Moody's Investors Service
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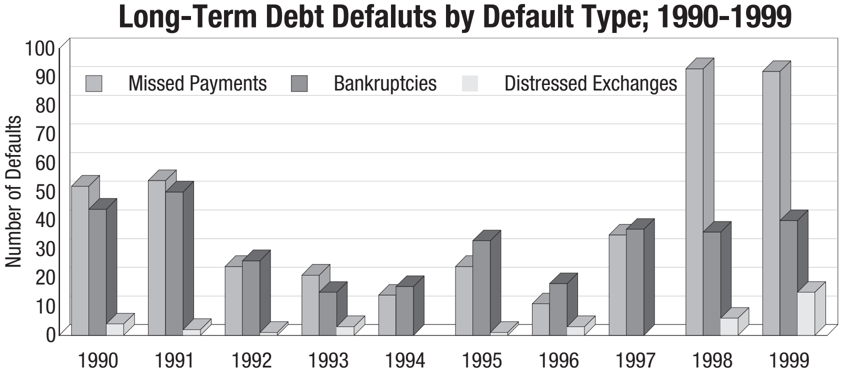
Moody's Approach to Evaluating Distressed Exchanges

Summary

Moody's applies its own definition of default for long-term debt securities. Default usually involves missed or delayed payments of interest or principal or bankruptcy and is therefore clearly identifiable. However, Moody's definition of default also includes a category called "distressed exchange" which, while less prevalent, is more difficult to define and apply. This report provides a complete explanation of the distressed exchange category within our definition of default, the reasoning behind this definition, and the criteria we use in applying it.

Long-Term Debt Defaluts by Default Type; 1990-1999



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Introduction

Moody's long-term debt ratings are statements about expected loss over time. That is, they reflect both the likelihood that the issuer will fulfill all of the terms of the contract or indenture over the life of the debt instrument, and the expected recovery to investors if the issuer is unable (or unwilling) to fulfill those terms. As part of our effort to monitor the actual performance of our ratings and to facilitate their interpretation, Moody's publishes a wide variety of default rate statistics including default rates by rating category. Importantly, *Moody's uses its own definition of default and makes its own determination as to when a default event has occurred*. Moody's regularly publishes lists of defaulting issuers including detailed accounts of the events surrounding each default event. In order to make this information as useful as possible for credit professionals and risk managers, it is crucial that we explain our methodology and define our terms precisely. This report provides a detailed explanation of the distressed exchange component of our definition of default, the reasoning behind this definition, and the criteria we use in applying it.

Moody's Definition of Default

Moody's defines a bond default to have occurred in three types of events;

a) there is a missed or delayed disbursement of interest and/or principal,

b) a bankruptcy filing or legal receivership occurs, or

c) there is a distressed exchange where (i) the issuer offers bondholders a new security or package of securities that amount to a diminished financial obligation (such as preferred or common stock, or debt with a lower coupon or par amount), or (ii) the exchange had the apparent purpose of helping the borrower avoid default.

The central purpose of this definition is to capture events that change the relationship between the bondholder and bond issuer from the relationship which was contained in the original agreement, and which subjects the bondholder to a monetary loss. We seek to identify monetary loss that is the result of a credit event. Importantly, monetary losses suffered by bondholders due to changes in market conditions only are not considered defaults. Nor are losses due to price changes associated with a deterioration in the credit quality of the issuer, as long as the terms of the obligation are being met.

Category a) is objectively observable and easily related to the purpose of the definition, as stated above. When an obligor fails to make a payment on the scheduled payment date, the bondholders suffer a monetary loss which is not due to a price change, but rather to a credit event. Although bondholders may be made whole at a later date, this is not known with certainty at the time of the missed payment, so that investors bear meaningful opportunity cost. Even if the indenture provides for a grace period, this merely allows the issuer to avoid legal proceedings if the payment is made up in time, it does not negate the loss suffered by investors. Moreover, because the obligor has failed to perform according to the original agreement, the fundamental relationship between bondholder and bond issuer has changed. Strict technical defaults, such as violations of covenants, while important, are not considered defaults by Moody's.

Category b) is similarly clear-cut. In countries in which there is a significant amount of public debt issuance, some type of legal bankruptcy code or process exists. While each legal regime has its own particular characteristics, they are all designed to achieve similar goals. In the US, we recognize both "straight" Chapter 11 filings and "pre-packaged" Chapter 11 filings, and Chapter 7 filings as bankruptcies.

Under prepackaged filings, a class of claim-holders can approve and thereby make mandatory an exchange of securities before the time of the bankruptcy proceedings.[1] The advantage of such "prepacks" is that if the requisite majority of "two thirds in amount and more than one-half in number of the allowed claims"[2] accepts the new terms, then the exchange offer – now a "reorganization plan" under the code – binds the minority as well. There can be no holdouts. Because there is an official commencement of bankruptcy proceedings, there is no ambiguity with respect to the occurrence or timing of defaults under this category. Moreover, many bankruptcy filings occur after the obligor has failed to make timely interest or principal payments, so that a default has already occurred under Moody's definition.

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1. See 11 USC Sec, 1126 (b) (1999) (permitting a binding vote prior to the filing of the commencement of the case under the Title).
2. See 11 USC Sec 1126 (1999).

Category c) is the most subjective of the three classes of default and may apply in a wide variety of circumstances. A default which falls under the category of distressed exchange may be very subtly related to the particular details of the situation. By including distressed exchange as category of default, Moody's is not seeking to broaden the central idea of what constitutes a default. Rather, we are seeking both to include credit events that carry the same basic negative credit characteristics associated with non-payment and bankruptcy, but which have avoided these more extreme outcomes. One of the goals of including distressed exchanges in our default definition is simply to get the timing right. Many situations that ultimately result in non-payment or bankruptcy begin with distressed exchanges. In these cases, the distressed exchange can be thought of as the initial default event.

