raise money when a company is in a crisis." Oppenheimer, of course, has access to investment capital.

In short, the partnership sounds like a natural. The only problem is one of image. Palmieri is in the second year of a five-year contract to manage Baldwin-United, probably his toughest assignment ever. The company filed for Chapter 11 protection only four months after Palmieri took charge.

These well-publicized difficulties are removing some of the luster from Palmieri's reputation as a corporate salvage expert. Some observers contend that Palmieri didn't do his homework: "I think Victor Palmieri did as good a job as can be expected, given the situation," says James Chanos, a securities analyst for Atlantic Capital. "But I'm not sure he knew what assets he had to work with when he took the job."

But by mega-workout standards, it is premature to say Palmieri has failed with Baldwin. He spent eight years reviving Penn Central Corp., the feat on which his reputation largely rests, and he is in the seventh year of managing the real estate portfolio of the Central States Teamsters' pension fund. Says Koskinen: "Patience is required, but if you evaluate carefully there is substantially less risk [in workout investing] than in venture capital. You are dealing with operations that at one point met the test of the market." On the other hand, he warns, "not every disaster represents [an] opportunity." ■

CORPORATE FINANCE

DEFENDANT'S EXHIBIT 3

A 'POISON PILL' THAT'S SUPER-LETHAL

DIRECTOR MORAN IS CHALLENGING HOUSEHOLD'S ANTITAKEOVER PLAN IN COURT

The corporate search for the ultimate antitakeover defense has kept financial Frankensteins working overtime in their Wall Street labs. Perhaps their most threatening creation is a new "poison pill" plan that recently issued from Household International Inc., a consumer finance and manufacturing company in Prospect Heights, Ill. Household's Preferred Share Purchase Rights Plan goes on trial in Delaware on Sept. 24, and if it prevails, corporate takeover strategies would change markedly. Says one expert: "This is the most significant case involving takeover defenses that has come along."

Recently, Household sent to holders of its common stock an unusual dividend: the right to buy 1% of a share of a new "junior" preferred stock for $100. These rights can be exercised only when "sprung" by one of two triggering events—either the purchase by a single investor of 20% or more of HI's 60 million shares or a tender offer for at least 30% of those shares.

The new preferred has little appeal: A single share costs $10,000, is not convertible into common, yields a mere 1.75%, and apparently was created to satisfy Delaware law specifying that any rights must be for a company's own securities. More critically, the "springing right"—which can be traded separately from the common stock only after a triggering event—entitles shareholders to pay only $100 for each $200 worth of stock in any company that succeeds in acquiring HI.

To ward off such dilution, a prospective acquirer would itself have to buy up the rights, perhaps at a steep price. Or, because HI's board can redeem the rights for only 50¢ before they are sprung, a predator could avoid swallowing that pill by negotiating directly with the directors before acquiring more than 20% of the stock. "I won't deny that we have shifted some of the power toward the board," says Donald C. Clark, Household's chairman, president, and chief executive officer. But "we have benefited the shareholders."

The brainchild of Martin Lipton, a veteran takeover lawyer and partner in the New York law firm of Wachtell, Lipton, Rosen & Katz, springing rights have also been embraced by Crown Zellerbach Corp. and Owens-Illinois Inc. But they are threatened by John A. Moran, an outside director of Household, who has brought a suit against HI to have its novel plan declared unlawful and void.

'COUNTRY CLUB.' Moran, whose private investment firm, Dyson-Kissner-Moran Corp., is part of a group that owns $130 million of HI stock, questions the propriety of instituting the poison pill without a shareholder vote. His suit also claims that there is no legal way one company can authorize its shareholders to buy another's stock. Charging that Household's board is looking out for its own interests, Moran says: "A lot of boards don't want anybody to shake up their little country club. HI's board is in this category." Of 16 board members, only Moran and John C. Whitehead, a partner at Goldman, Sachs & Co., opposed the plan.

"We feel it is inappropriate to run to shareholders every time there is a controversy about what the board does," Clark says. "To run to them now and allow them to vote on this plan is not in their best interest." The poison pill, he points out, has no effect on voting rights, and shareholders have the right to vote out directors if they disagree with the board's decisions.

Moreover, Clark claims that Moran has an ax to grind: HI has brought a countersuit alleging that Moran's investor group wants to take over Household. In fact, Moran asked Clark this summer if he and other management wanted to join with DKM in a leveraged buyout that would take the company private.

Moran calls the countersuit "hogwash." He says that the LBO proposal would have had to be approved by Household's directors and was in no way a hostile takeover. However, Moran told BUSINESS WEEK he would not preclude

BOB SACHA

some future move to "maximize shareholder interests." Moran says he will drop his suit if Household will hold a shareholder vote on the plan and drop its litigation against him. But he claims his proposal for such a vote, introduced at the Sept. 11 board meeting, was neither seconded nor discussed. "It's being stonewalled," he says.

