revolving credit facilities. As of March 31, 2001, there was approximately \$950 million available under these facilities.

Also included in committed facilities is approximately \$240 million of additional alternative liquidity, which is available by discounting eligible French receivables with the French Central Bank since FactoFrance is a registered financial institution in France. The entire facility was available for use at March 31, 2001.

In addition to the above facilities, our wholly-owned subsidiary, FactoFrance, has two factored accounts receivable sale facilities. These facilities allow us to sell an undivided interest of up to FRF 1.7 billion (approximately \$250 million) in a designated pool of our factored accounts receivable to two bank-sponsored conduits, on a limited recourse basis. As of March 31, 2001, these facilities were fully utilized.

We have an asset backed commercial paper conduit facility that allows us to sell participations in a designated pool of Corporate Finance cash-flow loans to bank-sponsored conduits, on a limited recourse basis. Liquidity support under this facility totals \$1.4 billion, of which \$1 billion was utilized at March 31, 2001. The underlying liquidity support for the conduits is provided by unaffiliated commercial banks. The commitment period of this liquidity support is 364 days and may be renewed annually by the banks, at their discretion.

We have a shelf registration statement, filed with the Securities and Exchange Commission, covering the sale of up to \$10 billion in debt securities (including medium-term notes), senior preferred stock and Class A Common Stock. As of March 31, 2001, we had approximately \$4.3 billion available under this shelf registration.

We have a Euro Medium-Term Note Program for the issuance of up to \$2 billion (U.S. dollar equivalent) in notes to be issued from time to time. As of March 31, 2001, approximately \$1.2 billion (U.S. dollar equivalent) was available under this program.

We have a Euro commercial paper program and a Canadian commercial paper program for the issuance of notes up to \$1 billion and \$250 million (U.S. dollar equivalent), respectively. As of March 31, 2001, there was \$449 million and \$211 million, respectively, available under these programs.

(4) Derivative Financial Instruments Used for Risk Management Purposes

We utilize derivatives, primarily interest rate swaps, to match more closely the interest rate and maturity characteristics of our assets and liabilities. Derivatives that qualify as fair value hedges include interest rate swaps that change the characteristics of fixed rate debt to that of variable rate debt and interest rate swaps that alter the interest rate characteristics of specific fixed rate asset pools to more closely match the interest rate terms of the underlying financing. Derivatives that qualify as cash flow hedges include interest rate swaps that change the characteristics of variable rate debt to that of fixed rate debt. We also use interest rate swaps to modify the variable rate basis of a liability to more closely match the variable rate basis used for variable rate receivables.

At March 31, 2001, we had approximately \$5.5 billion and \$2.2 billion in notional amount of interest rate swaps and basis swap agreements, respectively.

We also utilize interest rate futures, as fair value hedges, to hedge the interest rate risk of a portion of our fixed rate receivables portfolio. At March 31, 2001 we held 10-year, 5-year, and 2-year interest rate futures contracts with equivalent notional amounts of \$192 million, \$58 million and \$91 million, respectively.

To minimize the effect of fluctuations in foreign currency exchange rates on our financial results, we periodically enter into forward currency exchange contracts, cross currency swap agreements or enter into currency options or currency option combinations. These financial instruments serve as hedges of our foreign investment in international subsidiaries and joint ventures or effectively hedge the translation of the related foreign currency income. We held \$1.2 billion in notional amount of forward currency exchange contracts, and \$725 million in notional amount of cross currency swap agreements at March 31, 2001. Included in the cross currency interest rate swap agreements were \$523 million used to hedge debt instruments issued in foreign currencies as of March 31, 2001. The remaining cross currency interest rate swap agreements were primarily used to hedge foreign currency denominated intercompany receivables. Through these contracts, we effectively sell the local currency and buy U.S. dollars. We also periodically enter into forward contracts to hedge receivables denominated in foreign currencies or purchase foreign currencies in the spot market to settle a foreign currency denominated liability.

During the three months ended March 31, 2001, we entered into \$1.8 billion of interest rate swaps. These instruments had the effect of converting \$1.6 billion of fixed rate debt to a variable rate, \$119 million of variable rate debt to another variable rate index, \$34 million of variable rate debt to a fixed rate and \$12 million of fixed rate assets to a variable rate. During the same period, \$1.2 billion of our interest rate swaps were terminated or matured.

For the quarter ended March 31, 2001, the combined effect of a net gain of less than \$1 million was driven primarily by a gain on fair value hedges of fixed rate assets of approximately \$4 million, offset by a loss on the hedges of foreign currency intercompany debt of slightly less than \$4 million. These amounts are classified as Other Income on the Consolidated Condensed Statements of Income. The income statement impact of cash flow hedges was not significant for the first quarter and is not expected to have a significant impact for the year.

For forward contracts that qualify as hedges of the foreign currency exposure of our net investments in foreign operations, a gain of \$6.5 million is included in the cumulative translation adjustment for the quarter ended March 31, 2001.

(5) Treasury Stock

We have an executive deferred compensation plan (the *Plan*) in which certain of our employees may elect to defer a portion of their annual compensation on a pre-tax basis. The amount deferred remains an asset of Heller and is invested in several mutual funds and in Class A Common Stock of Heller. Investments in our Class A Common Stock under this Plan are reported as treasury stock and are included in the calculation of basic and diluted earnings per share. At March 31, 2001, we held 361,450 shares of treasury stock through the Plan.

In addition, we held 754,941 shares of our Class A Common Stock for use in meeting the requirements of our current stock incentive compensation plans and for other corporate purposes.

(6) Basic and Diluted Net Income Per Share and Pro Forma Net Income Per Share

The following table shows the calculation of net income applicable to common stock per share on a basic and diluted basis for the periods indicated:

Quarter Ended March 31,

	Basic		Diluted	
	2001	2000	2001	2000
	Net income applicable to common stock (in millions)	\$ 57	\$ 68	\$ 57
Average equivalent shares of common stock outstanding (in thousands)	96,999	96,677	96,999	96,677
Stock options	—	—	973	95
Total average equivalent shares	96,999	96,677	97,972	96,772
Net income per share	\$ 0.59	\$ 0.70	\$ 0.58	\$ 0.70

The table below presents net income applicable to common stock per share on a basic and diluted basis, excluding the after-tax charge related to the discontinuation of the origination of Small Business Administration (SBA) loans through our Small Business Finance unit, and a one-time charge for the cumulative effect of a change in accounting for derivatives:

	Basic		Diluted	
	2001	2000	2001	2000
	Net income applicable to common stock, net of Small Business Finance charge and cumulative effect of a Change in accounting for derivatives (in millions)	\$ 69	\$ 68	\$ 69

Average equivalent shares of common stock outstanding (in thousands)	96,999	96,677	96,999	96,677
Stock options	—	—	973	95
Total average equivalent shares	96,999	96,677	97,972	96,772
Net income per share	\$ 0.71	\$ 0.70	\$ 0.70	\$ 0.70

(7) Statement of Cash Flows

Noncash investing activities that occurred during the three month period ended March 31, 2001 included \$4 million of receivables classified as repossessed assets. We paid income taxes of \$19 million and \$34 million during the three month periods ended March 31, 2001 and 2000, respectively.

(8) Operating Segments

The following table summarizes financial information concerning our reportable segments:

	Domestic Commercial Finance	International Factoring and Asset Based Finance	Consolidated Company
Total assets:			
March 31, 2001	\$ 17,190	\$ 2,811	\$ 20,001
December 31, 2000	16,792	3,269	20,061
Total revenues:			
March 31, 2001	\$ 431	\$ 71	\$ 502
March 31, 2000	390	86	476
Net income:			
March 31, 2001	\$ 52 (1)	\$ 12	\$ 64
March 31, 2000	58	17 (2)	75

(1) includes a net after-tax charge of \$8 million for the discontinuation of the origination of SBA loans and a net after-tax charge of \$4 million for the cumulative effect of a change in accounting for derivatives.

(2) includes a net after-tax gain of \$7 million relating to the sale of one international investment and the liquidation of another.

(9) Small Business Finance Charge

In connection with the decision to discontinue the origination of SBA loans through the Small Business Finance unit, we incurred a one time pre-tax charge of approximately \$12 million (approximately \$8 million after-tax). This amount primarily relates to severance benefits and facility-related costs.

Of the total costs incurred related to this transaction, approximately \$5 million remains a liability as of March 31, 2001.

(10) Subsequent Events

Declaration of Dividends –

<u>Stock</u>	<u>Declaration Date</u>	<u>Dividend per Share</u>	<u>Record Date</u>	<u>Payable Date</u>
Class A Common	April 19, 2001	\$ 0.10	May 1, 2001	May 15, 2001
Class B Common	April 19, 2001	\$ 0.10	May 1, 2001	May 15, 2001
Cumulative Perpetual Senior Preferred Stock, Series A	April 19, 2001	\$ 0.5078125	May 1, 2001	May 15, 2001
Fixed Rate Noncumulative Perpetual Senior Preferred Stock, Series C	April 19, 2001	\$ 1.67175	May 1, 2001	May 15, 2001
Fixed Rate Noncumulative Perpetual Senior Preferred Stock, Series D	April 19, 2001	\$ 1.7375	May 1, 2001	May 15, 2001

Preferred Stock Redemption-

In April 2001, we announced that all of the 5,000,000 outstanding shares of our 8-1/8% Cumulative Perpetual Senior Preferred Stock, Series A, will be redeemed on May 15, 2001. The redemption price will be \$25.00 per share, plus accrued and unpaid dividends to the date of redemption, payable to holders of record thereof on May 1, 2001.

Mandatory Enhanced Dividend Securities Offering-

On May, 2001, the Company sold 7,000,000 units of Mandatory Enhanced Dividend Securities (*MEDS*) at \$25 per unit, for total gross proceeds of \$175 million. Each *MEDS* unit will be convertible to a variable number of shares of class A common stock in three years from the time of purchase.

Bank Credit Facility Renewal-

On April 26, 2001, we increased and renewed our 364-day bank credit facility for a total amount of \$2.2 billion.

(11) Accounting Developments

Statement of Financial Accounting Standards No. 133

Effective January 1, 2001, the Company adopted the provisions of the Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by Statement of Financial Accounting Standards No. 137, *Deferral of the Effective Date of FASB Statement No. 133* and Statement of Financial Accounting Standards No. 138, *Accounting for Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* (collectively referred to as *SFAS No. 133*). This Statement establishes accounting and reporting standards requiring all derivative instruments (including certain derivative instruments embedded in other

contracts) to be recorded in the balance sheet as either an asset or liability measured at its fair value. Changes in the fair value of the derivative are to be recognized currently in earnings unless specific hedge accounting criteria are met. Special

accounting for qualifying hedges allows gains and losses on derivatives to offset related results on the hedged items in the income statement and requires that a company must document, designate, and assess the effectiveness of transactions that receive hedge accounting.

Adoption of this new accounting standard resulted in:

cumulative before-tax reductions in net income of approximately \$6 million (approximately \$4 million after-tax) recorded in the first quarter of 2001; and
after-tax reductions through other comprehensive income, a component of stockholders' equity, of approximately \$1 million in the first quarter of 2001.

The adjustment to net income relates primarily to certain economic hedging relationships that do not qualify for special accounting treatment under the new standard as well as ineffectiveness arising from other hedging relationships. The one-time impact of implementing SFAS No. 133 is the effect of an accounting change and should, therefore, not be considered as part of our results of operations for 2001.

Statement of Financial Accounting Standards No. 140

In September 2000, the FASB issued SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a replacement of FASB Statement No. 125*. This statement requires new disclosures about securitization transactions entered into during the period, and retained interests in securitized financial assets existing at the balance sheet date. Other provisions of SFAS No. 140, including a revision to the criteria for qualifying special purpose entities (QSPEs), must be applied prospectively to transfers of financial assets and extinguishments of liabilities occurring after March 31, 2001. We are incorporating the provisions of this statement to transactions beginning in the second quarter of 2001. The adoption of SFAS No. 140 did not have an impact on the financial results of the Company.

Proposed Statement on Business Combinations and Intangible Assets

The FASB has reached a tentative agreement to modify the accounting for business combinations. Under the proposed modification, pooling-of-interests accounting would be eliminated. Additionally, the goodwill generated in a purchase acquisition transaction would no longer be amortized against earnings over an estimated life. Instead, goodwill would be recorded as a permanent asset and would be reviewed for impairment and expensed against earnings only in periods in which its recorded value exceeded its fair market value.

There is no specific deadline for the completion of the FASB's review of this project. The earliest expected completion date is the end of the second quarter of 2001. FASB has indicated that all issues raised under this exposure draft remain open to continuing deliberation. The elimination of pooling-of-interests accounting will not impact the Company as we are majority-owned by Fuji America Holdings, Inc., and therefore do not qualify for pooling-of-interests accounting.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Overview. Net income for the three months ended March 31, 2001 totaled \$76 million, excluding the effect of a one-time charge of \$8 million, net of tax, related to the discontinuation of the origination of SBA loans through our Small Business Finance unit, and a one-time charge of \$4 million, net of tax, related to the adoption of the new accounting standard for derivatives. This compares to \$75 million for the same prior year period. Prior to adjusting for these one-time charges in the first quarter of 2001, net income was \$64 million. Net income applicable to common stock for the three months ended March 31, 2001 was \$69 million, after adjusting for the two one-time charges in the first quarter of 2001. This compares to \$68 million for the same prior year period. Including the two one-time charges in the first quarter of 2001, net income applicable to common stock was \$57 million.

