



# DEFAULTED BONDS NEWSLETTER

AUGUST 2001

## DEFAULTED BONDS -AS INVESTMENT PLAYS?

When we read about bond defaults and bankruptcies, we tend to think about investors who are stuck with bad securities from which they hope to salvage some meager recovery after the legal process has extracted its pound of fees. After witnessing the horrendous losses suffered by investors in high tech over the last year, one is struck by the fact that maybe defaulted bonds are as bad. At least in a bond default, you usually have a going concern that may even be profitable. You also have other claimants, i.e. shareholders, preferred holders and junior creditors who must suffer first.

What brings this to mind at this time, is that since the beginning of 2000, over 200 companies have defaulted on some \$87 billion in bond debt. On top of this, is probably another \$100 billion in bank debt that is also for sale at fire sale prices. These numbers mean there is a sizeable market here which is more than a small niche. It is a market where a reasonable amount of predictability exists both as to timing and possible outcome. Investment strategies in this market require a knowledge of the bankruptcy process along with an analysis of the going concern value of the business in question.

It may be helpful to our readers to stratify the market of defaulted bonds, since they represent widely different levels of risk. The premier defaults today are the two California utilities, Pacific Gas & Electric and California Edison. These are blue chip companies who needed to stop bleeding while the political forces figure out how to raise electric rates without suffering blame. PG&E chose not to wait and filed bankruptcy, thereby bringing in the power of the bankruptcy court to force rate increases (and provide political cover for the elected officials!). California Edison has defaulted but not filed, choosing to continue bleeding, albeit at a slower rate. A full recovery by bondholders in these two cases are good, the real question is how long it will take.

Next we have the companies which may have been investment grade and are in default or bankruptcy for political or legal reasons, which necessitated a filing. Among

these are the nine companies who filed in order to obtain finality in the long running battle over asbestos health claims. These companies are trying to use the bankruptcy process to force a quantification of the absolute amount of claims they must eventually pay. Recovery prospects for bonds in such companies are good, since the litigation claims depend on the company's survival and because such litigation claims are mostly payable after the bonds come due.

Next we have companies whose industries are going through hard times and could not ride things out. This includes health care, movie theatre and telecom companies. Recovery prospects become quite dicey for this category since many of these companies are not healthy or need to be merged or acquired. They often need new capital in addition to a restructuring of existing debt. A key to profitability here, is in the relative seniority of the bond claims to other creditors.

Finally we have companies that failed through a combination of bad luck and bad management. This category of companies represents the highest risk because there are generally senior bank creditors, who will be calling the shots. Bonds in such bankruptcies are subject to a "cram-down", whereby bondholders lose any voice in the outcome because it is judged there is not enough residual value to give them a voice in any settlement. Profitable investment in this category requires a disproportionate amount of luck. The chances of a total loss here are quite high and any recovery will not be immediate, but rather, as a stockholder in the surviving company.

Unlike past default waves, we believe that the high yield market has come to accept that defaults are to be expected and have built this into their yield expectations. This is not inconsistent with an investment atmosphere where Internet ventures, with no substance, commanded billions of dollars of investment capital i.e. we are in the mature stage of a rich capital market willing to accept increased levels of risk to achieve rates of return ever harder to achieve. This means more really speculative paper will be sold than ever before and higher volumes of defaults will be a fact of life for the foreseeable future.

## CORPORATE DEFAULTS

### AMERIKING INC.

Ameriking is a major franchisee of Burger King restaurants. The company missed the June 1, 2001 interest payment on its 10.75% debentures of 2006. On June 30, 2001 a majority of holders agreed to exchange their bonds for two classes of National Restaurant Enterprise Holdings Inc, a newly formed operating subsidiary of Ameriking. Bondholders will receive half the face amount of their bonds in newly issued 10.75% NRE bonds of '07 and the other half in NRE's 13% pay-in-kind notes both due 2008. In addition, bondholders will receive a warrant for the purchase of a pro-rata portion of 19.99% of NRE's common stock.

### AMRESCO INC

AMRESCO is a diversified financial services company specializing in commercial and residential real estate lending, asset management, and commercial finance. The company filed a Chapter 11 petition on July 2, 2001. As part of the filing, AMRESCO has entered into an asset purchase agreement with a group of investors whereby, subject to bankruptcy court approval and a mandatory auction process, the company will sell substantially all of its assets, for \$309 million, subject to certain adjustments. The purchase price is comprised of \$151 million cash, a \$25 million six-month note and the assumption of current warehouse indebtedness of \$133 million. The company has \$362.3 million in outstanding public bond debt.

### COMDISCO

Comdisco, Inc. is engaged in information technology leasing, technology services, and venture loans and leases. The company and 50 domestic U.S. subsidiaries filed a Chapter 11 petition in the U.S. Bankruptcy Court for the Northern District of Illinois on July 16, 2001. The previously announced discontinued operations of Prism Communication Services are included in the filing. The company said that Comdisco's operations located outside of the United States are not included in the case, and are continuing normal business operations.