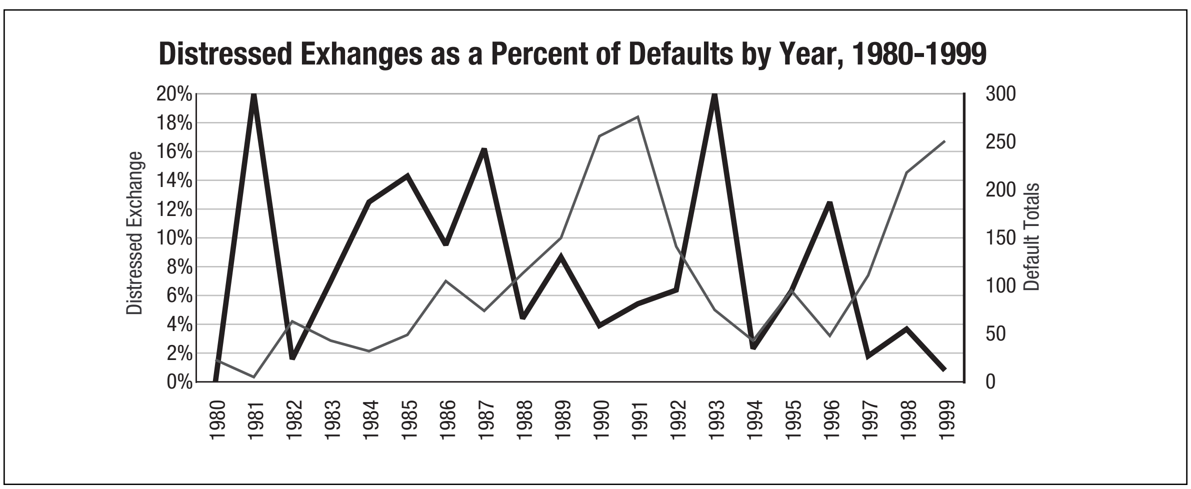
The rest of this report provides a detailed explanation of how Moody's approaches the designation of default in distressed exchange situations. Moody's reserves a substantial degree of latitude in terms of its ability to weigh the details of any potential distressed exchange situation to determine whether or not a default has occurred. As stated above, our overall goal is to provide consistent and interpretable default statistics and reporting. Flexibility in our definition and a flexible approach to evaluating such situations is critical if we are to achieve that overall goal.

Historical Experience of Distressed Exchanges

Frequency of Distressed Exchanges

Since 1980, Moody's has designated 131 issuer-defaults on long-term public debt as distressed exchanges, affecting 253 pre-exchange bonds. The appendix of this report contains a complete chronological list of Moody's-designated distressed exchanges since 1980. Over this period, there have been a total of 1,050 long-term debt defaults affecting 2,175 separate instruments. Clearly then, distressed exchanges have made up a relatively small fraction of total defaults over recent history. Since 1980, distressed exchanges have accounted for slightly less than 8% of all long-term public bond defaults. As shown on the cover of this report, however, this percentage varies considerably from year to year, ranging from 0% to just over 20%, while the total number of distressed exchanges has ranged from 0 to 15 per year.

Exhibit 1 plots the distressed exchanges as a percentage of the total, by year since 1980. Superimposed over this chart is the absolute number of defaults by year. While high-default years produce relatively high numbers of distressed exchange defaults, the increase is quite modest. The result is that the percentage of distressed exchanges actually tends to fall in very high default periods.



Distressed Exchanges as Precursors to Bankruptcy/Liquidation

By including distressed exchange as category of default, Moody's is not seeking to broaden the underlying idea of what constitutes a default. Rather, we are seeking both to include all credit events that impose losses on investors, and to accurately determine the date on which sequences of negative credit events affecting a given issuer actually began. Such a sequence of events may begin with a distressed exchange, and ultimately result in a bankruptcy or liquidation.[3] In spite of the fact that distressed exchanges tend to reduce the immediate burden of debt repayment under the terms of the old contract, this financial relief is frequently insufficient to prevent further deterioration in the financial health of the issuer. In fact, since 1980, 17% of distressed exchanges were by issuers who later defaulted on payments or filed for bankruptcy. The chronological list of distressed exchanges in the appendix includes bankruptcy dates for those exchanges which preceded bankruptcy filings.

Defining Distressed Exchange

Facing the prospect of default, corporate issuers sometimes seek to restructure their liabilities to relieve the immediate financial pressure. Typically, such an attempt will be directed toward lowering current interest expense, by either replacing high-yielding obligations with lower coupon obligations, or replacing high priority fixed income obligations with lower priority securities with more flexible payment terms, such as common stock, preferred stock, or warrants.

However, for a distressed exchange to occur, there must be a true exchange offer. Because the obligations of distressed issuers often trade at a significant discount, outside of filing for bankruptcy, an issuer experiencing difficulty in servicing its debt or who may not be able to pay the principal at maturity can take one or a combination of the following measures:

- The issuer can make a tender offer, agreeing to pay cash for all or a portion of an outstanding debt security, usually at a price above the trading price, but well below the face amount.
- The issuer can make an "exchange offer"[4], through which an offer is made to substitute the current outstanding securities for a new package of securities which may include: cash; new bonds; stocks; other securities; or a combination thereof.
- Generally referred to as the open market repurchase method, the issuer can repurchase (either in the market or in private negotiations) just that much debt securities to enable it to make timely payments on the remaining outstanding securities.[5] The issuer may make such purchases at varying prices. In the alternative, the issuer can make the purchase on negotiated terms that reflect the position of one particular holder. Under this method, the issuer does not have to offer all bondholders the same opportunity to sell.

Only the first two of these options constitute exchange offers. The last option, open market repurchases, does not constitute an exchange offer, and so cannot produce a default under Moody's definition. We examine these three options in greater detail below, for clarification and to relate them to our definition of default.

Open Market Transactions

To reiterate, when an issuer buys back its own debt at depressed prices through open market purchases, there is no default by Moody's definition. If management believes that there is no meaningful risk of default, and the issuer's bonds are trading at a deep discount, a repurchase and retirement of the discounted bonds might be dictated by fiscal responsibility.

More frequently however, bonds that trade at deep discounts are associated with a significant perceived default risk. Consequently, the retirement of distressed debt through open market purchases is a course of action open only to obligors with some type of third party backing. But the key feature of open market transactions, for purposes of defining distressed exchanges, is that they are completely voluntary, mutually agreeable transactions. While in a "mark-to-market" sense, there is a monetary loss to investors as a result of the prior credit deterioration that resulted in depressed prices for the securities in question, the open market purchases of these securities by the issuer does not force any monetary loss on investors.

3. In some cases, the distressed exchange is an intermediate step, occurring after a payment has been missed.

4. An "exchange offer" is a term of art denoting the process through which one security is exchanged for another. See generally for the use of exchange offers in restructuring corporate debt, Spatt & Tai, (1991); Royce de R. Barondes, "Fiduciary Duties of Officers and Directors of Distressed Corporations", 7 Geo. Mason L. Rev. 45 (Fall, 1998).

5. John C. Coffee and William A. Klein, "Bondholder Coercion: The Problem of Constrained Choice in Debt Tender Offers and Recapitalizations," 58 U. Chi. L. Rev. 1207, 1208 (1991). "Bondholder Coercion" contains an excellent analysis of some of the ideas tangentially discussed in this comment.

Tender Offers

Tender offers are formal announcements by an issuer to its bondholders, that it wants to repurchase all or a portion of a specific set of securities, and includes the price and/or terms under which it stands ready to purchase the securities. The tender price may be above, at, or below par, (for discount bonds, above or below the accreted value).[6] For tender offers at or above the par value or accreted value, there is no monetary loss to investors, and hence no default by Moody's definition. When a tender offer is made and the tender price is below par, or below accreted value, Moody's will consider this a default. When a tender offer is made, bondholders may elect to tender their bonds or not, which suggests a voluntariness similar to that in open market transactions. However, two features distinguish tender offers from open market repurchases.