Operating Revenues. The following table summarizes our operating revenues for the three months ended March 31, 2001 and 2000:

For the Three Months Ended
March 31,

	2001	Percent	2000	Percent
	Amount	of AFE (annualized)	Amount	of AFE (annualized)
	(dollars in millions)			
Net interest income	\$ 154	3.6%	\$ 146	3.7%
Non-interest income:				
Fees and other income	71	1.7	88	2.2
Factoring commissions	16	0.3	17	0.4
Income of international joint ventures	12	0.3	10	0.3
 Total operating revenues	 \$ 253	 5.9%	 \$ 261	 6.6%

Net Interest Income: Net interest income increased by \$8 million or 5% for the first three months of 2001 versus 2000. The increase in net interest income is due to growth in our portfolio of lending assets for the first quarter of 2001 over the prior year period. Net interest margin as a percentage of Average Funds Employed (AFE) was 3.6% for the quarter ended March 31, 2001, modestly lower than the prior year quarter. This decrease reflects the impact of wider market credit spreads which caused our funding costs to increase relative to the rates we charge on our loans.

Non-Interest Income: The following table summarizes our non-interest income for the three months ended March 31, 2001 and 2000:

	For the Three Months		Increase/(Decrease)	
	Ended March 31,		Amount	Percent
	2001	2000		
	(dollars in millions)			
Factoring commissions	\$ 16	\$ 17	\$ (1)	(6)%
Income of international joint ventures	12	10	2	20
Fees and other income:				
Investment and asset sale income (1)	48	64	(16)	(25)
Fee income and other (2)	23	24	(1)	(4)
 Total fees and other income	 \$ 71	 \$ 88	 \$ (17)	 (19)%
 Total non-interest income	 \$ 99	 \$ 115	 \$ (16)	 (14)%
Non-interest income as a percentage of AFE (annualized)	2.3%	2.9%		

- (1) Investment and asset sale income includes gains on securitizations, syndications and loan sales, net investment income and gains, equipment residual gains and participation income.
- (2) Fee income and other consists primarily of loan servicing income, late fees, prepayment fees, early termination fees, residual rental income and other miscellaneous income.

Factoring commissions decreased modestly by \$1 million, or 6% for the three months ended March 31, 2001 compared to the same prior year period. The decrease is primarily due to changes in exchange rates which have negatively affected the U.S. dollar equivalent for our consolidated subsidiaries' factoring commissions. Factofrance's commission rates increased slightly but were more than offset by a 7%

decrease in factoring volume for the first three months of 2001 compared to the same prior year period. In local currency, however, FactoFrance's factoring volume remained essentially flat over the same prior year period.

Income of international joint ventures increased \$2 million or 20% for the three months ended March 31, 2001 as compared to the prior year. These increases are primarily due to higher income from our European and Latin American joint ventures.

Fees and other income totaled \$71 million and decreased \$17 million, or 19% for the first quarter of 2001 as compared to the prior year period due to a decrease in investment and asset sale income. Higher residual gains for the quarter ended March 31, 2001 were more than offset by a decline in income from our investments in limited partnership funds. In addition, the first quarter of 2000 included a net gain from the sale of one international investment and the liquidation of another.

Operating Expenses. The following table summarizes our operating expenses for the three months ended March 31, 2001 and 2000:

	For the Three Months		Increase/(Decrease)	
	Ended March 31,		Amount	Percent
	2001	2000		
	(dollars in millions)			
Salaries and other compensation	\$ 56	\$ 62	\$ (6)	(9.7)%
General and administrative expenses	49	49	—	—
Goodwill and non-compete amortization	6	6	—	—
Total operating expenses	\$ 111	\$ 117	\$ (6)	(5.1)%
Total operating expenses as a percentage of average managed assets (annualized)	2.4%	2.7%		
Ratio of operating expenses to operating revenues	44%	45%		
Ratio of operating expenses, excluding goodwill and non-compete amortization, as a percentage of operating revenues	42%	43%		

Operating expenses totaled \$111 million for the first quarter, a decrease of \$6 million or 5% in comparison to the first quarter of 2000. The decrease is primarily due to staff reductions related to our decision to stop originating SBA loans and a reduction in compensation expense from our executive deferred compensation plan. The reduction in compensation expense for the executive deferred compensation plan is completely offset by a reduction in fees and other income. As a result, there is no net impact on our consolidated results of operations related to this item.

Heller's efficiency ratio improved to 44% for the first quarter of 2001 from 45% from the prior year period, as we continue to focus on controlling expense growth. Operating expenses as a percentage of average managed assets also improved to 2.4% from 2.7% for the same prior year period.

Small Business Finance Charge. We incurred a one time pre-tax charge of approximately \$12 million (approximately \$8 million after-tax) in connection with the decision to discontinue the origination of SBA loans through our Small Business Finance unit. This charge is primarily related to employee severance and facility related-costs. See Note 9 of our Consolidated Financial Statements.

Allowance for Losses. The following table summarizes the changes in our allowance for losses of receivables, including our provision for losses of receivables and repossessed assets, for the three months ended March 31, 2001 and 2000:

	For the Three Months		Increase/(Decrease)	
	Ended March 31,		Amount	Percent
	2001	2000		

Balance at beginning of period	\$ 342	\$ 316	\$ 26	8	%
Provision for losses	31	30	1	3	
Writedowns	(44)	(26)	(18)	(69)	
Recoveries	13	3	10	333	
Other	(3)	(2)	(1)	(50)	
Balance at end of period	\$ 339	\$ 321	\$ 18	6	%
Allowance as a % of receivables	2.2	%	2.1	%	

During the first quarter of 2001 net writedowns totaled \$31 million, or 0.81% of average lending assets, in line with our targeted average level of 0.75% over a business cycle. Net writedowns for the first quarter of 2000 totaled \$23 million or 0.62% of average lending assets. The increase in net-writedowns in the first quarter of 2001 relative to the same prior year period is due to the considerably slower growth in the U.S. economy in 2001, which resulted in higher writedowns in our cash-flow financings within the Corporate Finance portfolio. At March 31, 2001 the allowance for losses of receivables represented 2.2% of receivables.

Income Taxes. Our effective tax rate totaled 31% for the three months ended March 31, 2001 compared to 33% for the same prior year period. The effective rate for 2001 and 2000 remained below federal and state combined statutory rates due to the effect of earnings from international joint ventures, the use of tax credits and the impact of state tax planning activities.

LENDING ASSETS AND INVESTMENTS

Lending assets and investments were \$18.0 billion at March 31, 2001, down 4% from the December 31, 2000 level. Domestic new business volume of approximately \$1.1 billion for the three months ended March 31, 2001 was more than offset by portfolio runoff, syndications and loan sales of nearly \$1.4 billion. Domestic new business volume decreased from the same prior year period primarily as a result of a significant number of operating lease transactions within our Leasing Services unit in the first quarter of 2000, as well as our decision to stop originating SBA loans in the first quarter of 2001. International Factoring and Asset Based Finance experienced a decrease in lending assets and investments from the prior year-end as a result of cyclical declines and the negative effect of foreign currency exchange rate movements. The following tables present our lending assets and investments by business segment and asset type as of March 31, 2001 and December 31, 2000:

	Lending Assets and Investments as of			
	March 31,		December 31,	
	2001	Percent	2000	Percent
	(dollars in millions)			
By Business Segment:				
Domestic Commercial Finance Segment				
Corporate Finance (1)	\$ 4,952	28	\$ 5,225	28
Leasing Services	4,344	24	4,434	24
Real Estate Finance	2,867	16	2,766	15
Healthcare Finance	1,625	9	1,563	8
Small Business Finance	1,333	7	1,440	8
Other	401	2	387	2
Total Domestic Commercial Finance Segment	15,522	86	15,815	85
International Factoring and Asset Based Finance Segment	2,525	14	2,901	15
Total lending assets and investments	\$ 18,047	100	\$ 18,716	100

By Asset Type:	Lending Assets and Investments as of					
	March 31,			December 31,		
	2001	Percent		2000	Percent	
	(dollars in millions)					
Receivables	\$15,195	84	%	\$15,966	85	%
Repossessed assets	21	—		22	—	
Total lending assets	15,216	84		15,988	85	
Debt securities	886	5		755	4	
Equity and real estate investments	751	4		795	4	
Operating leases	655	4		695	4	
Lending partnerships	328	2		267	2	
International joint ventures	211	1		216	1	
Total lending assets and investments	\$18,047	100	%	\$18,716	100	%
Average lending assets	\$15,602			\$15,456		
Total managed assets (2)	\$18,633			\$18,877		
Average managed assets (2)	\$18,755			\$17,516		
Funds employed (3)	\$17,220			\$17,734		
Average funds employed (3)	\$17,333			\$16,978		

- (1) Lending assets and investments at March 31, 2001 and December 31, 2000 were reduced by \$1 billion and \$700 million, respectively, of commercial cash flow loans sold to an asset backed commercial paper conduit facility.
- (2) Total managed assets include funds employed, plus receivables previously securitized or sold, for which we hold securities giving us an economic interest in the performance of these assets.
- (3) Funds employed include lending assets and investments, less credit balances of factoring clients.

Corporate Finance lending assets and investments decreased by \$273 million since the prior year-end as first quarter new business volume of approximately \$370 million was more than offset by \$300 million of commercial cash flow loans sold to an asset backed commercial paper conduit facility, combined with over \$300 million of syndications and payoffs.

Leasing Services lending assets and investments decreased by nearly \$90 million during the first three months of 2001 as new business volume of over \$300 million was more than offset by syndications, loan sales and payoffs of over \$400 million.

Growth in Real Estate Finance lending assets and investments of \$101 million, or 4%, during the first quarter of 2001 was driven by new business volume of over \$200 million and increased borrowings under existing lines of over \$30 million. Asset growth was partially offset by \$155 million in payoffs, syndications and loan sales.

Healthcare Finance lending assets and investments increased \$62 million, or 4% from the prior year-end and was driven by new business volume of \$110 million, partially offset by payoffs of over \$40 million.

Lending assets and investments of Small Business Finance decreased by \$107 million or 7% from 2000, primarily due to the decision to discontinue the origination of SBA loans. Loan sales and payoffs of \$160 million more than offset new business volume of \$55 million for the quarter ended March 31, 2001. See Note 9 of our Consolidated Financial Statements.

Lending assets and investments of our International Factoring and Asset Based Financing Segment decreased approximately \$400 million from the prior year-end due to cyclical declines and the negative effect of foreign currency exchange rate movements of approximately \$170 million.

At March 31, 2001, we had contractually committed to finance approximately \$2.7 billion to new and existing borrowers. Our obligation to fund commitments is generally contingent upon the maintenance of specific credit standards by our borrowers. Since we expect many of the commitments to remain unused, the total commitment amount does not necessarily represent future cash requirements. We do not have any significant commitments to provide additional financing related to nonearning assets.

Revenues

Total revenues include:

- interest income, including rental income from operating leases;
- fees and other income from domestic and consolidated international operations;
- factoring commissions; and
- our share of the net income of our international joint ventures.

The following table shows our total revenues for the three months ended March 31, 2001 and 2000:

	Total Revenues			
	For the Three Months Ended March 31,			
	2001	Percent	2000	Percent
	(dollars in millions)			
Domestic Commercial Finance Segment				
Corporate Finance	\$ 130	26%	\$ 151	32%
Leasing Services	112	22	95	20
Real Estate Finance	79	16	63	13
Healthcare Finance	49	10	34	7
Small Business Finance	40	8	33	7
Other	21	4	14	3
Total Domestic Commercial Finance Segment	431	86	390	82
International Factoring and Asset Based Finance Segment	71	14	86	18
Total revenues	<u>\$ 502</u>	<u>100%</u>	<u>\$ 476</u>	<u>100%</u>

Total revenues increased \$26 million or 5% from the prior year period principally reflecting increases in interest income and income from international joint ventures, partially offset by lower fees and other income. Corporate Finance experienced a \$21 million decrease in revenues primarily due to a decrease in interest income, resulting from a significantly lower level of AFE, as well as lower net investment income. This reduction in AFE is due to the sale of \$700 million and \$300 million of Corporate Finance cash-flow loans to an asset-backed commercial paper conduit facility in the second half of 2000 and the first quarter of 2001, respectively. Leasing Services revenues increased \$17 million due to an increase in interest income resulting from a higher level of AFE and higher residual gains. Real Estate Finance revenues increased \$16 million due to an increase in interest income resulting from a higher level of AFE and higher net investment gains. Healthcare Finance revenues increased \$15 million due to an increase in interest income resulting from a higher level of AFE and higher fees and other income.

Small Business Finance revenues increased as a result of higher income recognized from the sale of \$108 million of SBA 7(a) loans. International Factoring and Asset Based Finance experienced a \$15 million decrease in revenues as higher interest income and income from international joint ventures were more than offset by lower investment and asset sale income, resulting primarily from a net gain on the sale of one international investment and the liquidation of another in the first quarter of the prior year.