Concurrent with the filing, Comdisco announced it has reached a definitive agreement with Hewlett-Packard Company to sell substantially all of its Availability Solutions (Technology Services) business for \$610 million. Comdisco also announced that it had received binding commitments for a \$600 million senior secured DIP financing facility led by Citibank, N.A. as administrative agent and, Chase Manhattan Bank as syndication agent. Comdisco reported that \$100 million of the new secured financing facility has been reserved specifically to support international operations, pending interim court approval. Comdisco anticipates it will exit Chapter 11 by the end of the first quarter of 2002. The company has \$2.82 billion in outstanding public debt, in the form of 19 dollar denominated bonds. The largest is a \$500 million 9.5% bond due 2003.

### METRICOM

Metricom is a wireless data provider, with a unique twist. Its 128k wireless modem, radios information to local neighborhood cells, which then connect to the Internet. While a brilliant technological feat, the subscription price of \$80 per month proved a barrier to widespread acceptance. The company filed for Chapter 11 on July 2, 2001 in the USBC District of San Jose, California. Metricom blamed the depressed state of the capital markets for its inability to raise additional capital. The company's largest creditor is WorldCom, which claims it is owed \$355 million. The company appointed Kevin I. Dowd as chief restructuring officer. Debtor-in-possession financing has not yet been obtained. The company had \$300 million in outstanding public debt in the form of a 13% bond due 2010.

### PYCSA PANAMA

PYCSA Panama owns and operates a toll road in Panama City, Panama. The company missed the June 15, 2001 interest and principal payment. Pycsa's parent, Madrid-based Grupo Protecto y Control, has said it will not provide capital to shore up the bond issue. PYCSA Panama issued the bonds to finance a portion of the cost to construct the 8.1-mile Northern Corridor and 10.1-mile segment toll road around Panama City.

PYCSA reported that traffic growth on the toll road was not sufficient to meet the financial obligations of the project. One of the segments was delayed in its opening for various reasons. Use is low, because of delays in the implementation of a transponder system and competition from free public roads. PYCSA has been negotiating with bondholders to restructure the debt. Credit Suisse First Boston, John Hancock Financial Services Inc. and Loomis Sayles & Co. own most of the bonds. According to Bloomberg, Pycsa and its investors are discussing lowering the coupon rate or constructing an extension that will make the highway more profitable, possibly through another debt issue. The \$125 million issue carries a 10.28% coupon and is due 2012.

### SHEFFIED STEEL

Sheffield Steel is a mini-mill producer of hot-rolled bar products, concrete reinforcing bar and fabricated products. The company's cash flow and liquidity has been affected by pricing pressures from high import levels and reduced demand from certain of its key markets. Sheffield missed the June 1, 2001 interest payment on its \$110 million 11.5% bond of 2005. On July 2, 2001 the company made a partial interest payment of \$1.05 million or 1/6 of the amount due. However, on July 17, 2001 the company received a notice of default from the trustee stating that the partial payment accepted by the trustee did not constitute a waiver of the default. On July 27, the company entered into a forbearance agreement with Bank of America, which provides for con-

## CORPORATE DEFAULTS

tinuation of the company's line of credit through August 31, 2001.

### STERLING CHEMICALS HOLDINGS

Sterling Chemicals Holdings, manufactures petrochemicals, acrylic fibers and pulp chemicals, and provides large-scale chlorine dioxide generators to the pulp and paper industry. The company filed a Chapter 11 petition in the Southern District of Texas (Houston) on July 16, 2001. The Company's foreign subsidiaries, including those in Canada, Australia and Barbados, are not included in the filing. The Company expects to commence discussions with representatives of holders of its various debt securities in pursuit of a consensus on an overall financial restructuring. According to the company, higher raw material and energy costs and weak demand for petrochemicals, hurt the company's financial performance.

The company has received commitments for up to \$195 million in debtor-in- possession (DIP) financing from a group of lenders led by the CIT Group/Business Credit, Inc. The DIP financing will be used to repay existing revolvers and to fund post-petition operating expenses. Of the \$195 million \$155 million will be immediately available with the rest available when certain conditions are met. The company has \$912 million in outstanding public bond debt. The largest issue, at \$295 million has a 12.375% coupon maturing in 2006.

### US DIAGNOSTIC

US Diagnostic Inc. is an independent provider of radiology services. The company failed to make an interest payment on its 9% subordinated convertible debentures due March 31, 2001. In addition to the above, the company announced that it failed to pay the \$10 million principal due on its 6.5% convertible notes that matured on June 30, 2001. US Diagnostic is currently engaged in negotiations with its secured and unsecured lenders. If negotiations are not successful the company may be forced to file for bankruptcy protection. The company has \$32 million in outstanding public debt.