First, the acceptance of the tender by any significant proportion of bondholders will reduce liquidity, which may have a material adverse effect of the value of the remaining securities. For tender offers made above par, bondholders have been offered a premium to tender their bonds (i.e. no monetary loss), so the retention of bonds with reduced liquidity by those who choose not to tender cannot be viewed as imposing any monetary loss. It must therefore be the case, that when bondholders elect not to tender, there are factors which compensate for reduced liquidity. For tender offers below par, or below accreted value, investors are faced with a choice of a certain loss of principal, or a loss of liquidity with increased risk of future default.

Second, when an issuer makes a tender offer below par, it sends a clear and direct signal to bondholders about its future ability to repay principal and/or interest. When an issuer's securities are deeply discounted in the market, investors may disagree as to the risk of future payment default. But when the issuer makes a tender offer below par, the implication is clear – suffer some monetary loss now, or suffer a possibly more severe monetary loss later.

Exchange Offers

An exchange offer occurs when investors are offered a new package of securities in exchange for outstanding securities. The new package may include new bonds with different terms, common or preferred stock, warrants or other options, or cash. Exchange offers occur regularly in the market, sometimes as a result of M&A activity, sometimes by issuers seeking to take advantage of market conditions to advantageously adjust their liability position.

A distressed exchange is conducted to relieve financial pressure on an obligor who might otherwise be headed for bankruptcy. The loss suffered by bond investors as a result of the exchange is, at least in part, a gain to the issuer who avoids the loss of control that would result from a bankruptcy, and who sees the financial position of the firm improved. Moreover, benefits also accrue to shareholders or other creditors who might be wiped out or severely impaired in bankruptcy, but who may regain all or a portion of the value of their claim over time, if the entity is maintained as a going concern. Unlike grace period and other missed payment types of default, distressed exchanges generally address solvency, not liquidity. In other words, a distressed exchange is a way of conducting a financial reorganization outside of the auspices of a bankruptcy court.

Criteria for Determining Distress in Exchange Offers

As discussed above, distressed exchange is a category of bond default within Moody's definition of default. Every occurrence of a distressed exchange is documented by Moody's and used in the calculation of default rates and loss severity that are published annually in Moody's Corporate Bond Default Study.[7]

When investors are offered a new package of securities in exchange for outstanding securities, a variety of factors is considered, or may be considered by Moody's in determining whether or not to designate the transaction as a distressed exchange. By the nature of exchange offers, each particular case has its own idiosyncratic characteristics. Therefore, the factors which characterize the exchange as a default event, and the weights placed on each factor, are considered on a case by case basis in the context of each specific situation. Broadly speaking, however, these factors can be grouped into three categories relating to;

6 In some cases, tender offers are made at a premium, see Kalotay & Abreo (1998).
7 Keenan, Hamilton, & Berthault (1999). For the latest study, please see the webpage at www.moodysQRA.com

- The degree of monetary impairment suffered by investors *as a result of the exchange*.
- The degree of voluntariness for all investors associated with the transaction.
- The degree to which the exchange was conducted in order to avoid an imminent payment default.

No one factor by itself will conclusively establish that a distressed exchange has occurred. Nor is any simple formula by which combinations of these factors define a distressed exchange.

The incentive to restructure is based on the assumption that a bankruptcy proceeding will harm all participants.[8] Bankruptcies are expensive, time consuming procedures which most if not all bondholders seek to avoid. Cognizant of the bondholders aversion to a full-fledged bankruptcy proceeding issuers may compel an exchange in one of two ways, both of which aim to induce bondholders to accept terms that they would otherwise refuse:[9]

- The issuer can threaten bankruptcy to force the debtholders to accept its proposed exchange; [10]
- The issuer may seek to amend the indenture under which the bonds were issued either to strip the outstanding bonds of their protective covenants or to subordinate them to the new class of debt securities exchanged for them.[11]

The use of such ultimatums, which make bondholders comparatively worse off if they decline the exchange could nevertheless result in a default under Moody's definition. In the following sections we explain how Moody's views each of these factors, and their interrelationships, when determining that a given exchange offer constitutes a distressed exchange (default). The discussion presents guidelines and general principals only, since in practice a wide variety of contingencies may come into play and each specific case is evaluated in light of its particular circumstances.

Monetary Impairment in Distressed Exchange

The primary condition for a distressed exchange designation is that there be some monetary impairment to investors as a result of the transaction. When the exchange involves a package of securities, which may include new bonds, common or preferred stock, warrants or other options and cash, determining that a monetary loss has been suffered may be difficult. However, because monetary impairment by itself is not sufficient to establish a distressed exchange, it is usually not critical to obtain an incontrovertible value for the new package.

Certain types of exchanges obviously constitute monetary loss – the face value of interest and principal on the new securities is less than that on the old securities. Other types of exchanges are presumed to constitute monetary impairment, although this may not always be enough to determine that the exchange was distressed. Examples include transactions which involve an uncompensated extension of term (e.g. a straight exchange of notes for identical notes with a longer maturity), an uncompensated change in the amortization schedule which increases duration, or an uncompensated lowering of relative priority of claim (e.g. an exchange of bonds for preferred stock). Uncompensated covenant waivers may also be viewed as imposing a monetary loss on investors, if the covenants in question are viewed as material to the value of the instrument in question. When investors receive compensation in explicit exchange for a relaxation of the terms of the indenture, Moody's does not evaluate the appropriateness or "fairness" of the compensation. This means that such a transaction will not be considered a distressed exchange based on this aspect of the exchange alone. Other criteria will need to be met in order to make such a determination.

In some cases, market information may be used to determine whether or not there has been monetary impairment, but this is not a necessary requirement. Importantly, Moody's never *makes a judgement concerning the appropriateness of market prices* when determining that a distressed exchange has occurred.

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8. See, e.g., Reier (1990), Jaffe, (1985). See also, Coffee & Klein (1991) "We believe that bankruptcy costs are substantial, particularly for those issuers whose bondholders have accepted coercive exchange offers. In these cases, high bankruptcy costs do arm the issuer with substantial leverage, by which the issuer can negotiate a pre-bankruptcy reduction in its indebtedness that still leaves the shareholders owning substantial equity in the corporation. We appreciate that the academic literature has long debated the size and significance of bankruptcy costs."

9. See generally, Barondes, supra note 4.

10. Of course, this only holds in those systems that allow for issuer protective bankruptcy proceedings, e.g., the U.S. system. See, The International Financial Institutions Financial Advisory Commission, submission by Lee C. Buchheit, Cleary, Gottlieb, Steen & Hamilton "Sovereign Debtors and Their Bondholders," (January 14, 2000). See also, Reier, (1990) at 38, see supra note 8, citing Wilbur Ross, ("A lot of games are played with Chapter 11. A lot of issuers deliberately set up a period where they go into default. Sometimes, companies threaten bankruptcy. Then the companies paint a picture of gloom and doom of what will happen. What usually happens is that the company no longer pays interest on unsecured debt and that saves it cash at the bondholders' expense.") See also, Barondes, supra note 4.