IMPONDERABLES. The plan has certainly created a good deal of confusion—and that, more than anything, may be its real advantage. Says the description sent board members before its adoption: "The Plan creates rather complicated situations that may be difficult for a potential raider to evaluate. In so doing it may deter a takeover." Comments one attorney: "It's clear no businessman understands it. In fact, there are only 15 lawyers in the country who understand it."

It does seem to open a Pandora's box. There are a number of imponderables, for example, surrounding the rights once they are sprung. If the trigger event is a purchase of 20% or more of the stock, rather than a tender offer, the board can no longer redeem the rights—possibly precluding rescue by a White Knight. No one knows whether arbitrageurs might try to buy the rights, how that would affect the price bid for the common, and what strategy HI's stockholders ought to take. At least one shareholder is already baffled: Household has received his check for part of a preferred share even though the rights have not yet been sprung. ■

MONEY & BANKING

LOANS FOR SALE: A NEW WAY TO STRETCH BANK DOLLARS

With all the problems banks have getting their money back from foreign countries, selling bank loans might seem a little like offering a swamp for vacation homesites. But banks are finding a burgeoning market for their top-quality corporate loans. And more banks are licking their chops over prospects for using loan sales to boost their generally meager profitability or maintain lending growth in the face of ever-more-restrictive capital requirements from regulators.

Bankers Trust New York Corp., which is pioneering the loan-sales effort, expects to place $6 billion of its loans with banks, pension funds, insurance companies, and other investors this year, up from $2 billion worth in the few months the program was in full swing last year. Citicorp, which sold about as many loans as Bankers Trust in 1983, is so fond of the technique that it refuses to talk about its program for fear of tipping its hand to competitors. BankAmerica, J. P. Morgan, and Marine Midland Banks are among the half-dozen or so major banks reportedly on the verge of testing the water. And, overseas, Midland Banks PLC has become an active player.

Senior Vice-President Carl O. Roark, the former Citicorp loan officer who heads the loan distribution effort for Bankers Trust, says he can envision the day five years from now when his bank's loan sales will amount to as much as $40 billion or $50 billion a year. That is a tall order: Bankers Trust currently has total assets of $43 billion. But with a large, virtually untapped pool of investable money out there—pension funds alone have $1 trillion—Roark figures his bank needs only a slim share. "On the demand side, we can see quantum multiples of what we have to sell," he says.

ROARK: IN FIVE YEARS, BANKERS TRUST WILL SELL UP TO $50 BILLION IN LOANS

PHOTOGRAPHS BY ANDREW POPPER

To some extent, selling off corporate loans is not so different from what banks have been doing for years in other areas. Terry L. Turner, a senior vice-president at BankAmerica Corp., notes that his institution has been reselling real estate loans to investors for a decade or so. And when banks are called on to handle a large loan—and regulatory limits or prudence prevent taking on a massive exposure to a single borrower—banks have routinely syndicated the loan by signing on other banks to take a share in the credit.

BEST CUSTOMERS. Indeed, as in syndications, other banks have been among the most frequent customers of the loans sold off by bigger banks. But one of the features that distinguishes the loan sales from past procedures is the market in which bankers are selling them. At Bankers Trust, buyers include money market mutual funds and even nonfinancial corporations. And the technique is not limited to corporate loans. BankAmerica reports an increasing interest among corporations and other taxable entities in tax-free municipal loans.

Banks' motivations for the technique are varied. The obvious one is profit. Competition from the commercial paper market, where top-rated companies borrow for even less than banks must pay to raise money, has long narrowed banks' profit margins on big corporate loans. Banks have responded by lending to their best corporate customers at well below the prime rate, currently 13%. But the quarter-of-a-point or so that bankers figure they net on such loans works out to a return of a mere 5% on the bank's base of equity capital—if the bank keeps the loan on its own books. In selling off the loan, bankers can collect a fee for originating the loan and for passing on payments to an investor. The profitability of a bank's equity then depends on how many times a bank can turn over each dollar.

A NEW WRINKLE. In the case of Bankers Trust, where President Charles S. Sanford Jr. has set an overall strategy tuned to fee-based profits—much like an investment bank—executives say it was the possibility of lifting return on equity that drove Bankers Trust into the loan-distribution business. So far this year, the bank has raised its return on equity to 16.5% from an already respectable 16% last year. And executives are shooting for even better returns.

The allure of selling off loans is even more irresistible at banks like Citicorp and BankAmerica, which either would have to shed assets or raise substantial amounts of capital to meet the new guidelines for capital adequacy proposed by the regulators. Since loans sold off are not held on the bank's books, the institutions can provide customers with the loans they need without raising new capital to support the assets. Citicorp's