PORTFOLIO QUALITY

The credit quality of our portfolio continues to reflect the effectiveness of our credit strategies, underwriting and portfolio management and disciplined credit approval process. As of March 31, 2001, nonearning assets were \$315 million or 2.1% of lending assets, at the low end of our targeted range of nonearning assets of 2-4% of lending assets. The following tables present certain information with respect to the credit quality of our portfolio:

	<u>March 31,</u> <u>2001</u>	<u>December 31,</u> <u>2000</u>
	(dollars in millions)	
Lending Assets and Investments:		
Receivables	\$ 15,195	\$ 15,966
Repossessed assets	21	22
	<hr/>	<hr/>
Total lending assets	15,216	15,988
Equity and real estate investments	751	795
Debt securities	886	755
Operating leases	655	695
Lending partnerships	328	267
Investment in international joint ventures	211	216
	<hr/>	<hr/>
Total lending assets and investments	\$ 18,047	\$ 18,716
	<hr/>	<hr/>
Nonearning Assets:		
Impaired receivables	\$ 294	\$ 285
Repossessed assets	21	22
	<hr/>	<hr/>
Total nonearning assets	\$ 315	\$ 307
	<hr/>	<hr/>
Ratio of nonearning impaired receivables to receivables	1.9%	1.8%
	<hr/>	<hr/>
Ratio of total nonearning assets to total lending assets	2.1%	1.9%
	<hr/>	<hr/>
Allowances for Losses:		
Allowance for losses of receivables	\$ 339	\$ 342
	<hr/>	<hr/>
Ratio of allowance for losses of receivables to:		
Receivables	2.2%	2.1%
	<hr/>	<hr/>
Net writedowns (annualized)	2.7x	3.0x
	<hr/>	<hr/>
Nonearning impaired receivables	115%	120%
	<hr/>	<hr/>
Delinquencies:		
Earning loans delinquent 60 days or more	\$ 259	\$ 267
	<hr/>	<hr/>

Ratio of earning loans delinquent 60 days or more to
receivables

1.7% 1.7%

**For The Three Months
Ended March 31,**

2001	2000
(dollars in millions)	

Net writedowns of lending assets:

Total net writedowns

\$ 31	\$ 23
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Ratio of net writedowns to average lending assets
(annualized)

0.81	%0.62 %
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Nonearning Assets. Our nonearning assets were \$315 million or 2.1% of lending assets at March 31, 2001. Nonearning assets remain at the low end of our targeted range of 2-4% of lending assets. Included in nonearning assets are repossessed assets of \$21 million at March 31, 2001 and \$22 million at December 31, 2000.

Allowance for Losses. The allowance for losses of receivables totaled \$339 million representing 2.2% of receivables at March 31, 2001, a slight percentage increase from December 31, 2000. The Company considers this level of allowance for loan losses to be adequate to cover losses inherent in our loan portfolio at March 31, 2001.

Loan Modifications. We did not have any loans that are considered troubled debt restructures at March 31, 2001 or December 31, 2000. At March 31, 2001, there were no loans that were restructured and returned to earning status.

Writedowns. Net writedowns totaled \$31 million, or 0.81% of average lending assets for the three months ended March 31, 2001, in line with our stated target range of average annual writedowns of 0.75% over a business cycle. Net writedowns for the first quarter of 2000 totaled \$23 million, or 0.62% of average lending assets. The increase in net-writedowns in the first quarter of 2001 relative to the same prior year period is due to the considerably slower growth in the U.S. economy in 2001, which resulted in higher writedowns in our cash-flow financings within the Corporate Finance portfolio. Gross writedowns totaled \$44 million during the first three months of 2001 versus \$26 million for the prior year period while recoveries were \$13 million in 2001 versus \$3 million in 2000.

LIQUIDITY AND CAPITAL RESOURCES

The following table presents information regarding our capital structure:

	March 31, 2001		December 31, 2000	
	(in millions)			
Commercial paper and short-term borrowings	\$ 4,138		\$ 5,127	
Notes and debentures	11,595		10,525	
	15,733		15,652	
Total senior debt				
Minority interest	13		12	
Stockholders' equity	2,582		2,575	
	\$ 18,328		\$ 18,239	
Leverage (net of short-term investments)	5.7	x	5.9	x
Commercial paper and short-term borrowings to total senior debt	26	%	33	%

During the first quarter of 2001, our major funding requirements included:

- \$1.1 billion of longer-term loans, leases and investments funded;
- the retirement of \$802 million of senior notes;
- the decrease in short-term debt of \$989 million; and
- common and preferred dividends of \$17 million.

Our major sources of funding these requirements included:

- cash flows from operations of \$88 million;
- a net decrease in short-term loans and advances to factoring clients of \$512 million;
- loan repayments and proceeds from the sale of investments and equipment on lease of \$444 million;
- the syndication, securitization or sale of \$619 million of loans; and
- the issuance of \$1.8 billion of senior debt.

Our ratio of commercial paper and short-term borrowings to total senior debt was 26% at March 31, 2001 and 33% at December 31, 2000. The lower ratio at March 31, 2001 compared to the prior year-end is primarily a result of our decision to fund maturing commercial paper obligations through the issuance of term debt due to the volatility of the commercial paper market. Leverage (based on senior debt net of short-term investments) was 5.7x at March 31, 2001 and 5.9x at December 31, 2000. Our leverage and the level of commercial paper and short-term borrowings continued to remain within ranges we have targeted to maintain a strong financial position.

Our committed bank credit and asset sale facilities totaled approximately \$5.7 billion at March 31, 2001 and included \$4.2 billion in available liquidity support under two bank credit facilities. One of these is a 5-year facility expiring in April 2005 and the other is a 364-day facility expiring in April 2001. See *Subsequent Events* for information on the renewal of our 364-day bank credit facility.

Also included in our total committed facilities at March 31, 2001 are foreign bank credit facilities of \$1 billion (U.S. dollar equivalent) for our international subsidiaries and \$15 million under foreign currency revolving credit facilities. Committed credit and sale facilities from unaffiliated financial institutions represent 137% of outstanding commercial paper and short-term borrowings at March 31, 2001.

Also included in committed facilities is approximately \$240 million of additional alternative liquidity, which is available by discounting eligible French receivables with the French Central Bank since FactoFrance is a registered financial institution in France. The entire facility was available for use at March 31, 2001.

We have an asset backed commercial paper conduit facility that allows us to sell participations in a designated pool of Corporate Finance cash-flow loans to bank-sponsored conduits, on a limited recourse basis. Liquidity support under this facility totals \$1.4 billion, of which \$1 billion was utilized at March 31, 2001. The underlying liquidity support for the conduits is provided by unaffiliated commercial banks. The commitment period of this liquidity support is 364 days and may be renewed annually by the banks, at their discretion.

Risk Management - Asset/Liability Management

We utilize derivatives, primarily interest rate swaps, to match more closely the interest rate and maturity characteristics of our assets and liabilities. Derivatives that qualify as fair value hedges include interest rate swaps that change the characteristics of fixed rate debt to that of variable rate debt and interest rate swaps that alter the interest rate characteristics of specific fixed rate asset pools to more closely match the interest rate terms of the underlying financing. Derivatives that qualify as cash flow hedges include interest rate swaps that change the characteristics of variable

rate debt to that of fixed rate debt. We also use interest rate swaps to modify the variable rate basis of a liability to more closely match the variable rate basis used for variable rate receivables.

At March 31, 2001, we had approximately \$5.5 billion and \$2.2 billion in notional amount of interest rate swaps and basis swap agreements, respectively.

We also utilize interest rate futures, as fair value hedges, to hedge the interest rate risk of a portion of our fixed rate receivables portfolio. At March 31, 2001 we held 10-year, 5-year, and 2-year interest rate futures contracts with equivalent notional amounts of \$192 million, \$58 million and \$91 million, respectively.

To minimize the effect of fluctuations in foreign currency exchange rates on our financial results, we periodically enter into forward currency exchange contracts, cross currency swap agreements or enter into currency options or currency option combinations. These financial instruments serve as hedges of our foreign investment in international subsidiaries and joint ventures or effectively hedge the translation of the related foreign currency income. We held \$1.2 billion in notional amount of forward currency exchange contracts, and \$725 million in notional amount of cross currency swap agreements at March 31, 2001. Included in the cross currency interest rate swap agreements were \$523 million used to hedge debt instruments issued in foreign currencies as of March 31, 2001. The remaining cross currency interest rate swap agreements were primarily used to hedge foreign currency denominated intercompany receivables. Through these contracts, we effectively sell the local currency and buy U.S. dollars. We also periodically enter into forward contracts to hedge receivables denominated in foreign currencies or purchase foreign currencies in the spot market to settle a foreign currency denominated liability.

During the three months ended March 31, 2001, we entered into \$1.8 billion of interest rate swaps. These instruments had the effect of converting \$1.6 billion of fixed rate debt to a variable rate, \$119 million of variable rate debt to another variable rate index, \$34 million of variable rate debt to a fixed rate and \$12 million of fixed rate assets to a variable rate. During the same period, \$1.2 billion of our interest rate swaps were terminated or matured.

For the quarter ended March 31, 2001, the combined effect of a net gain of less than \$1 million was driven primarily by a gain on fair value hedges of fixed rate assets of approximately \$4 million, offset by a loss on the hedges of foreign currency intercompany debt of slightly less than \$4 million. These amounts are classified as Other Income on the Consolidated Condensed Statements of Income. The income statement impact of cash flow hedges was not significant for the first quarter and is not expected to have a significant impact for the year.

For forward contracts that qualify as hedges of the foreign currency exposure of our net investments in foreign operations, a gain of \$6.5 million is included in the cumulative translation adjustment for the quarter ended March 31, 2001.

Accounting Developments

Statement of Financial Accounting Standards No. 133

Effective January 1, 2001, the Company adopted the provisions of the Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by Statement of Financial Accounting Standards No. 137, *Deferral of the Effective Date of FASB Statement No. 133* and Statement of Financial Accounting Standards No. 138, *Accounting for Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* (collectively referred to as *SFAS No. 133*). This Statement establishes accounting and reporting standards requiring all derivative instruments (including certain derivative instruments embedded in other contracts) to be recorded in the balance sheet as either an asset or liability measured at its fair value. Changes in the fair value of the derivative are to be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows gains and losses on derivatives to offset related results on the hedged items in the income statement and requires that a company must document, designate, and assess the effectiveness of transactions that receive hedge accounting.

Adoption of this new accounting standard resulted in:

- cumulative before-tax reductions in net income of approximately \$6 million (approximately \$4 million after-tax) recorded in the first quarter of 2001; and

- after-tax reductions through other comprehensive income, a component of stockholders' equity, of approximately \$1 million in the first quarter of 2001.

The adjustment to net income relates primarily to certain economic hedging relationships that do not qualify for special accounting treatment under the new standard as well as ineffectiveness arising from other hedging relationships. The one-time impact of implementing SFAS No. 133 is the effect of an accounting change and should, therefore, not be considered as part of our results of operations for 2001.

Statement of Financial Accounting Standards No. 140

In September 2000, the FASB issued SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a replacement of FASB Statement No. 125*. This statement requires new disclosures about securitization transactions entered into during the period, and retained interests in securitized financial assets existing at the balance sheet date. Other provisions of SFAS No. 140, including a revision to the criteria for qualifying special purpose entities (QSPEs), must be applied prospectively to transfers of financial assets and extinguishments of liabilities occurring after March 31, 2001. We are incorporating the provisions of this statement to transactions beginning in the second quarter of 2001. The adoption of SFAS No. 140 will not have an impact on the financial results of the Company.

Proposed Statement on Business Combinations and Intangible Assets

The FASB has reached a tentative agreement to modify the accounting for business combinations. Under the proposed modification, pooling-of-interests accounting would be

eliminated. Additionally, the goodwill generated in a purchase acquisition transaction would no longer be amortized against earnings over an estimated life. Instead, goodwill would be recorded as a permanent asset and would be reviewed for impairment and expensed against earnings only in periods in which its recorded value exceeded its fair market value.

There is no specific deadline for the completion of the FASB's review of this project. The earliest expected completion date is the end of the second quarter of 2001. FASB has indicated that all issues raised under this exposure draft remain open to continuing deliberation. The elimination of pooling-of-interests accounting will not impact the Company as we are majority-owned by The Fuji Bank, Limited, and therefore do not qualify for pooling-of-interests accounting.

Subsequent Events

Declaration of Dividends –

<u>Stock</u>	<u>Declaration Date</u>	<u>Dividend per Share</u>	<u>Record Date</u>	<u>Payable Date</u>
Class A Common	April 19, 2001	\$0.10	May 1, 2001	May 15, 2001
Class B Common	April 19, 2001	\$0.10	May 1, 2001	May 15, 2001
Cumulative Perpetual Senior Preferred Stock, Series A	April 19, 2001	\$0.5078125	May 1, 2001	May 15, 2001
Fixed Rate Noncumulative Perpetual Senior Preferred Stock, Series C	April 19, 2001	\$1.67175	May 1, 2001	May 15, 2001
Fixed Rate Noncumulative Perpetual Senior Preferred Stock, Series D	April 19, 2001	\$1.7375	May 1, 2001	May 15, 2001

Preferred Stock Redemption-

In April 2001, we announced that all of the 5,000,000 outstanding shares of our 8-1/8% Cumulative Perpetual Senior Preferred Stock, Series A, will be redeemed on May 15, 2001. The redemption price will be \$25.00 per share, plus accrued and unpaid dividends to the date of redemption payable to holders of record thereof on May 1, 2001.

Mandatory Enhanced Dividend Securities Offering-

On May 1, 2001, the Company sold 7,000,000 units of Mandatory Enhanced Dividend Securities at \$25 per unit, for total gross proceeds of \$175 million. Each MEDS unit will be convertible to a variable number of shares of class A common stock in three years from the time of purchase.

Bank Credit Facility Renewal-

On April 26, 2001, we increased and renewed our 364-day bank credit facility for a total amount of \$2.2 billion.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's Annual Meeting of Stockholders was held on May 3, 2001. The following directors were re-elected for a one-year term, each with the number of votes shown, to serve until the next annual meeting of stockholders or until his successor is elected and shall have qualified.