### WOODS EQUIPMENT

Woods Equipment Company is a manufacturer of attachments for a variety of mowing, cutting and clearing applications. The company failed to make its \$7.8 million interest payment on its subordinated notes due July 15, 2001. Standard & Poor's indicates that because of the company's debt burden, lack of liquidity, and poor operating results, the company is unlikely to make the payment within the 30-day grace period. The default also affects Woods subsidiary WEC Company. Together there is \$181.9 million in outstanding bond debt in two issues.

## RATING DECLINES

### CORPORATE BONDS

Issuer	Agency	Action	NewRating
360Networks	M/S	-	Ca/D
Adv Accessory Sy	S	-	CCC+
Amer Greetings	M	-	Ba1
Ameriking Inc	S	-	D
Ames Dept. Store	M	-	Caa3
BWAY Corp	M	-	B3
Benton Oil	S	-	B-
Burke Inds	M/S	-	Ca/D
Calif Steel Inds	M	-	Ba3
Coeur D'Alene	S	-	C
Color Spot Nurse	M/S	-	Ca/D
Comdisco Inc.	M	-	Caa1
Doe Run Resource	M	-	Caa3
Dole Food Co.	M	-	Ba1
El Comandante	M	-	Ca
Equistar Chem	M	-	Ba1
Exodus Comm	M/S	-	Caa1/B-
Federal-Mogul	M	-	Caa2
Ferro Corp	M	-	Baa2
Fleetpride	M	-	Caa3
GATX Rail Corp	M	-	Baa2
Gaylor Container	S	-	CCC+
Global Telesys	M/S	-	C/C
Hayes Lemmerz	M	-	Caa1
Henry Co.	S	-	CCC
Hylsa SA DE CV	M	-	B3
ISP Hldgs	M	-	B2
ITC Deltacom Inc	S	-	CCC+
Kinetic Concepts	S	-	CCC+
Level 3 Comm	S	-	CCC+
Lucent Tech	S	-	BB+
MTS Inc	M	-	Ca
Mail-Well Inc	M	-	B3
Motor Coach Ind.	M	-	Caa1
Orius Cap Corp	M	-	Caa2
Oxford Auto	S	-	B-
Pacificare Hlth	M	-	B1
Pentacon Inc	M	-	Caa1
Pinnacle Entmt	S	-	B-
Polaroid Corp	S	-	CCC
Precision Ptnrs	M	-	Caa2
Quality Stores	M	-	Ca
Sheffield Steel	M/S	-	Ca/D
Sun Media Corp	M	-	B2
Thermadyne Hldgs	S	-	D
US Gypsum Co.	S	-	CCC+
US Industries	S	-	CCC+
Viskase Co	S	-	D
WHX Corp	M	-	Caa3
Westpoint Steven	M/S	-	Ca/CCC+
Wheeling-Pitts	M	-	C

**RECENT CORPORATE DEFAULTS**

Issue	Coupon	Maturity	(\$Millions)
Ameriking	10.75	2006	100
Amresco	9.875	2005	185
Amresco	10	2004	127
Comdisco	9.5	2003	500
Comdisco	5.95	2002	350
Comdisco	6	2002	350
Comdisco	7.25	2002	300
Comdisco	6.13	2001	275
Metricom	13	2010	300
Pycsa Panama	10.28	2012	125
Sheffied Steel	11.5	2005	110
Sterling Chemical	12.375	2006	295
Sterling Chemical	11.75	2006	275
Sterling Chemical	13.5	2008	192
Us Diagnostic	9	2003	22
Woods Equipment (WEC)	12	2009	130

**CORPORATE DEFAULT SUMMARY**

Total 1999	- (95 Issuers)	\$20,788,551
Total 2000	- (122 Issuers)	\$33,248,498
Total 2001 to Date	- (79 Issuers)	\$54,531,628

**MUNICIPALS**

**LARGEST UNSETTLED DEFAULTS**

Issuer	Project	Amount (\$000)	Status
Palm Beach County	Okeelanta LP	288,500	2F
Camden Cnty NJ	Solid Waste	189,490	1A
Maryland State	Hagerstown Fibre	160,000	2A
PA Econ. Dev	Ponderosa Fibres	152,000	2
Highland Park, MI	MI Health Care	113,037	2C

Total open muni defaults (580) 7,590,811

**RECENT DEFAULTS**

Issuer	Project	Date	(Millions)
Harris Cnty Tex	Windfern	7/01	20
Sykesville Md	Eldercare	6/01	79
Allegheny Cnty Pa	Lanchester	7/01	20
Total 1999	(121 Issuers)		\$1,605
Total 2000	(117 Issuers)		\$1,267
Total 2001	(54 Issuers)		\$766