11. John C. Coffee and William A. Klein, Bondholder Coercion, see note 5, at 1211.

Rather, market information is viewed simply as data, which can help to inform our decision making process.

Under a distressed exchange scenario, the bondholders suffer losses or are impaired. Losses imply that they receive less than they were supposed to receive under the bond's original indenture *in present value terms.* To illustrate with a simple example, suppose that a bond matures in 5 years and carries a 10% coupon. At maturity, as specified in the bond's indenture, bondholders are to receive $1,000 principal plus $100 interest for that year. Suppose that, after two years, issuer offers to exchange the bonds for three year zero-coupon bonds. If the zero coupon bonds pay at maturity $1331 [$1000 (principal) + $100 (last interest payment) + $110 (accrued interest on 4th year payment) + $121 (accrued interest on 3rd year payment)], the present value of the bonds exchanged equals that of the bonds offered so there are no losses incurred. In this case, however, duration has been extended without compensation so that investors could be considered impaired. Impairment by itself may or may not be enough for Moody's to determine that a default has occurred.

Voluntary vs Involuntary Exchanges

Under Moody's definition of distressed exchange, the issue of whether bondholders accepted the terms of the exchange voluntarily is an additional consideration. If any set of bondholders is viewed as having accepted the terms of the transaction involuntarily and suffer monetary loss as a result, Moody's considers this a distressed exchange default. Moreover, in cases where monetary loss cannot easily or conclusively be established, the degree of voluntariness can be weighed as a separate factor in determining whether or not the transaction constitutes a distressed exchange. When investors are offered an exchange package, but do not have the option to retain their current holdings under pre-exchange conditions (even if those conditions involved substantial risk of future payment default), we consider this a distressed exchange. In short, the creditor can be forced into accepting a new set of securities for those which it has outstanding.

The issue of bondholder coercion is complex. Issuers can use the threat of bankruptcy or adverse indenture amendments to induce creditors to accept an unfavorable restructuring of liabilities, which would preserve value for equity holders even though the firm has not met its obligations to its creditors. But it is overreaching to conclude that bondholders have been coerced whenever distressed corporate issuers restructure at bondholders' expense. Typically, a distressed exchange occurs in recognition of the fact that the enterprise value has fallen sufficiently that some creditors will take losses. In such an environment, bondholders should theoretically want to scale down their claims in order to avoid the high costs and uncertainty of bankruptcy. And yet, out-of-court consensual restructurings are difficult to achieve, and exchange offers made by distressed issuers to its bondholders regularly fail.[12]

Part of this stems from the difficulty involved in apportioning losses in accordance with priority of creditors' positions in the capital structure. Creditors often assume that the Absolute Priority Rule (APR) will bind in a bankruptcy court, and so are unwilling to accept out of court restructuring terms that appear to deviate from it.[13] This problem arises when the offer involves more than one class of creditor, or more than one specific debt issue.

Another difficulty in achieving restructurings via debt exchange involves the "hold-out" problem. The Trust Indenture Act (1934) could prevent issuers from altering the principal, coupon or maturity of a bond without the unanimous approval of bondholders.[14] Therefore, a group of bondholders can refuse to agree to a mutually beneficial debt exchange, i.e. and "hold out", unless a specific set of demands is met. In so doing, however, they hinder the ability of the majority of the bondholders to scale down the debtor corporation's over-leveraged capital structure. Obviously, the end game in the hold-out paradigm is to pay off the maturing claims of those "holding-out" with any savings which otherwise would be realized by a proposed recapitalization.

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12. Anne Schwimmer, Hard Truths about the Restructuring Business, Investment Dealers' Digest 18 at 20 (Nov. 26, 1990).
13. Eberhart & Sweeney (1992) and Eberhart & Weiss (1998) document deviations from APR even in Chapter 11 cases.
14. Unless otherwise specified in the terms of the bond agreement. Generally referred to as "collective action clauses" (CACs), when explicitly stated in the terms of the bond instrument, it is possible to have a supermajority of claims-holders accept the new terms whereby they become mandatory on all claim holders. As a matter of practice, bonds issued in New York (New York Law bonds) do not have such super-majority clauses; bonds issued in London (English Law bonds) do. For a better description of the differences in US and English practices, see Yianni, " Resolution of Sovereign financial Crises – Evolution of the Private Sector Restructuring Process", in Bank of England, Financial Stability Rev. 78, 80-81 (June 1995). Also, see supra note 10.

Recognizing this danger, both the corporate issuer and the other bondholders typically respond *ex ante* by insisting that the exchange offer be conditioned on some high minimum tender level.[15] Today, corporate issuers prefer to threaten potential holdouts by conditioning their exchange offer on a requirement that a majority of the bondholders vote, at or before the time they tender into the issuer's offer, to amend the indenture to eliminate all or most of its protective covenants.[16] This "stripping" of the covenants makes the bonds less attractive to those who would otherwise hold out. It may therefore persuade them to accept the exchange offer.

Similar to the hold-out problem, is a phenomenon known as the "big-player" or "cram-down" in debt exchange. In these cases, a large group of bondholders may also be stakeholders in the issuing enterprise through stock ownership or through other business relationships. As such, the big-player may have a stronger interest in maintaining the issuer as a going concern, than does the smaller bondholder. When such relationships exist, exchanges which clearly hurt the smaller bondholder may be "crammed-down" if the tender minimum can be met, mostly or entirely by the vote of the big player. An example might be an exchange that amounts to a debt-for-equity swap allowing the issuer to avoid bankruptcy. The minority of former bondholders that voted against the tender offer experience an uncompensated loss when the majority that accepted the tender offer are able to take actions that impair the interests of the minority, who are still debt holders, such as modifications to the indenture that effectively strip protective covenants. The end result may be that the minority bondholders stand to recovery much less in a subsequent bankruptcy than if the firm had filed for bankruptcy immediately. Moody's may consider an exchange to have been involuntary and to have caused a monetary loss, even if only a small proportion of bondholders appeared to have been coerced.

Default Avoidance

A distressed exchange can also be the result of a transaction conducted with the express purpose of avoiding a payment default. That is to say, in some cases liquidity and solvency may be closely tied together, and an issuer may seek to resolve both through an exchange offer, e.g. cash-pay for PIK, or coupon paying for discount notes. If Moody's believes that a payment default could not have been avoided without the exchange, it is viewed as a distressed exchange default. It should be noted, however, that default scenarios of this type are quite rare.

As an example of how default avoidance can be the determining factor in Moody's decision to designate an exchange as a distressed exchange consider the following hypothetical case. Company XYZ, a speculative-grade issuer with a growing liquidity problem, seeks to issue new debt to fund repairs to one of its key assets. Without the repairs, the asset could not produce any revenue and this was one of the main reasons for the company's immediate liquidity shortfall. Because of XYZ's precarious financial position, investors will require that a new issue be senior to outstanding issues. Outstanding notes contained a covenant restriction on the issuance of additional debt that subordinates the pre-existing notes to any new issue. In order to float the new issue, the original noteholders were offered a fee in exchange for a waiver on the covenant restriction. Although the company was clearly in financial difficulty and the bonds were trading at a significant discount to par, it was impossible to conclusively establish that the transaction had produced a loss to investors. To claim monetary loss would have been to claim that the covenant waiver fee was too low – which would have essentially meant evaluating the appropriateness of market prices. Nevertheless, without an immediate issue of new bonds, it was clear that the liquidity crisis would have become binding and would have precipitated a payment default on the outstanding notes. Thus, because the exchange offer had the apparent purpose of avoiding an impending payment default, such a combination of events might lead us to consider this case a distressed exchange (default).