Director	For	Withheld
Richard J. Almeida	187,702,827	7,852,939
Michael A. Conway	195,247,859	307,907
Takaaki Kato	187,709,295	7,846,471
Mark Kessel	195,058,760	497,006
Tetsuo Kumon	187,729,257	7,826,509
Takashi Makimoto	185,729,981	9,762,785
Frank S. Ptak	195,246,828	308,938
Masahiro Sawada	187,738,195	7,817,571
Kenichiro Tanaka	187,830,303	7,725,463
Michio Ueno	185,660,895	9,894,871
Frederick E. Wolfert	187,735,652	7,820,114

In addition to electing the Board of Directors, the stockholders also ratified the appointment of Arthur Andersen LLP as independent auditors for 2001, with 195,370,667 votes for, 179,448 votes against, and 5,651 votes abstaining.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

(3ii) Amendment to By-Laws

(10) Form of Amended and Restated Change in Control Agreement

(12) Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends

(b) Current Reports on Form 8-K:

Date of Report	Item	Description
January 17, 2001	5,7	A report filing a press release announcing the declaration of dividends on the Company's common and preferred stocks.
January 18, 2001	5,7	A report filing a press release announcing (i) the Company's earnings for the year ending December 31, 2000, (ii) that the Board of Directors determined that the Annual Meeting of Shareholders will be held on May 3, 2001, and (iii) that the record date for purposes of voting at the Annual Meeting of Shareholders will be March 9, 2001.
February 20, 2001	5,7	A report filing a press release announcing the cessation of new business origination in the Company's Small Business Finance unit.
April 11, 2001	5,7	A report filing a press release announcing that all outstanding shares of the Company's 8-1/8% Cumulative Perpetual Senior Preferred Stock, Series A, will be redeemed on May 15, 2001.
April 18, 2001	5,7	A report filing a press release announcing the declaration of dividends on the Company's common and preferred stocks.
April 19, 2001	5,7	A report filing a press release announcing the Company's earnings for the quarter ending March 31, 2001.

SIGNATURES

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

HELLER FINANCIAL, INC.

By: /s/ Lauralee E. Martin

Lauralee E. Martin
Executive Vice President and
Chief Financial Officer

By: /s/ Lawrence G. Hund

Lawrence G. Hund
Executive Vice President, Controller and
Chief Accounting Officer

Date: May 10, 2001

HELLER FINANCIAL, INC.
Board of Directors Meeting
April 18, 2001

RESOLVED, that the Amended and Restated By-Laws of the Corporation be, and hereby are, amended by deleting the second sentence from Section 2.09 thereof and inserting in its place the following new second sentence:

"Every proxy may either be in writing and signed by the stockholder or his attorney-in-fact or may be submitted by any means of electronic submission permitted by the Delaware General Corporation Law."

RESOLVED, that the Secretary or any Assistant Secretary of the Corporation is hereby authorized and directed to take such further actions as may in such person's judgment be necessary or appropriate to effect the intent of the foregoing resolution.

AMENDED AND RESTATED

BY-LAWS

OF

HELLER FINANCIAL, INC.

(a Delaware corporation)

Amended as of April 18, 2001

BY-LAWS OF
HELLER FINANCIAL, INC.

ARTICLE I: IDENTIFICATION; OFFICES

Section 1.01. Name. The name of the corporation is Heller Financial, Inc. (the

"Corporation").

Section 1.02. Registered Office; Other Offices; Books and Records. The

registered office of the Corporation in the State of Delaware shall be established and maintained at the office of The Corporation Trust Company in the City of Wilmington, County of New Castle, and The Corporation Trust Company shall be the Registered Agent of the Corporation in charge thereof. The Corporation may have such other offices at such other place or places, within or without the State of Delaware, as the business of the Corporation may from time to time require. The books and records of the Corporation may be kept (subject to the provisions of the laws of the State of Delaware) at any place, either inside or outside of the State of Delaware, as from time to time may be determined by the Board of Directors or as may be required for the conducting of business by the Corporation.

ARTICLE II: MEETINGS OF STOCKHOLDERS

Section 2.01. Date, Place and Time of Annual Meetings. An annual meeting of the

stockholders of the Corporation (an "Annual Meeting of Stockholders") for the purpose of electing directors and for the transaction of such other business as may properly be brought before such meeting shall be held on the date during the month of May of each year, or on a date during such other month, and at the time and place, within or outside the State of Delaware, designated by the Chairman of the Board of Directors by notice to the Stockholders entitled to vote. In the event the Chairman of the Board fails to so designate, the Annual Meeting of Stockholders shall be held on the first Wednesday of May of each year, at the principal business office of the Corporation at the hour of 9:00 a.m., unless that date is a legal holiday, in which event the Annual Meeting of Stockholders shall be held on the next succeeding day not a legal holiday. The Chairman of the Board may, upon notice to the stockholders pursuant to Section 2.04, change the date to a different date, along with the place and time of the Annual Meeting of Stockholders.

Section 2.02. Special Meetings of Stockholders. A special meeting of

stockholders (a "Special Meeting of Stockholders") may be called at any time by (i) the Chairman of the Board, the Vice Chairman or the President or (ii) by the Secretary at the request of a majority of the total number of members of the Board of Directors.

Section 2.03. Place of Special Meetings of Stockholders. A Special Meeting of

Stockholders shall be held at such place, within or outside the State of Delaware, as may be fixed from time to time by the person or persons calling such meetings, or, if not so fixed, at the principal business office of the Corporation in the State of Illinois.

Section 2.04. Notice of Meetings.

a. Except as otherwise permitted by statute, written notice stating the place, date and hour of each Annual or Special Meeting of Stockholders shall be given personally or by first-class mail (airmail in the case of international communications) or by courier, telecopy or other electronic transmission to each stockholder entitled to vote thereat, not less than 10 and not more than 60 days prior to the meeting. The notice of any Special Meeting of Stockholders shall also state the purpose or purposes for which the meeting is called and indicate that it is being issued by or upon the request of the person or persons calling the meeting. Such notice is given, if mailed, when deposited in the United States mail, postage prepaid, and if by courier, telecopy or other electronic transmission, when delivered, to the stockholder at his address as it appears on the records of the Corporation or of its stock transfer agent.

b. Notice of a Special Meeting of Stockholders may be given by the person or persons calling the meeting, or upon the written request of such person or persons, such notice shall be given by the Secretary on behalf of such person or persons. If the person or persons calling a Special Meeting of Stockholders give notice thereof, they shall forward a copy thereof to the Secretary. Every request to the Secretary for the giving of notice of a Special Meeting of Stockholders shall state the purpose or purposes of such meeting.

c. (1) Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the stockholders may be made at an Annual Meeting of Stockholders (x) pursuant to the Corporation's notice of meeting delivered pursuant to this Section 2.04, (y) by or at the direction of the Board of Directors or (z) by any stockholder of the Corporation who is entitled to vote at the meeting who has complied with the notice procedures set forth in this Article II and who was a stockholder of record at the time such notice was delivered to the Secretary of the Corporation.

(2) For nominations or other business to be properly brought before an Annual Meeting of Stockholders by a stockholder pursuant to Section 2.04(c)(1)(z), the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and such business must be a proper subject for stockholder action under the Delaware General Corporation Law. To be timely, a stockholder's notice must be delivered to the Secretary at the principal executive office of the Corporation not less than 90 days prior to the first anniversary of the date of the preceding year's Annual Meeting of Stockholders; provided, however, that in the event that the date of the Annual Meeting of Stockholders is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the stockholder, to be timely, must be so delivered not later than the close of business on the later of the 60/th/ day

prior to such Annual Meeting of Stockholders or the 10/th/ day following the day on which public announcement of the date of such meeting is first made.

Notwithstanding the foregoing, in the event that the number of directors to be elected to the Board of Directors is increased and the names of all of the nominees for director position are not disclosed by a public announcement by the Corporation at least 70 days prior to the date of the first anniversary of the prior year's Annual Meeting of Stockholders, a stockholder's notice pursuant to this Section shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to, or mailed and received by, the Secretary not later than the close of business on the 10/th/ day following the day on which such names have been

first disclosed by a public announcement by the Corporation. Such stockholder's notice shall set forth (A) as to each person to whom the stockholder proposes to nominate for election or re-election as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected) pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise; (B) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (C) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made, (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner, and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner. If the stockholder or beneficial owner intends to solicit proxies in support of any such nomination or proposal, such stockholder's notice shall also include a representation to that effect.

(3) Nominations of persons for election to the Board of Directors may be made at a Special Meeting of Stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (x) by or at the direction of the Board of Directors or (y) by any stockholder of the Corporation who is entitled to vote at the meeting, who complies with the notice procedures set forth in this subsection (3) and who is a stockholder of record at the time such notice is delivered to the Secretary of the Corporation. Nominations by stockholders of persons for election to the Board of Directors may be made at such a Special Meeting of Stockholders if the stockholder's notice required by Section 2.04(c) (2) shall be delivered to the Secretary at the principal executive office of the Corporation later than the close of business on the later of the 60th day prior to such Special Meeting of Stockholders or the 10th day following the day on which public announcement is first made of the date of the Special Meeting of Stockholders and of the nominees proposed by the Board of Directors to be elected at such meeting.

(4) Except as otherwise set forth in Section 3.06, only persons who

are nominated in accordance with the procedures set forth in this Section 2.04 shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 2.04. Except as otherwise provided by law, the Certificate of Incorporation, as amended from time to time, of the Corporation (the "Certificate of Incorporation"), or these By-Laws, the Chairman of the Board shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with this Section 2.04 and, if any proposed nomination or business is not in compliance with this Section 2.04, or if a stockholder or beneficial owner solicits proxies in support of a nomination or proposal without having made the representation required in Section 2.04(c)(2), to declare that such proposal or nomination shall be disregarded.

(5) For purposes of this Section 2.04, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with

the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(6) Notwithstanding the foregoing provisions of this Section 3, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.04. Nothing in this Section 2.04 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

Section 2.05. Adjournments. When a meeting is adjourned to another date, hour

or place, notice need not be given of the adjourned meeting if the date, hour and place thereof are announced at the meeting at which the adjournment is taken. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the adjourned meeting. At the adjourned meeting any business may be transacted which might have been transacted at the original meeting.

Section 2.06. Waiver of Notice. Notice of meeting need not be given to any

stockholder who submits a written waiver of notice, signed in person or by proxy, whether before or after the meeting. Neither the business to be transacted at, nor the purpose of, any meeting of stockholders need be specified in any written waiver of notice. Attendance of a stockholder at a meeting, in person or by proxy, shall constitute a waiver of notice of such meeting, except when the stockholder attends a meeting for the express purpose of objecting, at the beginning of such meeting, to the transaction of any business because the meeting is not lawfully called or convened.

Section 2.07. Quorum. At all meetings of stockholders, except as otherwise

required by statute, the presence of holders of a majority of the shares entitled to vote thereat, present in person or by proxy, shall be requisite and constitute a quorum for the transaction of business. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat may adjourn such meeting from time to time in accordance with Section 2.05 of these By-laws until the number of votes requisite to constitute a quorum shall be present.

Section 2.08. Vote of Stockholders. When a quorum is present or represented at

any meeting, the vote of the holders of a majority of the shares issued and outstanding and entitled to vote thereat in person or by proxy shall decide any question brought before such meeting, unless the question is one upon which a vote of a different percent of shares is required by statute, these By-laws or the Certificate of Incorporation, as amended from time to time, of the Corporation, in which case the vote of such different percent of shares shall be required. Each stockholder of record on the applicable record date shall be entitled at every meeting of stockholders to one vote for every share (unless the Certificate of Incorporation shall provide for a greater number of votes for such share) standing in his name on the record of stockholders. Voting at meetings of stockholders need not be by written ballot, unless the holders of a majority of the shares entitled to vote thereat shall so determine.

Section 2.09. Proxies. Each stockholder entitled to vote at a meeting of

stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by proxy. Every proxy may either be in writing and signed by the stockholder or his attorney-in-fact or may be submitted by any means of electronic submission permitted by the Delaware General Corporation Law. No proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable for the period stated therein if the proxy states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may remain irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the Corporation generally.

Section 2.10. Action Without a Meeting. Any action required or permitted to be

taken at any Annual or Special Meeting of Stockholders may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing and who, if the

action had been taken at a meeting would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents signed by a sufficient number of holders to take the action were delivered to the Corporation. Such written consent shall be filed with the records of the Corporation. Notwithstanding the foregoing, however, on and after the date on which neither The Fuji Bank, Limited and/or its subsidiaries ("Fuji Bank") nor any one person or entity (and/or its subsidiaries) unrelated to Fuji Bank to whom shares of Class B Common Stock of the Corporation representing more than a 50% voting interest in the then outstanding shares of Common Stock of the Corporation taken as a whole continues to beneficially own a majority of the total voting power of all outstanding classes of Common Stock of the Corporation, voting together as a single class, any corporate action required or permitted to be taken at any Annual Meeting of Stockholders or Special Meeting of Stockholders may be taken only at a duly called Annual Meeting of Stockholders or Special Meeting of Stockholders and may not be taken by written consent of the stockholders in lieu of a meeting.

Section 2.11. Chairman and Secretary of the Meeting. Meetings of the

stockholders shall be presided over by the Chairman of the Board or, if the Chairman of the Board is not present, any officer of the Corporation designated by the Chairman to act as chairman or, if the Chairman of the Board is not present and has not designated a chairman, by a chairman to be chosen at the meeting. The Secretary of the Corporation or, in his or her absence, any person appointed by the chairman of the meeting, shall act as secretary of the meeting and shall keep the minutes thereof. The order of business at all meetings of the stockholders and the procedure at the meeting, including such regulation of the manner of voting and the conduct of discussion, shall be as determined by the chairman of the meeting.

Section 2.12. Record Date. For the purpose of determining the stockholders

entitled to notice of or to vote any Annual Meeting of Stockholders or Special Meeting of Stockholders or any adjournment thereof, or to express consent to corporate action in writing without a

meeting, or for the purpose of determining stockholders entitled to receive payment of any dividend or other distribution or the allotment of any rights, or for the purpose of any other action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than 60 nor less than 10 days before the date of any such meeting and shall not be more than 60 days prior to any other action. A determination of stockholders of record entitled to notice of, or to vote at, a meeting of stockholders shall apply to any adjournment of the meeting, provided, however, that the Board of Directors may fix a new record date for any adjourned meeting.