**DEFAULT CANDIDATES - CORPORATES**

Company	Bonds (\$Mill)	Next Installment DT	(\$Mill)	Rating Mo/S&P
<b>Ameriking Inc.</b>	<b>100</b>	<b>6/1</b>	<b>5.4</b>	<b>Dflt</b>
Anker Coal Group	127	10/1	9.0	Caa2/CCC
Aames Financial	276	9/15	1.8	Ca/Na
<b>AEI Resources</b>	<b>150</b>	<b>6/15</b>	<b>8.6</b>	<b>Dflt</b>
Advance Agro	111	5/15	7.2	Caa1/CC
<b>Brunner Mond</b>	<b>124</b>	<b>7/15</b>	<b>6.9</b>	<b>Grace</b>
BTI Telecom	250	9/15	13.1	CCC
<b>Climachem</b>	<b>105</b>	<b>6/</b>	<b>5.6</b>	<b>Dflt</b>
Coeur D' Alene	294	7/31	3.2	Caa/CCC
Crown Packaging	267	11/1	7.0	Ca/NA
Classic Cable	466	9/1	23.3	Ca/CC
<b>Color Spot Nurseries</b>	<b>100</b>	<b>6/15</b>	<b>5.3</b>	<b>Dflt</b>
CS Wireless	400	9/1	21.9	Ca/C
Doe Run Resources	250	9/15	14.1	Caa3/CCC
E&S Holdings	200	10/1	10.4	Caa2/CCC
Echo Bay Mines	100	10/1	5.5	C/D
<b>Envirodyne Indus</b>	<b>219.6</b>	<b>6/1</b>	<b>11.2</b>	<b>Paid</b>
<b>Family Restaurants</b>	<b>450</b>	<b>8/1</b>	<b>21.3</b>	<b>Dflt</b>
Fleet Pride	100	2/1	6.0	Caa3/CCC
Henry Co	85	10/15	4..25	CCC+
High Voltage	155	8/15	8.3	Caa2/B
Hollywood Entertan	250	8/15	13.2	Caa3/CC
James Cable Ptns	100	8/15	5.4	Caa2/CCC
Moll Industries	198	12/1	6.8	Caa3/CC
Nationwide Credit	100	12/15	5.1	Ca/B-
Numatics	115	10/1	11	Caa2/CCC
Orius Cap (Natg Hldgs)	150	8/1	9.5	Caa2/CCC
Paragon	115	10/1	5.5	Caa1/CC
Production Resources	100	6/15	5.7	C-
<b>Pycsa Panama</b>	<b>127</b>	<b>6/15</b>	<b>6.5</b>	<b>Dflt</b>
Quality Stores (Central Tr)	105	10/1	5.6	Ca/CCC-
Riverwood Intl	900	10/1	34.5	Caa1/CCC
Special Devices	100	12/15	5.7	Caa2/CCC
<b>Sheffield Steel</b>	<b>110</b>	<b>6/1</b>	<b>6.3</b>	<b>Dflt</b>
Steel Heddle Group	129	12/1	5.3	CCC+
Telex	125	11/1	6.6	Ca/CCC
Unilab Corp	120	10/1	6.6	B3/B-
Wiser Oil	125	11/15	5.9	Caa/CCC-
<b>W.R. Carpenter</b>	<b>78.6</b>	<b>6/15</b>	<b>4.2</b>	<b>Dflt</b>

**NEW ISSUE VOLUME - HIGH YIELD CORPORATES**

	July 01	YTD 2001
	(\$ Millions)	
No. of New Issues	21	204
Amount of New Issues	\$5,325	\$58,827

### CORPORATE BOND PRICING

Issuer	Coupon Rate	Matur Date	Dflt. Date	Size (\$Mill)	Status Code	Current Price
Algoma Steel	12.375	2005	4/01	340	2A	23
Armstrong World Industries	9.75	2008	12/00	125	2A	43
Borden Chemical & Plastic	9.5	2005	4/01	200	2A	19
Chiquita Brands	9.625	2004	1/01	250	1A	72
Contifinancial Corp	8.375	2003	5/00	200	3B	8
Globalstar	11.375	2004	1/01	499	1B	5
Hechinger	9.45	2012	5/99	200	2B	7
Integrated Health	10.25	2006	11/99	150	2A	1.25
Livent	9.375	2004	11/98	125	3B	20
Optel	11.5	2008	10/99	200	2A	35
Outboard Marine	10.75	2008	12/00	160	2B	3
Pacific Gas & Elec Co	7.75	2005	2/01	680	2A	80.75
Paracelsus Hlthcare Corp	10.0	2006	3/00	325	2B	31
Southern CA Edison Co	7.625	2010	2/01	250	1B	76
USG Corp	8.5	2005	6/01	150	2A	65
Viatel	11.25	2008	4/01	400	2B	1.5
Vlasic Foods International	10.25	2009	1/01	200	2A	29
Weblink Wireles	15.0	2005	5/01	207	2B	10
Worldtex, Inc	9.625	2007	12/00	175	2F	12