Covenant Violations and Waivers

Covenant violations (often referred to as technical defaults), do not by themselves, constitute events of default under Moody's definition. However, Moody's does view covenant violations as clear signals as to the issuer's overall creditworthiness. While covenant violations are often precursors to, or early indicators of some more severe form of financial distress, the ability to predict such distress from this signal alone is low. Historically, we have seen many instances when covenants were violated and the issuer did not end

15 *Bondholder Coercion, see note 5, n25, at 1213.*
16 *Id., n. 27, at 1215. Generally, the amendments would eliminate restrictive covenants; in a few cases, they would also subordinate the untendered old securities to the new securities or, in the case of secured debt, would release collateral pledged to support the old securities.*

up defaulting, while some firms that have violated covenants wound up in bankruptcy court within a year or two.

One should be careful, however, in distinguishing covenant violations from covenant waivers. Technically speaking, when a covenant is violated, it is still in place. On the other hand, when the firm seeks to waive a covenant (i.e. seeks to "erase" it from the original indenture), the bondholder may be exposed to a material adverse change in its position. Covenant waivers are viewed as exchanges, and are evaluated in context of a wider spectrum of indenture modifications. If the modification is material, there may be monetary loss to investors. Even if monetary loss cannot be established, if the bondholder's interests are impaired as a result of the waiver, a default event may have occurred.

Conclusion

Moody's believes that it is critical to inform both the investment and academic communities of its practices and methodologies. Moody's uses its own unique definition of default, a definition which underlies our published statistics on default rates. Our definition of default includes a category called distressed exchange – a relatively rare type of event, representing slightly less than 8% of all bond defaults since 1980.

The distressed exchange default event is not always straightforward to identify, and may involve subtle and complex interrelationships requiring a subjective interpretation of key facts. Broadly speaking, distressed exchanges fall into one of two categories;

- Tender offers in which the offer price is below par, or below accreted value,

and,

- Exchange offers which cause monetary loss to investors, involve an element of coercion with respect to some group of bondholders, are engaged in for the sole purpose of avoiding a payment default, or when the exchange contains a combination of these characteristics.

Exchange offers are the most difficult to assess, involving subtleties related to the nature of the exchange offer, the financial position of the issuer, the capital structure of the issuer, and the indentures of the securities toward which the offer is directed.

By including distressed exchange as category of default, Moody's is not seeking to broaden the central idea of what constitutes a default. Rather, we are seeking both to include credit events that carry the same basic negative credit characteristics associated with non-payment and bankruptcy, but which have avoided these more extreme outcomes. The examples and explanations provided in this report serve only as guidelines or general principals for identifying distressed exchanges. Each specific case is evaluated separately in the light of its particular circumstances.

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List of Distressed Exchanges; January 1980- March 2000

Tridex Corporation *Electronics*

09/15/1982 Distressed debt exchange on 13.5% Sub. Debentures due 4/15/01
07/11/1986 Debt exchange

International Harvester Credit Corp. *Captive Finance*

02/08/1983 Distressed exchange

International Harvester Overseas Capital *Autos, Trucks, Farm Equipment*

02/08/1983 Distressed exchange

Navistar International Transportation Corp. *Autos, Trucks, Farm Equipment*

02/08/1983 Distressed exchange offer on 6.25% SF Debentures due 3/1/98, 8.625% SF Debentures due 9/1/95, 9% SF Debentures due 6/15/04

Custom Energy Services, Inc. *Oil Service*

12/04/1984 Distressed exchange offer
12/15/1984 Interest default
01/23/1985 Distressed exchange completed: exchanged $7.829 million of 15% debentures due 6/15/97 for $6.263 million of new 15.5% debentures due 1990, 1,174.35 shares of common stock, and 1,457.25 warrants
02/11/1985 Paid back interest on untendered debentures
06/15/1986 Interest default
07/23/1986 Second debt exchange

Kenai Corp. *Oil Service*

09/28/1984 Distressed exchange offer
11/15/1984 Distressed exchange expiration

Page Petroleum Ltd. *Oil*

05/29/1984 Distressed exchange

WorldCorp, Inc *Diversified Holding Company*

During 1980-83, cash generated from operations was not sufficient to fund the company's fixed obligations, thereby necessitating the restructuring of the company's debt in 1984. The restructuring did not by itself provide World Airways with any additional cash from outside sources. Howerer, consummation of the restructuring did provide the company with approximately $13.2 million of previously pledged cash collateral, a substantial portion of which was expended by the company to satisfy its current liabilities.

04/04/1984 Distressed exchange offer
05/24/1984 Distressed exchange completed

Oak Industries, Inc. *Electronics*

02/07/1985 Distressed debt exchange offer
03/29/1985 Distressed debt exchange completed

Texas International Company *Oil*

06/06/1985 Distressed exchange offer on 11.5% Sub. Debentures due 4/1/97; 11.5% Sub. Debentures due 4/1/97; 13.125% Sr. Sub. Notes due 7/15/93; and 9% Sr. Sub. Oil-Indexed Notes due 10/1/95
08/22/1985 Partial distressed exchange completed

Texfi Industries Inc. Fabrics Manufa*cturer*

06/27/1985 Distressed exchange offer
08/03/1985 Distressed exchange completed: $16.52 million of 4.75% conv. sub. debentures due 1996 were exchanged for $10.738 million of 11.25% conv. sr. sub. debentures due in 1991 and 214,760 shares of common

List of Distressed Exchanges; January 1980- March 2000 (cont.)