Section 2.13. List of Stockholders. For a period of at least 10 days before

every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting arranged in alphabetical order for each class of stock, and showing their addresses and their record holdings as of the record date shall be open for examination by any stockholder, for any purpose germane to the meeting, during ordinary business hours, at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list also shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. The list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares hold by each of them.

Section 2.14. Ratification. Any transaction questioned in any stockholders

derivative suit, or any other suit to enforce alleged rights of the Corporation or any of its stockholders, on the ground of lack of authority, defective or irregular execution, adverse interest of any director, officer or stockholder, nondisclosure, miscomputation or the application of improper principles or practices of accounting may be approved, ratified and confirmed before or after judgment by the Board of Directors or by the holders of Common Stock, voting as provided in the Certificate of Incorporation, and, if so approved, ratified or confirmed, shall have the same force and effect as if the questioned transaction had been originally duly authorized, and said approval, ratification or confirmation shall be binding upon the Corporation and all of its stockholders and shall constitute a bar to any claim or execution of any judgment in respect of such questioned transaction.

Section 2.15. Inspectors. The Board of Directors may, and to the extent

required by law shall, in advance of any Annual Meeting of Stockholders or Special Meeting of Stockholders, appoint one or more inspectors to act at the meeting, decide upon the qualification of voters, count the votes, decide the results and make a written report thereof. The Board of Directors may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at an Annual Meeting of Stockholders or a Special Meeting of Stockholders, the chairman of the meeting may, and to the extent required by law shall, appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability.

Section 2.16. Conducting Meetings. Meetings of the stockholders shall be

conducted in a fair manner but need not be governed by any prescribed rules of order. The presiding officer of the meeting shall establish an agenda for the meeting. The presiding officer's

ruling on procedural matters shall be final. The presiding officer is authorized to impose reasonable time limits on the remarks of individual stockholders and

may take such steps as such officer may deem necessary or appropriate to assure that the business of the meeting is conducted in a fair and orderly manner.

ARTICLE III: BOARD OF DIRECTORS

Section 3.01. Powers. The business and affairs of the Corporation shall be

managed by or under the direction of the Board of Directors, which may exercise all the powers of the Corporation and do all lawful acts and things which are not expressly reserved to the stockholders by law, by the Certificate of Incorporation or by these By-laws.

Section 3.02. Number and Term of Office. Except as hereinafter provided,

directors shall be elected at the Annual Meeting of the Stockholders; each director so elected shall serve for one year and until his successor is elected and qualified. Subject to the rights of holders of Preferred Stock or Senior Preferred Stock (each as defined in the Certificate of Incorporation) of the Corporation, the number of directors shall be not less than eight (8) nor more than sixteen (16), the exact number from time to time to be established by the Board of Directors by resolution.

Section 3.03. Election. At each meeting of the stockholders for the election

of directors, at which a quorum is present, the persons receiving a plurality of the votes cast by the holders of shares entitled to vote in the election shall be elected as directors.

Section 3.04. Resignation. Any director may at any time resign from the Board

of Directors by delivering a written notice to the Board of Directors, the Chairman of the Board, the President or the Secretary. Such resignation shall take effect at the time specified therein, or, if not so specified, upon receipt of such notice by the Board of Directors, the Chairman of the Board, the President or the Secretary. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 3.05. Removal. Any director or directors may be removed, with or

without cause, by vote of the holders of a majority of the votes then entitled to vote at an election of directors at any Special Meeting of the Stockholders or without a meeting pursuant to Section 2.10.

Section 3.06. Vacancies. Subject to any rights of holders of Preferred Stock

or Senior Preferred Stock of the Corporation, if one or more vacancies occur in the Board of Directors by reason of death, resignation, expansion of the Board of Directors or otherwise, except insofar as otherwise provided in the case of a vacancy or vacancies occurring by reason of removal by the stockholders, the remaining directors, although less than a quorum, or the sole remaining

director, may elect, by a majority vote (if there be more than one remaining director), a successor or successors for the unexpired term or terms.

Section 3.07. Annual Meetings. A newly elected Board of Directors shall meet

in order to organize, to designate the Chairman of the Board, to elect officers and to transact such other business as may properly come before it. Such annual meeting of the Board of

Directors may be held without notice if it shall be held within two business days following the day fixed for the Annual Meeting of Stockholders. If such annual meeting of the Board of Directors shall not be held at such date, hour and place, it shall be held whenever called by the Chairman of the Board or by any two directors at such place, within or without the State of Delaware, and at such time as shall be determined by the person or persons calling such meeting.

Section 3.08. Regular Meetings.

a. Board of Directors. Regular meetings of the Board of Directors

shall, unless otherwise specified by written notice to each director, be held at the office of the Corporation in Chicago, Illinois on such dates as the Chairman of the Board shall establish by promulgation of the corporate calendar and amendments thereto.

b. Executive Committee. Regular meetings of the Executive Committee

of the Board of Directors shall be held at the office of the Corporation in Chicago, Illinois, on such dates as the Chairman of the Board of the Executive Committee may establish by notice to the members of the Executive Committee or as the Chairman of the Board may establish by promulgation of the corporate calendar.

Section 3.09. Special Meetings.

a. Board of Directors. Special meetings of the Board of Directors

shall be held whenever called by the Chairman of the Board, by the President or by any two directors at such place, within or without the State of Delaware, and at such time as shall be determined by the person or persons calling such meeting.

b. Executive Committee. Special meetings of the Executive Committee

of the Board of Directors shall be held whenever called by the Chairman of the Executive Committee or by any two directors who are members of the Executive Committee at such place, within or without the State of Delaware, and at such time as shall be determined by the person or persons calling such meeting.

Section 3.10. Notice of Certain Annual and Special Meetings. Notice of any

special meeting and of any annual meeting of the Board of Directors which does not take place within two business days after the day fixed for the Annual Meeting of Stockholders shall be given by first-class mail (airmail in the case of international communications) to each director, addressed to him at his residence or usual place of business, not later than the fifth day before the day on which such meeting is to be held, or shall be sent to him at such place by overnight courier or telecopy, or be delivered personally or by telephone, not later than the third day before the day on which such meeting is to be held. Such notice shall state the place, date and hour of the meeting, and promulgation and delivery of the corporate calendar shall constitute notice to the directors hereunder.

Section 3.11. Waiver of Notice. Notice of a meeting need not be given to any

director who submits a written waiver of such notice, signed by him, whether before or after such meeting. Neither the business to be transacted at, nor the purpose of, any meeting of the directors need be specified in any notice or any written waiver of notice with respect to such meeting. Attendance of a director at a meeting shall constitute a waiver of notice of such

meeting, except when the director attends such meeting for the express purpose of objecting, at the beginning of such meeting, to the transaction of any business because the meeting is not lawfully called or convened.

Section 3.12. Quorum and Manner of Acting. At any meeting of the Board of

Directors, the presence of a majority of the total number of directors shall be requisite and constitute a quorum for the transaction of business. The vote of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors, except as required by law or the Certificate of Incorporation. A majority of the directors present, whether or not a quorum is present, may adjourn any meeting to another time and place. Notice in accordance with Section 3.10 of these By-laws of any adjournment of any meeting of the Board of Directors to another time or place shall be given to the directors who were not present at the time of such adjournment and, unless such time and place are announced at the meeting, to the other directors.

Section 3.13. Action Without a Meeting. Any action required or permitted to be

taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board of Directors or committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the Board of Directors or the committee, as the case may be.

Section 3.14. Telephonic Meetings. Members of the Board of Directors or any

committee thereof may participate in a meeting of the Board of Directors or committee, as the case may be, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at such meeting.

Section 3.15. Committees.

a. Executive Committee. The Board of Directors may, by resolution

passed by a majority of the whole Board, designate from among its members an Executive Committee to consist of one or more directors and may designate one or more directors as alternate members of such committee, who may replace any absent or disqualified member at any meeting thereof. In the absence or disqualification of a member of the Executive Committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. The Executive Committee, to the extent permitted by law, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, including without limitation the power to authorize the borrowing of money by the Corporation (pursuant to loan agreements, the issuance of bonds or notes or otherwise) and the giving of collateral therefor, and may authorize the seal of the Corporation to be affixed to all papers which may require it. Specifically, but not by way of limitation, the Executive Committee shall have the power and authority to declare dividends, to authorize the issuance of stock and to adopt certificates of ownership and merger pursuant to Section 253 of the Delaware Corporation Law. The Executive Committee shall designate from its members a Chairman of the Executive Committee. The Chairman of the Executive Committee may be removed, with or without cause, by vote of the majority of the Executive Committee. The Executive

Committee shall record minutes of each meeting of the Executive Committee and shall submit the same to the Board of Directors at the next meeting of the Board of Directors following such meeting of the Executive Committee. At all meetings of the Executive Committee, a majority of the total number of the members thereof shall constitute a quorum for the transaction of business. The vote of the majority of the members of the Executive Committee present at a meeting at which a quorum is present shall be the act of the Executive Committee. Meetings of the Executive Committee shall, unless otherwise by written notice to the members of the Executive Committee, either personally, or by mail or telecopy, be held on such dates and times and at such places as set forth in the corporate calendar, and amendments thereto, as promulgated by the Chairman of the Board.

b. Compensation Committee. The Board of Directors may, by resolution

passed by a majority of the whole Board, designate from among its members a Compensation Committee to consist of one or more directors and may designate one

or more directors as alternate members of such committee, who may replace any absent or disqualified member at any meeting thereof. In the absence or disqualification of a member of the Compensation Committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. The Compensation Committee shall have the power and authority to set and determine (and to delegate the authority to set and determine) all matters relating to employees' compensation and benefits including, without limitation, matters of corporate policy over salary, bonuses, benefits, perquisites, and the like, and to establish and amend (and to delegate the authority to establish and amend) the compensation of all officers of the Corporation. The Compensation Committee shall designate from its members a Chairman of the Compensation Committee. The Chairman of the Compensation Committee may be removed, with or without cause, by vote of the majority of the Compensation Committee. The Compensation Committee shall record minutes of each meeting of the Compensation Committee. At all meetings of the Compensation Committee, a majority of the total number of the members thereof shall constitute a quorum for the transaction of business. The vote of the majority of the members of the Compensation Committee present at a meeting at which a quorum is present shall be the act of the Compensation Committee. Meetings of the Compensation Committee shall, unless otherwise by written notice to the members of the Compensation Committee, either personally, or by mail or telecopy, be held on such dates and times and at such places as set forth in the corporate calendar, and amendments thereto, as promulgated by the Chairman of the Board.

c. Audit Committee. The Board of Directors may, by resolution passed

by a majority of the whole Board, designate from among its members an Audit Committee to consist of one or more directors and may designate one or more directors as alternate members of such committee, who may replace any absent or disqualified member at any meeting thereof. In the absence or disqualification of a member of the Audit Committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. The Audit Committee shall have such duties, power and authority with respect to the choice of the Corporation's auditors and reviews of the Corporation's financial statements as may, by resolution, be delegated by the Board of

Directors from time to time. The Audit Committee shall designate from its members a Chairman of the Audit Committee. The Chairman of the Audit Committee may be removed, with or without cause, by vote of the majority of the Audit Committee. The Audit Committee shall record minutes of each meeting of the Audit Committee and shall submit the same to the Board of Directors at the next meeting of the Board of Directors following such meeting of the Audit Committee. At all meetings of the Audit Committee, a majority of the total number of the members thereof shall constitute a quorum for the transaction of business. The

vote of the majority of the members of the Audit Committee present at a meeting at which a quorum is present shall be the act of the Audit Committee. Meetings of the Audit Committee shall, unless otherwise by written notice to the members of the Audit Committee, either personally, or by mail or telecopy, be held on such dates and times and at such places as set forth in the corporate calendar, and amendments thereto, as promulgated by the Chairman of the Board.

d. Miscellaneous Committees. The Board of Directors shall have the

power to appoint or provide for from time to time any such other committees consisting of such directors, officers or other persons and having such powers and functions in the management of the Corporation as may be provided by the Board of Directors and as may be permitted by law, and from time to time to suspend or discontinue the powers and duties of such committees. If the members of any such committee consist of directors, the resolution of the Board of Directors designating such members shall be adopted by a majority of the entire Board of Directors.

e. Removal. Any member of the Executive Committee or any other

committee appointed or provided for by the Board of Directors, or the entire membership of the Executive Committee or of such other committee may be removed, with or without cause, by the vote of the majority of the Board of Directors.

Section 3.16. Directors' Fees. The fees and compensation of the directors of

the Corporation shall be determined by the resolution of the Board of Directors and in the discretion of the Board of Directors the directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors or an authorized committee thereof.

ARTICLE IV: OFFICERS

Section 4.01. Elected Officers. The elected officers of the Corporation shall

consist of the Chairman of the Board, who shall be termed "Chairman of the Board of Directors" (and is sometimes referred to as "Chairman of the Board"); if elected by the Board of Directors, one or more Vice Chairmen of the Board of Directors (sometimes individually referred to as a "Vice Chairman of the Board"); one or more Presidents; one or more Executive Vice Presidents; one or more Senior Vice Presidents; a Treasurer; a Secretary; a Controller; a Director of Taxes; a General Counsel; and one or more Deputy General Counsels.

Section 4.02. Election. The Board of Directors at the first meeting after each

Annual Meeting of the Stockholders (a) shall elect by ballot a Chairman of the Board from among the members of the Board, and a Secretary, Controller, General Counsel and Treasurer, and (b) may elect (i) one or more Vice Chairmen from among the members of the Board and (ii) one or more Presidents including Senior

Group Presidents or Group Presidents; one or more Executive Vice Presidents; one or

more Senior Vice Presidents; and one or more Deputy General Counsels who need not be members of the Board.