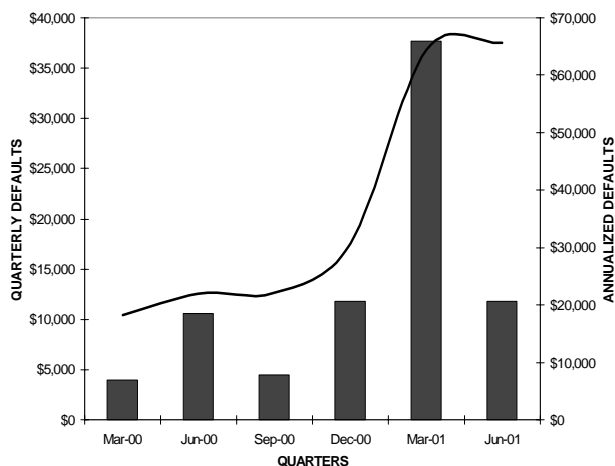
#### DEFAULT STATUS CODES

**1**In Default - Status Unknown, **1B** In Default -Negotiating with creditors, **1C** In Default - Workout Proposed, **2A** In Bankruptcy - No Settlement Proposed, **2B** In Bankruptcy - Settlement Proposed, **2F** In Bankruptcy - Settlement Pending Confirmation, **3** In Liquidation, **4C** Default Settled - Operating Under a Settlement Plan, **6** Issue brought current (Valuations are as of July 31, 2001) **Note:** Bond bid prices are shown for thinly traded issues which may vary significantly from ask prices. Pricing is obtained from market makers and published quotations whenever possible. Other prices are obtained from pricing services such as Bloomberg Capital Markets and Bridge Capital Management.

### MUNICIPAL BOND PRICING

Issuer Status	Issue	Size(\$MM)	Dflt.Date	Coupon Price
	ALLEGHENY CNTY PA (01730EAD)	20		7.0%
1A	Lanchester Energy	7/01		43
	BANGOR MI (060158AN)	21.4		7.50%
2A	Malachi Corp Proj -a	12/98		47
	BEECH GROVE IND (076698CB)	11.1		7.0%
1A	Beech Grove Vlg Apts	7/01		44
	BIBB CNTY GA (08869NAL)	17		7.00%
1	Emerald Coast Hsg 2 A	6/00		42
	CENT. SAN JOAQUIN,CA (155060AB)	29.7		8.00%
1C	Cap. Improvement Revenue	1/92		42
	FONTANA, CA. (344630EY)	46		8.5
1A	Empire Ctr. Cfd No. 90-3	10/96		76
	HESPERIA, CALIF.(428055AP)	21		8.5
1A	Assmt. Dist. No. 91-1	9/96		38
	JEFFERSON CNTY GA (474075AL)	5.7		5.9
1A	Northminster Presbyt	9/00		18
	PALMDALE, CA 696738AM	35		8.80%
1A	Sierra Gateway, 91-1	12/97		26
	PERDIDO HSG FLA	12.9		8
1A	Lamplighter 71361WAK	2/01		42
	PERDIDO HSG FLA (71361WAT)	11		8%
1A	Colony House Pro	5/00		32
	RUSK CNTY TEX (782195AL)	10.6		8.5
1A	Texas Choice Community	3/00		25
	SUMMERS CNTY WV (865693AB)	16		8.00%
1A	Midwest Disp Of WV	3/00		19
	TRI-CITY GA (895402FR)	39		6.375%
2A	Tri-city Hospital	4/00		21
	TULSA CNTY OK. (899522CM)	27		6.75%
1A	Tulsa American Ser A	3/99		46
	VICTORVILLE, CALIF. (926434AP)	20		8.3
1A	Dist. No. 90-1 Series A	9/95		82
	WORTH IL 981738AL	25		9%
1A	Belhaven Convalescent	12/98		35

#### CORPORATE DEFAULTS (\$MILLIONS)



## MUNICIPAL UPDATES

### ALLEGHENY CNTY PA LANDFILL LANCHESTER ENERGY PARTNERS

The trustee reports the July 1, 2001 interest payment will not be made. There are \$20 million in bonds affected in three series. The Series A is a \$6.4 million bond with a 6.8% coupon and a maturity of 2005. The series C is an \$8 million with a 7% coupon and matures 2008. The series B bond is a taxable Muni with a 7% coupon with an unknown maturity date. Cusip A (01730EAC), Cusip B (01730EAB), Cusip C (01730EAD)

### BAYSHORE HSG. CORP HSG REV BRIERWOOD PROJECT

The trustee reports an unscheduled draw on the debt service reserve fund was made, in order to make the July 1, 2001 interest payment. The draw was in the amount of \$12,297 leaving the fund balance at \$93,174. The interest payment was \$286,885 for the Series A bond. Interest payments on the Series B bond have not been made since July 1, 2000. This non-rated \$10.2 million manufactured housing bond was issued in January 1998 with a 6.8% coupon. Cusip A (073119AW), Cusip B (073119AX).