Damson Oil Corp. *Oil and Gas Exploration and Production*

05/15/1986	Interest default on 12% Sub. Debentures due 5/15/03
06/13/1986	Distressed exchange offer
08/01/1986	Interest default on 13.2% Sub. Debentures due 8/1/00
10/03/1986	Distressed exchange completed

Digicon, Inc. *Computer Systems for Petroleum Industry*

05/15/1986	Interest default on 10.5% Conv. Sub. Debentures due 11/15/01
06/15/1986	Interest default on 12.875% Sr. Sub. Notes due 6/15/93
10/01/1986	Interest default on 8.5% Conv. Sub. Debentures due 1995
06/15/1987	Distressed exchange offer

ICO, Inc. *IDR Project*

07/15/1986	Missed interest payment
05/04/1988	Distressed exchange offer
06/22/1988	Distressed exchange completed: $29,755 of 13.5% senior subordinated debentures exchanged for $250 in new 10% senior subordinated notes and 267 shares of common stock per each $1000 of face value; remaining debentures brought current

Ideal Basic Industries, Inc. *Cement & Gypsum*

06/15/1986	Interest default
12/04/1986	Debt exchange

Na-Churs, Inc. *Chemicals*

04/02/1986	Distressed exchange offer
06/30/1986	Distressed exchange offer expiration

People Express Airlines, Inc. *Airlines Operator*

11/17/1986	Debtholders agreed to swap the debt for securities with lower interest rates and longer maturities

Savin Corp. *Office Equipment Distributor*

02/21/1986	Distressed exchange offer
03/18/1986	Distressed exchange expiration
06/27/1988	Second debt exchange

Sunshine Precious Metals Inc. *Mines, Mills, Refines, and Markets Silver*

06/06/1986	Distressed exchange offer

Telemundo Group, Inc. *Spanish-language Television Network*

03/13/1986	Distressed exchange offer

Zapata Corporation *Oil Service*

09/15/1986	Missed interest payment on 10% subordinated debentures
11/01/1986	Missed interest payment on 10.875% subordinated debentures
09/15/1988	Made interest payment on 10.25% subordinated debentures; missed interest payments are being cleared up through a doubling of the regular semi-annual payments
12/31/1990	Distressed exchange completed: company purchased $25.9 million in principal amount of 10.25% debentures for $13.5 million and $25.9 million in principal amount of the 10.875% debentures for $13.4 million; paid all past due interest on remaining debentures

Campanelli Industries, Inc. *Single Family Home Builder*

03/26/1987	Distressed exchange offer completed: holders of $8.679 mill of debentures agreed to exchange for new notes which will have no sinking fund requirements and no interest payment payable until July 1, 1988

List of Distressed Exchanges; January 1980- March 2000 (cont.)

Dart Drug Stores, Inc. *Retail Drugs Stores*

07/31/1987	Distressed exchange completed: 82.1% of 12.7% Debenture holders agreed to receive $500 principal amount of New Incr. Rate Debentures due 1992, 24 shares of common stock, par value $0.0005 per sh. and 40 shs. of Conv. Pref. Stock, par value $4.0 per sh.

First City Bancorporation of Texas, Inc. *U.S. Bank Holding Company*

09/09/1987	Agreement with FDIC, FRB, & Texas Banking Commission
04/20/1988	Distressed exchange

Las Colinas Corporation *Construction*

09/01/1987	Interest default
10/15/1987	Distressed exchange offer

Lifestyle Restaurants, Inc. *Restaurants Operator*

02/18/1987	The company enteres into an Agreement and Plan of Merger with Bombay Palace Restaurants, Inc.
03/15/1987	Missed interest payment
06/30/1987	Distressed exchange offer extented to the debentureholders as part of the merger agreement with Bombay Palace
09/14/1987	Partial distressed exchange completed: holders of each $1,000 of 13% convertible subordinated debentures due 1997 received $750 of new 8% senior subordinated exchangeable debentures due 1997

Pathe Communications Corporation *Motion Pictures*

04/15/1988	Interest default on 12.875% Sr. Sub. Debentures due 4/15/01 and 8.875% Sr. Conv. Sub. Debentures due 4/15/01
05/01/1988	Interest default on 12.375% Sr. Sub. Notes due 11/1/94
10/15/1988	Interest default on 12.875% Sr. Sub. Debentures due 4/15/01 and
8.875%	Sr. Conv. Sub. Debentures due 4/15/01
11/01/1988	Interest default on 12.375% Sr. Sub. Notes due 11/1/94
04/15/1989	Distressed exchange

Penril Corporation *Electronics*

02/01/1987	Interest default
06/24/1987	Distressed debt exchange offer

Thousand Trails, Inc. *Membership Campgrounds Operator*

11/06/1987	Distressed debt exchange

Western Union Corporation *Telecommunications*

10/01/1987	Distressed exchange offer
12/10/1987	Reorganization and debt exchange plan elected
12/31/1987	Debt exchange and reorganization completed

Western Union Telegraph Company *Telecommunications*

10/01/1987	Distressed exchange offer
11/15/1987	Interest default on 7.9% SF Debentures due 5/15/97
12/10/1987	Reorganization and debt exchange plan elected
12/15/1987	Interest default on 6.5% SF Debentures due 12/15/89 and on 16% notes due 6/15/91
12/31/1987	Debt exchange and reorganization completed

YFC International Finance N.V. *Finance Conduit*

10/01/1987	Debt exchange offer
01/26/1988	Partial debt exchange
12/11/1992	Distressed debt exchange completed

List of Distressed Exchanges; January 1980- March 2000 (cont.)

ALC Communications Corp. *Long Distance Telephone Service Operator*

12/31/1989	Missed interest payment
06/01/1990	Debentureholders agreed to accept additional debentures in lieu of cash interest payments and to modify mandatory redemption schedule
08/06/1992	Distressed exchange: $54.9 mil face value of original debentures, $18.4 mil face value of PIK debentures and $0.9 mil accrued interest on nonconsenting debentures (all due in December 1995) exchanged for $$72.4 mil of 11.875% sub. debentures due 6/30/99
08/16/1995	Shareholders approved a merger with Frontier Corporation

General Defense Corp. *Aircraft and Aerospace*

02/01/1988	Interest default on 14.5% Sr. Sub. Debentures due 2/1/03
04/15/1988	Interest default on 13% Sr. Sub. Debentures due 4/15/95
12/23/1988	The company is acquired by Olin Corp.: bondholders received cash and stock in exchange for their subordinated bonds

Hamilton Technology Inc. *Electronics*

02/01/1988	Interest default on 12.5% Sr. Sub. Debentures due 2/1/99
12/23/1988	The company parent company, General Defense Corp., acquired by Olin Corp.; bondholders received cash and stock in exchange for their subordinated bonds

New World Pictures, Inc. *Motion Pictures*

04/01/1988	Distressed exchange offer
08/01/1988	Partial distressed exchange completed

TPA of America, Incorporated *Insurance*

04/29/1988	Distressed exchange offer
05/01/1988	Missed interest payment
02/28/1989	Distressed exchange completed

After Six Inc. *Apparel*

08/28/1989	Distressed exchange

Alpine Group, Inc. *Electronics*

09/14/1989	Distressed exchange offer
10/30/1989	Distressed exchange completed

Bio-Technology General Corporation *Drugs & Cosmetics*

10/27/1989	Partial distressed debt exchange completed

Bond Brewing Holdings, Ltd. *Distillers & Brewers*

12/01/1989	Missed interest payment on 12.625% Subordinated Debentures
10/16/1990	Distressed exchange

Chartwell Group Ltd. *Furniture & Fixtures*

11/01/1989	Missed interest payment
05/01/1990	Missed interest payment
08/01/1991	Chapter 11
02/15/1992	Reorganization completed: issue exchanged for common stock

K-H Corporation *Autos, Trucks, Farm Equipment*

06/02/1989	Announced that it will not make a dividend payment on its preferred
06/09/1989	Distressed exchange
06/30/1989	Dividend omission
11/30/1989	Merged with Varity; preferred stock exchanged for Varity's common stock and Kelsey-Hayes's 13.25% senior notes

List of Distressed Exchanges; January 1980- March 2000 (cont.)