Section 4.03. Term and Removal. The term of office of each officer elected

pursuant to Section 4.02 or appointed pursuant to Section 4.06 of this Article shall expire on the day of the next annual election. Any officer may be removed from office, either with or without cause or hearing, at any time by the affirmative vote of a majority of the members of the Board of Directors then in office. A vacancy in any office arising from any cause may be filled for the unexpired portion of the term by the Board of Directors.

Section 4.04. Compensation. The compensation of the officers of the

Corporation shall be fixed by the Board of Directors; provided, however, that the Compensation Committee of the Board of Directors shall have the authority to fix the compensation of any or all officers as and to the extent set forth in Section 3.15.

Section 4.05. Powers and Duties. The powers and duties of the respective

officers of the Corporation are as follows:

a. Chairman of the Board. The Chairman of the Board, unless the Board

of Directors shall otherwise provide by resolution, shall be the chief executive officer of the Corporation. The Chairman of the Board shall preside at all meetings whether of the stockholders or the Board of Directors. In the absence of the Chairman of the Board, or in the event of his or her inability or refusal to act, the Board of Directors may by vote designate a Vice Chairman to preside at any such meeting, whether of the stockholders or of the Board of Directors. In the absence of any Vice Chairman, or in the event of his or her inability or refusal to act, the Board of Directors may by vote designate from among its members a director to preside at any such meeting, whether of the stockholders or of the Board of Directors. The Chairman of the Board, subject to the power of the Board of Directors to manage the business and affairs of the Corporation or to delegate such power to other officers or employees, shall have general and active supervision over and direction of the business, property and affairs of the Corporation and shall see that resolutions of the Board of Directors are carried into effect. The Chairman of the Board shall have the authority to execute certificates, contracts, bonds, mortgages, notes, guaranties and other agreements, instruments and documents for and on behalf of the Corporation and under the seal of the Corporation where so required. He or she shall have the authority to cause the employment of such employees of the Corporation, other than officers elected by the Board of Directors, as the conduct of the business of the Corporation may require, and to fix their compensation and the compensation of all appointed Officers of the Corporation; to remove or suspend

any employee who shall not have been elected by the Board of Directors; and to suspend for cause, pending final action by the Board of Directors, any officer who shall have been elected by the Board of Directors. The Chairman of the Board shall make reports to the Board of Directors as well as the stockholders and shall perform all other duties and exercise all other powers usually pertaining to the offices of Chairman of the Board and chief executive officer of a corporation, and shall perform such further duties and exercise such further powers as may be assigned to him from time to time by the Board of Directors. If there shall be a vacancy in the position of Chairman of the Board, such vacancy may be filled by the Board of Directors. The Chairman of the Board may be removed, with or without cause, by vote of the majority of the Board of Directors.

b. Vice Chairmen. There may be one or more Vice Chairmen of the

Corporation, if elected by the Board of Directors. The Vice Chairmen shall have the authority to execute certificates, contracts, bonds, mortgages, notes, guaranties and other agreements, instruments and documents for and on behalf of the Corporation and under the seal of the Corporation where so required. In the absence of the Chairman of the Board or in the event of his or her inability to act or refusal to act, his or her duties shall be performed and his or her powers may be exercised by such Vice Chairman of the Board as shall be designated by the Board of Directors or, failing such designation, by the Vice Chairmen in order of their election to that office.

c. President. Unless the Board of Directors otherwise provides by

resolution, the President shall be the chief operating officer of the Corporation. The President shall, in the absence of the Chairman of the Board and any Vice Chairmen of the Board, or in the event of their inability or refusal to act, perform the duties and exercise the powers of the Chairman of the Board described in Section 4.06 hereof. The President has the same power as the Chairman of the Board to execute certificates, contracts, bonds, mortgages, notes, guaranties and other agreements, instruments and documents for and on behalf of the Corporation and under the seal of the Corporation where so required. The President shall make reports to the Board of Directors as well as the stockholders and shall perform such other duties as are incidental to the office of President or are properly required of the President by the Chairman of the Board, any Vice Chairman or the Board of Directors.

d. Group Presidents. The Group Presidents of the several operating

groups of the Corporation shall have and exercise general supervision over and direction of the operations of their respective groups, in all cases under the direction of the President, and shall have the power to execute certificates, contracts, bonds, mortgages, notes, guaranties and other agreements, instruments and documents for and on behalf of the Corporation and under the seal of the Corporation and shall perform such other duties as required of them by the Chairman, any Vice Chairman, the President or the Board of Directors. Presidents of divisions of a group of the Corporation shall have the same duties

and authorities as the Executive Vice Presidents of the Corporation.

e. Executive Vice Presidents. The Executive Vice Presidents shall be

authorized to execute certificates, contracts, bonds, mortgages, notes, guaranties and other agreements, instruments and documents for and on behalf of the Corporation and under the seal of the Corporation where so required. They shall also be authorized to perform all duties that from time to time may be prescribed by the Directors, the Chairman of the Board, any Vice Chairman, the President or the Group President for their respective operating group.

f. Senior Vice Presidents. The Senior Vice Presidents shall be

authorized to execute certificates, contracts, bonds, mortgages, notes, guaranties and other agreements, instruments and documents for and on behalf of the Corporation and under the seal of the Corporation where so required. They shall also be authorized to perform all duties that from time to time may be prescribed by the Board of Directors, the Chairman of the Board, any Vice Chairman, the President or the Group President for their respective operating group.

g. Controller. The Controller shall have the responsibility for

supervision and management of all accounting and bookkeeping functions of the Corporation and of all of its subsidiaries; shall keep or cause to be kept, such books of record of all the income, expenses, losses, gains, assets and liabilities of the Corporation; shall have custody of the accounting records of the Corporation; shall render to the Chairman of the Board, the President and the Board of Directors at meetings of the Board of Directors or whenever else it may be required, an account of all transactions and the financial condition of the Corporation, and shall perform all other duties and exercise all other powers usually pertaining to the office of controller of a corporation and shall perform such other duties and exercise such other powers as may be assigned by the Board of Directors, the Chairman of the Board, any Vice Chairman or the President. The Controller shall be authorized to appoint, pursuant to Section 4.06, one or more Assistant Controllers who shall perform such duties and exercise such powers as may be assigned to them from time to time by the Board of Directors, the Chairman of the Board, any Vice Chairman, the President or the Controller. In the absence of the Controller or in the event of his inability or refusal to act, his duties shall be performed and his powers may be exercised by such Assistant Controller as shall be designated by the Chairman of the Board or, failing such designation, by any Controller. If there shall be a vacancy in the office of Assistant Controller, such person as shall be designated by the Chairman of the Board shall perform the duties and exercise the powers of Assistant Controller.

h. Treasurer. The Treasurer has custody of the corporate funds and

securities and shall deposit all monies and other valuable effects in the name and to the credit of the Corporation in any depositories that are authorized by

the Board of Directors; shall disburse the funds of the Corporation as may be directed by the Board of Directors; shall keep a full and accurate account of all monies received and paid on account of the Corporation; and shall render to the Chairman of the Board, any Vice Chairman, the President and the Board of Directors an account of all such transactions at meetings of the Board of Directors or whenever it shall be required. The Treasurer shall perform all other duties and exercise all other powers usually pertaining to the office of the treasurer of a corporation and shall perform such other duties and exercise such other powers as may be assigned to him or her from time to time by the Board of Directors, the Chairman of the Board, any Vice Chairman or the President. The Treasurer shall appoint, pursuant to Section 4.06, one or more Assistant Treasurers who shall perform such duties and exercise such powers as may be assigned to them from time to time by the Board of Directors, the Chairman of the Board, any Vice Chairman, the President or the Treasurer. In the absence of the Treasurer or in the event of his or her inability or refusal to act, his or her duties shall be performed and his or her powers may be exercised by such Assistant Treasurer as shall be designated by the Chairman of the Board or, failing such designation, by any Assistant Treasurer. If there shall be a vacancy in the office of Assistant Treasurer, such person as shall be designated by the Chairman of the Board shall perform the duties and exercise the powers of Assistant Treasurer.

i. Secretary. The Secretary shall attend meetings of the stockholders

and Board of Directors, and act as clerk thereof, and record all votes and minutes of all proceedings in a book to be kept for that purpose and shall, when requested, perform like duties for all committees of the Board of Directors. The Secretary shall give, or cause to be given, notice of meetings of the stockholders and meetings of the Board of Directors and committees thereof if such notice is required by law or pursuant to these By-laws or the rules of

procedure of any such committee. The Secretary shall keep in safe custody the seal of the Corporation, and shall have authority to affix the same to any instrument and to attest the same. He or she shall keep and account for all books, documents, papers and records of the Corporation, except those for which some other officer is properly accountable. He or she shall generally perform such duties and exercise such powers usually pertaining to the office of secretary of a corporation. He or she shall perform such further duties and exercise such further powers as may be assigned to him from time to time by the Board of Directors, the Chairman of the Board, any Vice Chairman, or the President. The Secretary shall appoint, pursuant to Section 4.06, one or more Assistant Secretaries who shall perform such duties and exercise such powers as may be assigned to them from time to time by the Board of Directors, the Chairman of the Board, any Vice Chairman, the President or the Secretary. The Secretary and Assistant Secretaries, in addition to their other powers and duties, shall have the authority to execute powers of attorney on behalf of the Corporation. In the absence of the Secretary or in the event of his or her inability or refusal to act, his or her duties shall be performed and his or her powers may be exercised by such Assistant Secretary as shall be designated by the Chairman of the Board or, failing such designation, by any Assistant

Secretary. If there shall be a vacancy in the office of Assistant Secretary, such person as shall be designated by the Chairman of the Board shall perform the duties and exercise the powers of Assistant Secretary.

j. Director of Taxes. The Director of Taxes shall have the

responsibility of supervision of the tax department of the Corporation and shall advise and consult with the Chairman of the Board, any Vice Chairman, the President, the Chief Financial Officer and the General Counsel on all tax matters affecting the Corporation and its subsidiaries and on matters of corporate tax policy; cause compliance with laws and regulations in respect of taxes due; shall select counsel to represent the Corporation in, and shall manage administrative appeals and tax litigation involving, the Corporation; shall render to the Chairman of the Board, any Vice Chairman, the President, the Chief Financial Officer, the General Counsel and the Board of Directors an account of all tax matters affecting the Corporation; and shall perform all other duties and exercise all other powers usually pertaining to the office of director of taxes of a corporation including the signing of all returns, waivers, consents and any other tax forms on behalf of the Corporation and all its subsidiaries, and shall perform such other duties and exercise such other powers as may be assigned by the Board of Directors, the Chairman of the Board, the Vice Chairman, the President, the Chief Financial Officer or the General Counsel.

k. General Counsel and Deputy General Counsels. The General Counsel

shall have the responsibility for supervision and management of all legal functions of the Corporation and all its subsidiaries; shall select attorneys to represent the Corporation in such matters as he or she shall determine and shall manage their services; shall cause to be negotiated and documented all transactions entered into or involving the Corporation; shall render to the Chairman of the Board, any Vice Chairman, the President and the Board of Directors at meetings of the Board of Directors or whenever else it may be required, an account of all legal matters of or affecting the Corporation and shall perform all other duties and exercise all other powers usually pertaining to the office of general counsel of a corporation and shall perform such other duties and exercise such other powers as may be assigned by the Board of Directors, the Chairman of the Board, any Vice Chairman or the President. Deputy General Counsels shall supervise and manage the legal functions of the operating division, office or branch of the Corporation designated by and under the

direction of the General Counsel, and the Deputy General Counsels shall perform such duties and exercise such powers as may be assigned to them from time to time by the Board of Directors, the Chairman of the Board, any Vice Chairman, the President, or the General Counsel. In the absence of the General Counsel or in the event of his or her inability or refusal to act, his or her duties shall be performed and his or her powers may be exercised by such Deputy General Counsel as shall be designated by the Chairman of the Board or, failing such designation, by any Deputy General Counsel. If there shall be a vacancy in the

office of General Counsel, such person as shall be designated by the Chairman of the Board shall perform the duties and exercise the powers of General Counsel.

Section 4.06. Appointed Officers. The Chairman of the Board, any Vice

Chairman, the President, each of the Group Presidents, the General Counsel and each manager of a business unit or corporate staff department may appoint, without further approval by the Board of Directors, vice presidents, assistant vice presidents, associate general counsels, senior counsels, counsels, attorneys, assistant controllers, assistant treasurers, assistant secretaries and other appropriate titled officers to assist them in their respective duties. The powers and duties of the appointed officers shall be as follows:

a. Vice Presidents and Assistant Vice Presidents. Vice Presidents and

Assistant Vice Presidents shall have the power and authority to execute certificates, contracts, bonds, mortgages, notes, guaranties and other instruments and documents for and on behalf of the Corporation and under the seal of the Corporation where so required. They shall also be authorized to perform all duties that from time to time may be prescribed by the Board of Directors, the Chairman of the Board, any Vice Chairman, the President or their Group President.

b. Associate General Counsels, Senior Counsels, Counsels and

Attorneys. Associate General Counsels shall have the power and authority to

supervise and manage the legal function of any group, branch or office of the Corporation designated by and under the direction of a Deputy General Counsel for and on behalf of the Corporation and under the seal of the Corporation where so required, and shall, in addition, perform duties that from time to time may be prescribed by the Board of Directors, the Chairman of the Board, any Vice Chairman, the President, the General Counsel or a Deputy General Counsel. Senior Counsels, Counsels and Attorneys shall perform duties that from time to time may be prescribed by the the General Counsel or a Deputy General Counsel.

c. Assistant Controllers. Assistant Controllers shall perform such

duties and exercise such powers as may be assigned to them from time to time by the Board of Directors, the Chairman of the Board, the President or the Controller. In the absence of the Controller or in the event of his or her inability or refusal to act, his or her duties shall be performed and his or her powers may be exercised by such Assistant Controller as shall be designated by the Chairman of the Board or, failing such designation, by the Assistant Controllers in order of their election to that office. If there shall be a vacancy in the office of Assistant Controller, such person as shall be designated by the Chairman of the Board shall perform the duties and exercise the powers of Assistant Controller.

d. Assistant Treasurers. Assistant Treasurers shall perform such

duties and exercise such powers as may be assigned to them from time to time by the Board of Directors, the Chairman of the Board, the President or the Treasurer. In the absence of the

Treasurer or in the event of his or her inability or refusal to act, his or her duties shall be performed and his or her powers may be exercised by such Assistant Treasurer as shall be designated by the Chairman of the Board or, failing such designation, by the Assistant Treasurers in the order of their election to that office. If there shall be a vacancy in the office of Assistant Treasurer, such person as shall be designated by the Chairman of the Board shall perform the duties and exercise the powers of Assistant Treasurer.

e. Assistant Secretaries. Assistant Secretaries shall have the power

and authority to execute any and all documents required to be signed by the Secretary, including without limitation powers of attorney, which relate to the consummation of transactions of their respective business units, for and on behalf of the Corporation and under the seal of the Corporation where so required, and shall, in addition, perform duties that from time to time may be prescribed by the Board of Directors, the Chairman of the Board, the President or the Secretary. In the absence of the Secretary or in the event of his or her inability or refusal to act, his or her duties shall be performed and his or her powers may be exercised by such Assistant Secretary as shall be designated by the Chairman of the Board or, failing such designation, by the Assistant Secretaries in the order of their election to that office. If there shall be a vacancy in the office of Assistant Secretary, such person as shall be designated by the Chairman of the Board shall perform the duties and exercise the powers of Assistant Secretary.