### BEECH GROVE IND ECONOMIC DEV REV BEECH GROVE VLG APTS

The trustee reports that the July 1, 2001 interest payment was made from reserve funds. This \$11.1 million multi-family housing bond was issued in 1997 in three series. The 7% bond of 2028 was recently offered at 44. Cusip (076698CB)

### DADE CITY FLA REV CHAMBER HEALTH CARE SOCIETY

Although this \$1.84 nursing home issue has not defaulted, it is closed. As of June 14, 2001 all patients were moved to other facilities. The project's manager has indicated that the facility has not had a positive cash flow for several months. The trustee reports that all necessary insurance is in place and that a certificate of need is still active. The Trustee intends to have the collateral for the bonds, the building, furniture, fixtures and equipment appraised. The project manager indicated to the trustee that the December 1, 2001 interest payment of \$66,650 and a \$25,000 principal payment will be made as scheduled. Cusip (23342PAH)

### DICKSON TENN HSG DEV CORP FST LIEN DICKSON AND WHITE BLUFF PROJECT

This \$1.4 million housing bond was issued in 1978 with a 7.75% coupon, maturing in 2009. After 33 years the issue is now in default. The low-income housing project was receiving housing assistance payments from HUD until the

contract was terminated. The project lost its accreditation because of poor maintenance of the facility. Consequently the obligor was unable to make its scheduled payment to the trustee. Cusip (253516BF)

### HARRIS CNTY TEX HSG MULTI FAM WINDFERN & WATERFORD PLACE APTS

The trustee reported that an unscheduled draw on the debt service reserve fund was made in order to pay the July 1, 2001 interest payment. This \$ 32.5 million multi-family housing bond was issued in August 1999 with a 6% coupon maturing in 2029. Standard & Poor's has downgraded the bonds from A to BBB.SER A B C D Cusip (414158PY)

### ILLINOIS DEV FIN AUT MULTIFAMILY SPRING GROVE

The trustee reports that the July 1, 2001 interest payment was made from reserve funds. This \$5.3 million housing bond was issued in 1998 in three series, including a taxable bond. Cusip (451915AU)

### INDIANAPOLIS IND ECONOMIC DEV REV FARIS AVE L.P. -SER A & B

The obligor failed to pay the interest and principal due on April 30, 1998. The trustee declared an event of default and accelerated the issue. The trustee then drew funds from the debt reserve account in order to make the May 1, 1998 interest payment. Since then, at least two forbearance agreements have come and gone. On June 11, 2001, a notice of tax sale was received from the Marion County Treasurer. On August 16, 2001, the project is eligible to be offered in a sale for a total of \$1,007,668.00 plus an administrative cost and title search fee. The receiver of the project has not been able to obtain financing to pay these taxes or to postpone the tax sale of the project. The receiver has been offering the project for sale. Although he has received several indications of interest, no firm offerings have yet been made. There is \$6.75 million of 6% Series A bonds and \$.25 million of 6% Series B bonds outstanding. The bonds were issued in 1996 and are not rated. (CUSIP 455261RE)

### JACKSON CNTY MO INDL DEV MULTI FAM STONEGATE MEADOWS APTS

This \$12.8 million housing bond initially defaulted when the January 1, 2001 interest payment was not made. The trustee had a receiver appointed to oversee the project and to provide day-to-day management. The receiver reported that the apartment project is only 45% occupied and needs extensive repairs that will cost approximately \$6,676,000. On June 27, 2001 the project was sold to Bank of America Community Development Corporation for \$7 million. The eventual settlement will likely be somewhat less than the 54 cents on the dollar the sale would imply due

## MUNICIPAL UPDATES

to trustee fees and expenses. Cusip (467369AZ)

### **MONROE CNTY FLA INDL DEV AUTH REV KEY WEST BREWERY**

This \$7.4 million bond was issued to expand the capacity at a Key West Micro-Brewery. Issued in 1999 the obligor defaulted on the July 1, 2001 interest payment. The company blamed construction delays and "growing pains" for its current difficulties. Negotiations to secure additional capital are ongoing, as are negotiations with bondholders. Cusip (610506AD)

### **SANDSTONE MINN FAMILY APTS PROGECT SER B**

This housing bond initially defaulted on July 29, 1998 when a draw of \$50,446 was made from the debt service reserve fund. The fund has been drawn upon to make interest payments ever since, including the July 2, 2001 payment. As of July 5, 2001, the balance in the debt service reserve fund is \$278,728, compared to the required balance of \$472,362.50. Cusip (800120CQ)