Kane Industries, Inc. *Containers & Glass*

12/08/1989	Distressed exchange offer
03/20/1990	Distressed exchange completed: the bondholders received a combination of cash, new subordinated notes and warrants to purchase

Metropolitan Broadcasting Corporation *Broadcasting*

12/15/1989	Partial distressed exchange completed: the company repurchased $147.5 million of 16.5% jr. sub. debentures and $64.375 million of 13.25% sr. sub. debentures

Miramar Marine Corp. *Amusements*

12/05/1989	Distressed exchange
02/01/1990	Missed interest payment
11/18/1991	Reorganization plan confirmed

Ponderosa, Incorporated *Restaurants & Fast Food*

12/06/1989	Distressed exchange
03/15/1990	Missed interest payment

Republic Health Corp. *Hospitals & Nursing*

11/01/1989	Debt exchange offer
12/15/1989	Filed Prepackaged Chapter 11
04/17/1990	Reorganization plan confirmed
05/02/1990	Emerged from Chapter 11

SCI Television, Inc. *Owner & Operator of Television Stations*

10/25/1989	Distressed exchange offer
02/05/1990	Distressed exchange completed

Seaman Furniture Company, Incorporated *Furniture Retailer*

10/12/1989	Distressed exchange

Service Control Corp. *Apparel*

07/15/1989	Distressed exchange

Simplicity Holdings, Inc. *Apparel*

10/16/1989	Distressed exchange

Thortec International *Construction*

02/09/1989	Distressed exchange offer
04/05/1989	Distressed exchange completed

Webcraft Technologies, Inc. *Publishing & Printing*

11/21/1989	Distressed exchange
10/19/1993	Chapter 11
11/24/1993	Reorganization plan approved by the court
03/20/1996	The company is acquired by Flower Press

AIRCOA Hospitality Services, Inc. *Contract Manager & Owner of Hotels*

09/15/1990	Missed interest payment on notes
04/11/1991	Fenimore Corp., a Brithish Virgin Islands corporation affiliated with the company, offered to purchase 14% senior unsecured notes due 1996 for about 40 cents for each $1 dollar of the principal amount
05/14/1991	Distressed exchange completed: more than 99.6% of notes tendered

County Bank, FSB *Thrift*

03/13/1990	Announced distressed exchange offer of 13-1/4% subordinated capital notes into preferred stock
12/17/1990	Announced completion of exchange offer

List of Distressed Exchanges; January 1980- March 2000 (cont.)

Darling-Delaware Corporation Inc. *Processor of Animal Byproducts*

09/12/1990	Said it may not make interest payment on notes
09/15/1990	Missed interest payment on notes
12/29/1994	Distressed debt exchange: bondholders received 95% of Darling-Delaware common stock and $70 million in new notes

Forstmann & Company, Inc. *Textiles Manufacturer*

08/14/1990	Distressed exchange offer made; cited bankruptcy as an alternative
10/01/1990	Bank agreement expired and was not renewed
10/15/1990	Missed interest payment due on notes
11/19/1990	Completed exchange offer, reducing cash interest on amended senior subordinated notes and providing for payment of interest missed 10/15

Hall-Mark Electronics Corp. *Electronic Components Distributor*

03/01/1990	Distressed exchange offer for notes
04/20/1990	Exchange offer concluded

International Controls *Automotive*

06/02/1990	Distressed exchange offer

LVI Group, Inc. *Interior Construction/Asbestos Removal*

10/15/1990	Missed interest payment on 14-7/8% sub debentures
11/15/1990	Missed interest payment on 13-1/2% notes
11/30/1990	Proposed cutting debt from $1OOMM to $25MM and giving holders 90% of shares
03/15/1991	Distressed exchange completed; holders of bonds and preferred stock received common stock

Morningstar Group, Inc. *Production & Distribution of Dairy Products*

07/02/1990	Missed interest payment on debentures, triggering grace period
07/31/1990	Interest payment made
12/31/1990	Deferred interest payment on senior subordinated debentures, pending buyback tender for $75MM of debentures at $480 per $1,000 principal, increased on 1/17/91 to $110MM at $525 per $1000 principal
01/15/1991	Missed interest payment
05/11/1992	Partial distressed exchange

One Bancorp, The *Bank Holding Company*

01/31/1990	Completed distressed exchange on subordinated capital notes
10/19/1990	Repurchased $26.8MM of convertible subordinated debentures.
12/03/1990	Missed interest payment on remaining convertible subordinated
12/21/1990	Announcement that 12/3/90 payment would be paid within grace period on 12/31/90
06/01/1991	Missed interest payment
07/14/1992	Chapter 11

Service America Corporation *Contract Feeding*

05/25/1990	Indicated it would miss interest payment on 17% debentures
06/15/1990	Missed interest payment on 17% debentures
08/13/1991	Distressed debt exchange: 17% Subordinated Discount Debentures due 12/15/99 exchanged for 14% Debentures due 4/1/98

Univision Holdings, Inc. *Spanish Language Broadcasting*

02/01/1990	Missed interest payment on both issues; Parent Hallmark Cards made offer to purchase bonds at significant discount
04/24/1990	Hallmark announced buyback complete

Brent Walker Capital Ltd.

05/23/1991	Missed interest payment
06/07/1991	Reached an agreement in principal with bondholders to defer interest payment until August 15, 1991
11/23/1991	Missed interest payment
03/31/1992	Distressed exchange completed: entire issue exchanged for common shares, preference shares and new notes

List of Distressed Exchanges; January 1980- March 2000 (cont.)

CNC Holding Corporation *Holding Company*

12/01/1990	Suspended dividend payments
03/01/1991	Missed interest payment due on both subordinated issues and omitted dividend on pre ferred stock
03/06/1992	Distressed exchange (Contact: Dorothy Lee)

Forest Oil Corp. *Oil*

11/01/1991	Distressed exchange offer
12/04/1991	Distressed exchange completed

Home Group Funding Corporation *Non-insurance Conduit*

12/31/1990	Announced tender offer for portion of 14-7/8% debentures
02/13/1991	Partial distressed exchange

Homestead Savings FS & LA *Thrift*

02/04/1991	Announced exchange offer for subordinated debt
03/06/1991	Announced that interest payments on both subordinated issues would be suspended pending completion of exchange offer
03/15/1991	Missed interest payments on both subordinated issues
08/06/1991	Exchange offer completed: debt exchanged for preferred stock (Contact: Scott Peterson)

Lexington Precision Corporation *Metal & Rubber Industrial Components*

02/01/1991	Missed interest payment due on 12-3/4% Subordinated Notes and 12% Junior Subordinated Notes
08/01/1991	Missed interest payment due on 12-3/4% Subordinated Notes
01/18/1994	Distressed exchange (Contact: Martin Mierswa)