Section 4.07. Group/Divisional Officers. Officers of the Corporation,

appointed, pursuant to Section 4.06 above, may be designated as officers of a particular group or division of the Corporation. When officers are so designated, their powers and duties shall be those of an officer with the same title as described in Section 4.06 above, as the case may be, but such powers and duties shall be limited to the activities of their respective group or division.

Section 4.08. Voting Corporation's Securities. Unless otherwise ordered by the

Board of Directors, the Chairman of the Board, any Vice Chairman, the President or any Executive Vice President has full power and authority on behalf of the Corporation to attend and to act and to vote at all meetings of security holders of the corporations in which the Corporation may hold securities, and at those meetings such person shall possess and may exercise any and all rights and powers incident to the ownership of the securities, and which as the owner thereof, the Corporation may have possessed and exercised, if present. The Board of Directors or the Executive Committee by resolution from time to time may confer powers upon any other person or persons.

ARTICLE V: SHARE CERTIFICATES

Section 5.01. Form; Signature. The shares of the Corporation shall be

represented by certificates; provided that the Board of Directors of the Corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Notwithstanding the adoption of such a resolution by the Board of Directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the Corporation by the Chairman of the Board or Vice Chairman of the Board, Chief Executive Officer, or the President or Vice President,

and by the Treasurer or an Assistant Treasurer, or the Secretary of an Assistant Secretary of the Corporation representing the number of shares registered in certificate form. Any or all the signatures on the certificate may be a facsimile.

Section 5.02. Signatures of Former Officer, Transfer Agent or Registrar. In

case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person or entity were such officer, transfer agent or registrar at the date of issue.

Section 5.03. Transfers of Shares. All transfers of shares of the stock of the

Corporation are subject to the terms conditions and restrictions, if any, of the Certificate of Incorporation. Transfers of shares of the capital stock of the Corporation shall be made on the books of the Corporation by the registered holder thereof, or by his attorney thereunder authorized by power of attorney duly executed and filed with the Secretary of the Corporation, or with a Transfer Clerk or a Transfer Agent appointed as in Section 5.06 of this Article, and, if certificated shares, on surrender of the certificate or certificates for the shares properly endorsed and the payment of all taxes thereon. The person in whose name shares of stock are registered on the books of the Corporation shall be considered the owner thereof for all purposes as regards the Corporation; but whenever any transfer of shares is made for collateral security, and not absolutely, that fact, if known, to the Secretary, shall be stated in the entry of transfer. The Board may, from time to time, make any additional rules and regulations as it may deem expedient, not inconsistent with these By laws, concerning the issue, transfer and registration of certificates for shares of the stock of the Corporation.

Section 5.04. Lost, Stolen or Destroyed Stock Certificates; Issuance of New

Certificates. The Corporation may issue a new certificate of stock in the place

of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate, or his legal representative, to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

Section 5.05. Transfer Agent and Registrar. The Board of Directors may appoint

one or more Transfer Clerks or one or more Transfer Agents and one or more Registrars.

Section 5.06. Registered Stock. The Corporation shall be protected in treating

the persons in whose names shares stand on the record of stockholders as the owners thereof for all purposes; and the Corporation shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

ARTICLE VI: INDEMNIFICATION OF OFFICERS, DIRECTORS,
EMPLOYEES AND AGENTS; INSURANCE

Section 6.01. Third Party Proceedings. The Corporation shall, in accordance

with Section 6.03 or 6.04 of these bylaws, indemnify, to the fullest extent permitted by the General

Corporation Law of Delaware (the "DGCL") any person who 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 the right of the Corporation) by reason of the fact that he or she is or was a director, officer, employee, attorney or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee, attorney or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and with respect to any criminal action or proceeding, have

reasonable cause to believe that his or her conduct was unlawful.

Section 6.02 Derivative Shareholder Liability. The Corporation shall, in

accordance with Section 6.03 or 6.04 of these bylaws, indemnify any person who was or is 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 the Corporation to procure a judgment in its favor by reason of the fact that he or she is or was a director, officer, employee, attorney or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee, attorney or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation and 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 to the 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 indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 6.03 Indemnification Upon Success on the Merits. To the extent that a

present or previous director, officer, employee, attorney or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 6.01 and 6.02, or in the defense of any claim, issue or matter therein, he or she shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

Section 6.04 Indemnification in Other Circumstances. Any indemnification under

Sections 6.01 and 6.02 (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee, attorney or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in Sections 6.01 and 6.02. Such determination shall be made (1) by the Board of Directors of the Corporation, or its Executive Committee,

by a majority vote, even if less than a quorum, of directors who were not parties to such action, suit or proceeding, or (2) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (3) by the stockholders of the Corporation. Nothing contained herein shall be deemed a limitation on the Corporation's ability to provide indemnifications in the ordinary course of its business.

Section 6.05 Payment of Defense Expenses in Advance. The Corporation shall pay

or reimburse the reasonable expenses incurred by a director, officer, employee, attorney or agent who is a party or threatened to be made a party to an action, suit, or proceeding in advance of final disposition of the proceeding if all of the following apply:

a. The person furnishes the Corporation a written affirmation of his or her good faith belief that he or she has met the applicable standard of conduct set forth in Section 6.01 and 6.02.

b. The person furnishes the Corporation a written undertaking, executed personally or on his or her behalf, to repay the advance if it shall ultimately be determined by the Board or the Executive Committee thereof, or by a court of competent jurisdiction, that he or she is not entitled to be indemnified by the Corporation as authorized by these By-laws.

c. No determination is made by the Board or the Executive Committee thereof, or by a court of competent jurisdiction, that the person is precluded from obtaining indemnification under this Section or the Delaware General Corporation Law.

d. Notwithstanding anything to the contrary in this Article VI, (i) the Company shall not be obligated to indemnify a director, officer or employee or pay expenses incurred by a director, officer or employee with respect to any threatened, pending or completed claim, suit or action, whether civil, criminal, administrative, investigative or otherwise ("Proceedings") initiated or brought voluntarily by a director, officer or employee and not be way of defense (other than Proceedings brought to establish or enforce a right to indemnification under the provisions of this Article VI unless a court of competent jurisdiction determines that each of the material assertions made by the director, officer or employee in such Proceedings were not made in good faith or were frivolous) and (ii) the Company shall not be obligated to indemnify a director, officer or employee for any amount paid in settlement of a Proceeding covered hereby without the prior written consent of the Company to such settlement.

Section 6.06 Insurance. The Corporation has the power to purchase and maintain -----

insurance on behalf of any person who is or was a director, officer, employee, attorney or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee, attorney or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation has the power to indemnify him against such liability under the provisions of these By-laws.

Section 6.07 No Waiver of Rights. The indemnification provided for in this -----

Article shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any by-law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in an

official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee, attorney or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

ARTICLE VII. DIVIDENDS

Section 7. Dividends. The Board of Directors of the Corporation may declare

and pay dividends upon the shares of the Corporation's capital stock in any form determined by the Board of Directors, in the manner and upon the terms and conditions provided by law.

ARTICLE VIII: MISCELLANEOUS

Section 8.01. Fiscal Year. The Fiscal Year of the Corporation shall be the

calendar year.

Section 8.02. Seal. The Corporation shall have a seal in such form as the

Board of Directors shall approve. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

Section 8.03. Power to Amend. These By-laws may be adopted, amended or

repealed by the Board of Directors, to the extent provided in the Certificate of Incorporation, of the Corporation, or by the vote of the holders of at least 66-2/3% of the total voting power of all outstanding Common Stock, voting together as a single class.

Section 8.04. Promulgation of Corporate Calendar. On or before January 31st of

every calendar year, the Chairman of the Board shall promulgate the corporate calendar for that calendar year. The calendar shall set forth the dates, places and times for the Annual Meeting of Stockholders, meetings of the Board of Directors and meetings of the various committees of the Board of Directors. Copies of the corporate calendar shall be delivered to each director entitled to notice of meetings. In the event an individual becomes a director subsequent to promulgation of the corporate calendar, he or she shall be provided a copy of the corporate calendar at the time of appointment. The Chairman of the Board may amend the corporate calendar at any time by giving notice to every individual entitled to notice of the meeting whose date, place or time is being amended.

ARTICLE IX: EMERGENCY BY-LAWS

Section 9. Emergency By-Laws. The provisions of this Article IX, adopted

pursuant to the authority of Section 109 of the Delaware Corporation Law, shall become operative during any emergency resulting from an attack on the United States or on a locality in which the Corporation conducts its business or customarily holds meetings of its Board of Directors or stockholders, or during any nuclear or atomic disaster, or during the existence of any catastrophe, or other similar emergency condition, resulting in the death, disability or

inability to convene or function of a quorum of the Board of Directors. In any such event, the following procedures shall govern the conduct of the business and affairs of the Corporation:

a. A meeting of the Board of Directors or of any committee thereof may be called by any officer or director upon notice to such directors as it may be feasible to reach at the time and by such means as may be feasible at the time including publication or radio.

b. The director or directors in attendance at any meeting called as aforesaid shall constitute a quorum, and may take such action as may, in his or their judgment, be necessary to carry on the functions of the Board of Directors during the period the emergency continues.

c. In the event no member of the Board of Directors is present to constitute a quorum at any meeting of the Board of Directors during the emergency period, the three senior officers of the Corporation who are present shall be considered in order or rank, as set forth in paragraph d. hereof, and within the same rank in order of seniority of appointment, directors for such meeting.

d. During the emergency period, the duties, powers and functions of any officer of the Corporation who has died or been disabled, or is unable for any reason to perform his duties, shall devolve upon and be assumed by the officer next in rank, in the order of their respective seniority by first election, in accordance with the following table of sequence:

- Chairman of the Board
- Vice Chairmen
- President
- Executive Vice Presidents
- Treasurer
- Controller
- Senior Vice Presidents
- Other Vice Presidents
- Assistant Vice Presidents
- Secretary

Duties, powers and functions of any division officer similarly unable to perform shall devolve upon and be assumed by the officer next in rank, in accordance with the same sequence. New officers may be elected, or the accession of officers ratified, at the next regular meeting of the Board of Directors, or at

a special meeting called for that purpose. However, as to third persons, the performance of the duties of an officer by one acting pursuant to this Article shall be conclusive evidence of his authority to do so.

Form of
Amended and Restated
Change in Control Agreement

This Amended and Restated Change in Control Agreement (this "Agreement") is entered into between Heller Financial, Inc., a Delaware corporation (the "Company"), and _____ (the "Executive"). Capitalized terms not otherwise defined herein shall have the respective meanings given to them in Section 4 of this Agreement.

Witnesseth That:

Whereas, the Executive is employed by the Company, and the Company desires to provide protection to the Executive in connection with any future change in control of the Company which occurs while the Executive is employed by the Company;

Now, Therefore, it is hereby agreed by and between the parties, for good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, as follows:

1. Effective Date and Term. This Agreement is dated as of _____, 2001 (the "Effective Date") and succeeds, amends and restates in its entirety any previous agreement between the Company and the Executive regarding a change in control of the Company. This Agreement will remain in effect through February 28, 2006 as long as the Executive remains employed by the Company and, if the Executive's employment with the Company and all Affiliates is terminated in such a way as to entitle him or her to benefits under Section 2, for two years after the Executive's Employment Termination.
2. Payments and Benefits Upon Employment Termination After a Change in Control. If, within the period ending two (2) years after a Change in Control or during the Period Pending a Change in Control, (i) the Executive's employment with the Company and its Affiliates is terminated without Cause or (ii) the Executive voluntarily terminates his or her employment with Good Reason, the Company will, within 30 days (except as otherwise expressly provided) after the Executive's Employment Termination, make the payments and provide the benefits described below.
 - (a) Salary Continuation. The Company will continue the Executive's annual Base Salary for twenty-four (24) months following Employment Termination at the same time and in the same manner as the Company

paid salary during employment or, at the Executive's election, make a lump sum cash payment to the Executive equal to the present value of two times the Executive's Base Salary.