### **SOUTHERN SAN JOAQUIN POWER CALIF TRANSMISSION CAPACITY**

This \$15 million bond was issued in 1991 to finance a transmission line linking California with Oregon. In 1997 the Southern San Joaquin Valley Power Authority obligations were taken over by Pacific Gas & Electric in exchange for the authority's share of its transmission capacity. Pacific Gas & Electric filed for bankruptcy protection on April 6, 2001. Consequently, the July 1, 2001 interest payment was not made. An interest payment of \$600,350 and a principal payment of \$575,000 were due. The Trustee is holding \$1,517,501 in the debt service reserve account and is seeking relief from the automatic stay in order to pay the interest due from reserve funds. Cusip (843787AU)

### **SYKESVILLE MD. REV ELDERCARE PROJECT CONTINUUM**

The trustee reports that the obligor has failed to make the June 30 payment, which was to be used to make the September 1, 2001 interest payment on the bonds. The five-day grace period has expired and the bonds have been declared in default. Continuum Care Corporation has also failed to provide audited financial statements for 2000 and rate covenant information as required. Cusip (871239AD)

### **TARRANT CNTY TEX HARVEST COMMUNITY OF HOUSTON**

This \$12.6 million unrated health facility bond was issued in January 1999 with an 8% coupon. It defaulted about a year later, when the January 2000 interest payment

was not made. The trustee reports that the obligor failed to remit sufficient funds in time for the trustee to make the payment, although the obligor subsequently made a \$65,000 payment. The debt service reserve fund would have been sufficient to make the interest payment, but, the trustee declined to make the payment. The trustee is also concerned that any excess cash flow generated by the three facilities supporting the bonds will first have to be used to repay amounts advanced to the borrower (up to \$1,200,000 plus interest) under a cash flow loss insurance policy.

Three nursing homes support the bond. The homes were acquired for an aggregate total of \$8.9 million, plus \$1.2 million in renovation costs. The Lockwood facility costing approximately \$2.9 million was recently offered for sale at a price of \$100,000 however, the deal did not close. The obligor is considering abandoning the facility. There have been allegations that the obligor has made improper loans to affiliated companies.

New management has been brought in operate the projects. The trustee favors liquidating the projects, once occupancy levels are increased, rather than an ongoing operating plan. The obligor estimated that at the time of the bankruptcy filing the two remaining facilities were worth no more than \$2,500,000. CUSIP (87638LFC)

### **TUPELO MISS HSG AUTH MULTI FAM TUPELO APT HOMES**

The trustee reports the July 1, 2011 interest payment will not be made. A cloud of uncertainty surrounds this bond issue. HUD removed the manager of the project, the Housing Authority of the City of Tupelo, Mississippi. The trustee has resigned with no successor trustee yet named. Substantial issues have arisen regarding tax credit cost allocations and tenant certifications, which could have a material adverse effect upon the project's eligibility to receive allocations of tax credits. The trustee has still not received financial information for 1999 and 2000. Because of construction delays only two-thirds of the apartments are finished, but most of these are occupied. Cusip (899803AE)

### **WARNER ROBINS GA ROSEWOOD APTS PROJECT**

This issue defaulted on July 1, 1999 when the bond interest payment was not made. The obligor had proposed a restructuring plan that would reduce the interest rate for a three-year period and then be re-evaluated in June of '03. However, On January 28, 2000, the obligor filed a Chapter 11 bankruptcy petition in the Middle District of Georgia. The bankruptcy petition was dismissed on June 29, 2001, when the obligor was unable to have a plan of reorganization confirmed. A receiver has been appointed who will manage the collateral and prepare the project for a foreclosure sale. This \$5 million housing bond was issued in 1997. Cusip (934604AJ)

## MUNICIPAL DEFAULT ALERT

ATLANTIC CNTY, NJ/Utility Authority (CUSIP 048509AN) - 3  
 BETHESDA HSG CORP./ Indiana (CUSIP 087140) - 3  
 BLACKWATER HOUSING CORP.(CUSIP 092597) -3  
 BOULDER CNTY, CO (CUSIP 3101502) - 3,9  
 COHOES, NY, Revenue (CUSIP 192522)- 3  
 FRANKLIN COUNTY, OH/Harding Hospital - 1, 3, 4, 5, 9  
 GRAFTON PUBLIC SCHOOLS, ND (CUSIP 384450) - 3  
 GREEN SPRINGS HLTH CARE FAC (CUSIP 393397) -3  
 HEALTH INS PLN, NY (CUSIP 422181) - 3  
 HOWARD CNTY, MD/Industrial Development - 3  
 HUTTO, TEXAS/G.O. Bonds - 3, 4  
 ILLINOIS HEALTH FACS. Mercy Hosp -3  
 INDIANAPOLIS, IN Meadow's Proj (CUSIP 455261) - 3  
 JACKSONVILLE, FL Methodist Hospital (CUSIP 469404HG) 9  
 JEFFERSON COUNTY, KY/Big Stone Gap (CUSIP 473042) - 3  
 LAWRENCE COUNTY, IN/Bedford Medical Ctr. - 3  
 LAWRENCE CNTY, PA, Ind Dev Auth (CUSIP 519833)- 3  
 LEWIS COUNTY, WV/Single Family Mtg. - 1, 5  
 LOS ANGELES CNTY., CA/CFD NO. 6-B - 1  
 MA HLTH & ED, Bos Regn Md Cent(CUSIP 575849-51XV) - 3  
 MERCER COUNTY, NJ/Solid Waste Bonds(CUSIP 587844GZ) - 1  
 MICHIGAN STATE Mich. Sugar Co., (CUSIP 59469C)  
 MOFFAT CNTY, CO/Single Family Mtg (CUSIP 607881)- 3  
 MONROE CNTY., NY Genesee Hospital, CUSIP 610755) -3  
 MOUNT VERNON EDERLY CORP, (CUSIP 623392) - 3  
 NEEDLES, CA/City Hall Proj. - 1, 3, 4  
 NEBRASKA INV FIN AUTH/Yorkshire Proj (CUSIP 639673) - 3  
 NEW YORK DORM. AUTH./Eye Ear & Throat Hsp. -3  
 ODESSA HSG CORP., TX - Chaparral Village (CUSIP 675905)-3  
 PASSAIC CNTY, NJ (CUSIP 702770AN) - 3, 9  
 PHOENIX IND DEV AUTH, AR (cusip 718904) - 3  
 PORT NEW ORLEANS, LA,Continental Grain Co 734786 -3  
 PRESTON COUNTY, WV/Single Family Mtg. - 1, 5  
 PRINCE GEORGES COUNTY Greater S.E. Hlthcre - 3.  
 RADCLIFF, KY/Big Stone Gap Apts - 3  
 ROANE COUNTY, WV/Single Family Mtg. - 1, 5  
 \*SANTA ROSA BAY BRIDGE FLA- (802576AA) 1,3  
 SANTA ANA, CA/Redevelopment Pr. - 1  
 SHELBY CNTY., TN Housing A, CUSIP 821697 -3  
 SHREVEPORT HSG AUTH, LA/Rev (CUSIP 82544E) - 3  
 ST. PAUL, MN/Port Auth. Res. 876 Com.Rev. - 1  
 TULSA HSG AST CORP, OK (CUSIP 899636) - 3  
 VENICE, IL/ Bridge Revenue Bonds (CUSIP 922731) 3  
 WARREN CNTY, NJ (CUSIP935110DC) 3, 9  
 WASHOE, NV/Reno Sparks Conv. Ctr. - 1  
 YORK CNTY, PA/Memorial Hospital (CUSIP 986392) - 3

**\*NEW THIS MONTH  
 CODE DEFINITIONS**

1) Projected revenue shortfall. 2) Default rate high for these types of issues. 3) Ratings have been lowered to below invest. grade. 4) In violation of certain financial covenants. 5) Negative asset to liability ratio. 6) Project suspended. 7) High degree of political risk. 8) Project experiencing cost overruns. 9) Deteriorating financial condition. 10) Corporate obligor in default on other debt.

## MUNICIPAL BONDS

Issuer Project/Issue	Rating	
	Old	New
FLINT, MICHIGAN		
GO Unlimited, CUSIP 339459	Ba1	Ba3
GRANITE CNTY, ILL, HOSP. FACS. St. Elizabeth Med Ctr, Ser. B CUSIP 387270	BB-	CCC
GRANITE CNTY, ILL, HOSP. FACS. St. Elizabeth Med Ctr, Ser. A CUSIP 387270	Ba3	B2
GREENLEE CNTY., INDUS. DEV. Phelps Dodge Corp., CUSIP 395364	BBB	BB-
GWINNETT CNTY. DEV., GA Lucent Tech Project, CUSIP 403721	Baa3	Ba1
HARRIS CNTY., TX., HSG. FIN. CORP. CUSIP 414158	A	BBB
LORDSBURG, NM, POLL. CONTROL Phelps Dodge Corp., CUSIP 544052	BBB	BBB-
MISS BUSINESS FIN. CORP. Mississippi Chem Corp, CUSIP 60527M	B+	B
NEW YORK ST. DORM AUTH. Nyack Hosp., CUSIP 649836	Ba1	Ba3
SANTA ROSA BAY BRIDGE AUTH. CUSIP 802576	BB+	B-

### RESEARCH REPORTS & PUBLICATIONS

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