- (b) Heller Performance Plan Bonus. The Company will pay the Executive an amount equal to two times the largest Heller Performance Plan bonus he or she received during the last three full years of employment with the Company and its Affiliates or, if larger, two times the amount of his or her target bonus under the Heller Performance Plan for the year in which Employment Termination occurs,

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assuming performance for the entire year, at the applicable target bonus level for that year. In addition, the Company will pay the Executive a pro rata portion of the target bonus he or she would have received under the Heller Performance Plan for the year in which the Employment Termination occurred, had he or she remained employed until the date Heller Performance Plan bonuses were paid for that year. The pro rata portion due to the Executive will be determined by multiplying the full-year target bonus by a fraction whose numerator is the number of full months elapsed in the year in which Employment Termination occurs, up to and including the Employment Termination, and whose denominator is twelve. The Company will pay the bonus amounts described in this paragraph in a lump sum within 45 days after the end of the year in which Employment Termination occurs.

- (c) Welfare Benefit Plans. With respect to each Welfare Benefit Plan, for the period beginning on Employment Termination and ending on the earlier of (i) two years following Employment Termination, and (ii) the date the Executive becomes covered by a welfare benefit plan or program maintained by an entity other than the Company or an Affiliate which provides coverage or benefits comparable to those provided under the Welfare Benefit Plan, the Executive will continue to participate in the Welfare Benefit Plan on the same basis and at the same cost to the Executive as was the case at Employment Termination. Alternatively, if any benefit or coverage cannot be provided under a Welfare Benefit Plan because of applicable law or contractual provisions, the Executive will be provided with substantially similar benefits and coverage for the period required by the preceding sentence. Immediately following the expiration of the coverage period required by this paragraph, the Executive will be entitled to elect continued group health plan coverage (so-called "COBRA coverage") in accordance with Section 4980B of the Internal Revenue Code of 1986, as amended (the "Code"), its being intended that COBRA coverage will be consecutive to the benefits and coverage provided for in the preceding two sentences.
- (d) Retirement Plan Benefits. The Company will pay the Executive a lump sum amount equal to the present value of the additional benefit the

Executive would have accrued under the Company's qualified and non-qualified retirement plans (as in effect prior to the Change in Control or, if benefits are increased under the plans after the Change in Control, immediately prior to Employment Termination) had he or she continued to receive benefits thereunder through the end of the 24th month following Employment Termination. In addition, if the Executive is not fully vested at Employment Termination in all benefits he or she has by then accrued under the Company's qualified retirement plans, the Company will pay him or her an amount equal to the unvested portion of the Executive's benefits under those plans at Employment Termination. All benefits under the Company's non-qualified retirement plans will become fully vested (to the extent, if any, not vested upon the Change in Control) at Employment Termination. The Company will pay the lump sum required by this paragraph to the Executive within 45 days after the end of the year in which Employment Termination occurs.

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- (e) Retiree Medical Benefits. The Company will add 24 months to the Executive's age and benefit service for purposes of determining the Executive's eligibility for and benefits under the Company's retiree medical benefit plan.
- (f) Perquisites. Through the end of the year in which his or her Employment Termination occurs, the Executive will continue to be eligible for reimbursement of expenses offered through the Company's Executive Perquisite Program, up to the annual reimbursement allotment in effect for him or her in the year in which Employment Termination occurs. In addition, within 45 days after the end of the year in which Employment Termination occurs, the Company will pay the Executive a lump sum equal to the annual reimbursement allotment in effect for him or her at the time of the Change in Control (or, if larger, immediately before Employment Termination).
- (g) Long-Term Incentive Plans. The Executive will be fully vested in all performance shares granted to him or her under any LTIP whose final year is the same as or before the year in which Employment Termination occurs, 2/3 vested in all performance shares granted to him or her under the LTIP whose second year is the year in which Employment Termination occurs, and 1/3 vested in all performance shares granted to him or her under the LTIP whose first year is the year in which Employment Termination occurs. The amount of the award paid to the Executive under each LTIP in which he or she participates will be determined under the terms of that LTIP, using actual performance for the LTIP's cycle (or so much of the LTIP's cycle as is completed by the time of payment called for in the next sentence). The award under each LTIP will be paid to the Executive within 45 days after the end of the year in which Employment Termination occurs.
- (h) Stock Options and Restricted Stock. The Executive will immediately

become fully vested in any restricted stock, stock options or other rights then previously granted to him or her under the Company's 1998 Stock Incentive Plan or any successor plan.

(i) Outplacement Services. The Company will provide the Executive with executive outplacement counseling services, on the same terms as it typically provides those services to senior executives at the time of the Employment Termination.

3. Change in Control. A "Change in Control" of the Company will be deemed to occur as of the first day that The Fuji Bank, Limited and its subsidiaries cease to own, directly or indirectly, at least forty-five percent (45%) of the combined voting power of the then outstanding voting securities of the Company, or of a successor to the Company, entitled to vote generally in the election of the Board. An entity will be considered a successor to the Company for purposes of the preceding sentence only if it results from a reorganization, merger or consolidation, or sale or other disposition of all or substantially all of the assets, of the Company. For purposes of clarification, a Change of Control of

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the Company will not be deemed to have occurred if the reduction in ownership is due to dilution resulting from the issuance by the Company of common equity (or securities convertible into common equity) approved by the Board of Directors of the Company.

4. Other Definitions. For purposes of this Agreement:

(a) "Affiliate" means any entity that is a member of a controlled group of corporations or a group of trades or businesses under common control (each as defined in Code Section 1563), which includes the Company.

(b) "Base Salary" means the Executive's salary at the greater of the rate in effect on the date of (i) the Change in Control or (ii) Employment Termination.

(c) "Board" or "Board of Directors" means the Company's Board of Directors.

(d) "Employment Termination" means the effective date of: (i) the Executive's voluntary termination of employment with the Company and all Affiliates with Good Reason; or (ii) the involuntary termination of the Executive's employment with the Company and all Affiliates without Cause.

(e) "Cause" means: (i) the Executive's fraud or criminal misconduct; or (ii) the material and willful breach by the Executive of his or her responsibilities or willful failure to comply with reasonable directives or policies of the Board, but only if the Company has given

the Executive written notice specifying the breach or failure to comply, demanding that the Executive remedy the breach or failure to comply and giving the Executive an opportunity to be heard in connection with the breach or failure to comply, and the Executive either failed to remedy the alleged breach or failed to comply within 30 days after receipt of the written notice or failed to take all reasonable steps to that end during the 30 days after the Executive received the notice.

- (f) "Good Reason" exists if, without the Executive's express written consent, any of the following events occur:
- (i) The Company or an Affiliate significantly diminishes the Executive's assigned duties and responsibilities from the level or extent at which they existed before a Change in Control including, without limitation, if the Company or Affiliate removes the Executive's title(s) or materially diminishes the powers associated with the Executive's title(s). For Good Reason to exist, the Executive must deliver written notice to the Company or Affiliate specifying the diminution in assigned duties and responsibilities that he or she believes constitutes Good Reason, and the Company or Affiliate must fail to reverse the same or to take all reasonable steps to that end within 30 days after receiving the notice;
 - (ii) The Company or an Affiliate materially reduces the Executive's Base Salary below the greater of that in effect as of the date of this Agreement and that in effect as of the Change in Control;
 - (iii) The Company or Affiliate requires the Executive to relocate his or her principal business office or his or her principal place of residence outside the Standard Metropolitan Statistical Area where the Executive was located on the date of a Change in Control (the "Geographical Employment Area"), or assigns to the Executive duties that would reasonably require such a relocation;
 - (iv) The Company or an Affiliate requires the Executive to, or assigns duties to the Executive which would reasonably require the Executive to, spend more than one hundred (100) normal working days away from the Geographical Employment Area during any consecutive twelve-month period; or
 - (v) The Company or an Affiliate fails to continue in effect any cash or stock-based incentive or bonus plan, retirement plan, welfare benefit plan, or other benefit plan, program or arrangement that applied to the Executive on the date of the Change in Control, unless the aggregate value (as computed by an independent employee benefits consultant selected by the Company) of all such

compensation, retirement and benefit plans, programs and arrangements provided to the Executive is not materially less than their aggregate value as of the date of this Agreement, or, if greater, their aggregate value as of the date of the Change in Control.

(g) "Period Pending a Change in Control" means the period after the approval by the Company's stockholders and prior to the effective date of any transaction described in the second sentence of Section 3 above.

(h) "Welfare Benefit Plan" means each welfare benefit plan maintained or contributed to by the Company or any Affiliate, including, but not limited to a plan that provides health (including medical, dental or both), life, accident or disability benefits or insurance, or similar coverage, in which the Executive was participating at the time of the Change in Control.

5. Limitation on Company Payments. Notwithstanding any provision of this Agreement to the contrary, the aggregate payments and distributions by or on behalf of the Company or any Affiliate to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise) as a result of a Change in Control will not exceed 2.99 times the Executive's average "Annualized Includible Compensation for the Base Period," as defined in Code Section 280G(d) (1).

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6. Executive's Death. If the Executive dies during the term of this Agreement and after a Change in Control and Employment Termination, but before the complete payment of any amount or benefit required under this Agreement, the Company will pay that amount or benefit to the Executive's spouse, if living, or to the Executive's estate.

7. Mitigation and Set-Off. The Executive will not be required to mitigate damages by seeking other employment or otherwise, except as provided in Section 2(c). The Company's obligations under this Agreement will not be reduced in any way by reason of any compensation or benefits received (or foregone) by the Executive from sources other than the Company after the Executive's Employment Termination, or any amounts that might have been received by the Executive in other employment had the Executive sought such other employment, except as provided in Section 2(c). The Executive's entitlement to benefits and coverage under this Agreement will continue after, and will not be affected by, the Executive's obtaining other employment after the Employment Termination, except as provided in Section 2(c).

8. Arbitration and Expenses. The Company and the Executive agree that any dispute or controversy arising under or in connection with this Agreement

will be submitted to and determined by arbitration in Chicago, Illinois, in accordance with the Commercial Arbitration Rules of the American Arbitration Association, and the parties agree to be bound by the decision in any such arbitration proceeding. The Company will pay to the Executive all out-of-pocket expenses, including attorneys' fees, incurred by the Executive in the event the Executive successfully enforces any provision of this Agreement in any action, arbitration or lawsuit. If the Executive loses such an action, arbitration or lawsuit, the Company will not pay the Executive any out-of-pocket expenses so incurred.

9. Assignment; Successors. This Agreement may not be assigned by the Company without the written consent of the Executive but the obligations of the Company under this Agreement will be the binding legal obligations of any successor to the Company by merger, consolidation or otherwise. In the event of any business combination or transaction that results in the transfer of substantially all of the assets or business of the Company, the Company will cause the transferee to assume the obligations of the Company under this Agreement. This Agreement may not be assigned by the Executive during the Executive's life, and upon the Executive's death will inure to the benefit of the Executive's heirs, legatees and legal representatives of the Executive's estate.
10. Interpretation. The validity, interpretation, construction and performance of this Agreement will be governed by the laws of the State of Delaware, without regard to the conflict of law principles thereof. The invalidity or unenforceability of any provision of this Agreement will not affect the validity or enforceability of any other provision of this Agreement.
11. Withholding. The Company may withhold from any payment that it is required to make under this Agreement amounts sufficient to satisfy applicable withholding requirements under any federal, state or local law.
12. Amendment or Termination. The Company and the Executive may amend this Agreement at any time by written agreement.
13. Nonduplication of Benefits. If the Executive becomes entitled to benefits under this Agreement, he or she will not be entitled to any payments under the Heller Financial, Inc. Severance Pay Plan.
14. Indemnification. Following Employment Termination, the Company will: (i) indemnify and hold harmless the Executive for all costs, liability and expenses (including reasonable attorneys' fees) for all acts and omissions of the Executive that relate to the Executive's employment with the Company, to the maximum extent permitted by law; and (ii) continue the Executive's coverage under the directors' and officers' liability coverage maintained by the Company, as in effect from time to time, to the same extent as other current or former senior executive officers and directors of the Company until the end of the second policy year that begins after

the Employment Termination.

15. Financing. Cash payments under this Agreement (not including any payments made from the Qualified Plan) are general obligations of the Company, and the Executive will have only an unsecured right to payment thereof out of the general assets of the Company. Notwithstanding the foregoing, the Company may, in its sole discretion by agreement with one or more trustees to be selected by the Company, create a trust on such terms as the Company may determine, to make payments to the Executive in accordance with the terms of this Agreement.
16. Severability. If any provision or portion of this Agreement is determined to be invalid or unenforceable for any reason, the remaining provisions of this Agreement will be unaffected thereby and will remain in full force and effect.

In Witness Whereof, the parties hereto have executed this Agreement on the day and year first written above.

Heller Financial, Inc.

By: _____
Its: _____

The Executive

EXHIBIT (12)

HELLER FINANCIAL, INC. AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS
TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS
(unaudited)
(dollars in millions)

<TABLE>
<CAPTION>

	For the Three Months Ended March 31, 2001 -----
<S>	<C>
Net income before income taxes, minority interest, and cumulative effect of change in accounting for derivatives.....	\$ 99
Add-Fixed charges	
Interest and debt expense.....	249
One-third of rentals.....	2

Total fixed charges.....	251

Net income, as adjusted.....	\$ 350

Ratio of earnings to fixed charges.....	1.39x =====
Preferred stock dividends on a pre-tax basis.....	\$ 10
Total combined fixed charges and preferred stock dividends.....	261

Ratio of earnings to combined fixed charges and preferred stock dividends.....	1.34x =====
</TABLE>	

For purposes of computing the ratio of earnings to combined fixed charges and preferred stock dividends, "earnings" includes income before income taxes, the minority interest, the cumulative effect of change in accounting for derivatives, and fixed charges. "Combined fixed charges and preferred stock dividends" includes interest on all indebtedness, one-third of annual rentals (approximate portion representing interest) and preferred stock dividends on a pre-tax basis.