Meritor Savings Bank **Retail Banking**

02/27/1991	Announced repurchase offer on 12% Subordinated Capital Notes
03/01/1991	Announced that 3/15 payment due on Subordinated Notes would be
03/15/1991	Missed interest payment on Subordinated Capital Notes
07/09/1991	Distressed exchange
12/11/1992	The bank is closed by the State Department of Banking; assets sold to Mellon Bank, N.A. (Contact: Scott Peterson)

Pacific International Services Corporation *Vehicle Rental*

03/01/1991	Missed interest payment due on 10% Convertible Subordinated
05/31/1991	Commenced exchange offer for $12 million of 10% Convertible Subordinated Debentures
07/12/1991	Announced successful completion of exchange offer for $12 million (Contact: Martin Mierswa)

Peebles, Inc. *Operates 48 Department Stores*

01/10/1991	Stated in 8-K that interest due Jan. 15 on notes would not be paid.
01/15/1991	Missed interest payment on Notes
06/15/1991	Missed interest payment
01/15/1992	Missed interest payment
01/31/1992	Distressed exchange: bondholders exchanged the notes and accrued interest for common stock (Contact: Dorothy Lee)

Scovill, Inc. *Apparel*

05/15/1991	Missed interest payments on 16% subordinated debentures and 14.50% subordinated notes.
09/19/1991	Distressed exchange

Sun Carriers, Inc. *Motor Freight Transportation Company*

06/07/1991	Announced that 6/15 payment due on 13-1/2% Notes would be omitted
06/15/1991	Missed interest payment due on 13-1/2% Notes
08/13/1991	Agreement reached to restructure subordinated debt (Contact: Martin Mierswa)

List of Distressed Exchanges; January 1980- March 2000 (cont.)

Talley Industries, Inc. *Diversified Mini-conglomerate*

04/15/1991	Missed interest payments due on 9% Debentures and 12.87% Notes.
05/15/1991	Made interest payment due on 9% and 12.87% issues.
06/01/1991	Missed interest payment on 8.25% Senior Sinking Fund Debentures due 1997.
07/01/1991	Made payment on 8.25% within grace period.
10/15/1991	Missed interest payments due on 9% Debentures and 12.87% Notes.
11/20/1992	Distressed exchange (Contact: Gery Sampere)

Thermadyne Industries, Inc. *Manufacturer of Metal Cutting & Welding Products*

10/01/1991	Missed interest payment due on 15% Debentures
11/01/1991	Missed interest payment due on 18% Debentures
02/27/1992	Distressed exchange (Contact: Martin Mierswa)

Triangle Pacific Corp.

03/15/1991	Missed interest payment due on Debentures; omitted dividend on its preferred stock
06/08/1992	Distressed exchange (Contact: Robert McCreary)

Carolco Pictures Inc. *Movie Producer*

12/01/1992	Missed interest payments due on both 14% Notes and 13% Subordinated Notes
12/27/1992	Filed a restructuring plan with SEC
10/20/1993	Distressed exchange completed (Contact: Karl Bergqwist)

Cook Inlet Communications Corp. *TV Station Operator*

06/15/1992	Missed interest payment due on 13-7/8% Debentures
07/01/1992	Made interest payment within grace period
12/12/1992	Missed principal payment due on Zero Coupon Notes
12/15/1992	Missed interest payment on 13-7/8% Debentures
07/08/1993	Filed prepackaged Chapter 11
08/12/1993	Distressed exchange; reorganization plan effective (Contact: Karl Bergqwist)

Heron International Finance B.V. *Diversified Interests*

05/08/1992	Missed repayments on subordinated issues denominated in Swiss
06/26/1992	Missed interest payment due on the subordinated debt denominated in Deutsch Mark
09/09/1992	Made interest payment due on DM-denominated debt and partial payments on previously undefaulted issues
11/26/1992	Missed balance interest payment on 8-5/8% Eurobonds
12/14/1992	Missed balance interest payments on both 9-3/8% Eurobonds and 11% Eurobonds
12/26/1992	Missed balance interest payment on Floating Rate Notes
09/24/1993	Debt exchange completed (Contact: Denis Girault)

Lamonts Apparel, Inc. *Department Stores Operator*

10/30/1992	Distressed exchange completed: holders of $33.354 million (98% of the outstanding amount) of Sr. Sub. Notes were exchanged for an aggregate of 3,970,527 shares of common stock(44.67% of total common stock outstanding)

Robertson-Ceco Corporation *Building Components*

05/31/1992	Missed interest payment due on 15-1/2% Notes
05/21/1993	Exchange offer
07/15/1993	Distressed exchange completed (Contact: Joseph Chakra)

Thousand Trails, Inc. *Membership Campgrounds Operator*

03/15/1992	Missed principal payment due on 14-5/8% Notes
06/12/1992	Exchange offer completed (Contact: Scott Peterson)

List of Distressed Exchanges; January 1980- March 2000 (cont.)

Town & Country Corporation *Jewelry Manufacturer*

06/15/1992	Missed interest payment on 13% Notes
07/01/1992	Missed interest payment on 10-1/4% Notes
07/13/1992	Made interest payments within grace period
12/15/1992	Missed interest payment on 13% Notes
05/14/1993	Distressed exchange completed (Contact: Karl Bergqwist)

Consumers Packaging Inc. *Glass Container Manufacturer*

05/01/1993	Missed interest payment
08/15/1993	The controlling interest in the company is acquired by G & G Investments, Inc.
09/28/1994	The Plan of Arrangement completed: 8% convertible subordinated debentures exchanged for 12.5% senior notes due 7/15/2002

ERLY Industries Inc. *Processor & Distributor of Food Products*

11/24/1993	Announced details of exchange offer for Subordinated Debentures
12/01/1993	Missed interest and principal payments on Subordinated Debentures
06/29/1994	Distressed exchange completed: 95% of 12.5% debentures due 12/1/93 exchanged for new 12.5% debentures due 12/1/2002 (Contact: Brian Oak)

Glendale Federal Bank, FSB *Thrift*

01/27/1993	Announced exchange offer
03/10/1993	Distressed exchange completed
09/20/1993	Recapitalization completed (Contact: Meno Stroemer)

Glenfed, Inc. *Thrift Holding Company*

03/15/1993	Missed interest payment on Convertible Subordinated Debentures
08/26/1993	Exchange offer
09/20/1993	Distressed exchange and recapitalization completed (Contact: Meno Stroemer)

Iverson Technology Corporation *Manufacturer & Servicer of Microcomputers*

06/01/1993	Missed interest payments on both debentures
09/29/1995	Distressed exchange completed (Contact: Juanita Mayr)

Mesa, Inc. *Oil & Gas Exploration & Production*

04/06/1993	Announced 13.5% Notes would trade w/o accrued interest.
04/28/1993	Preliminary agreement on an exchange with subordinated noteholders
05/03/1993	Missed interest payment on subordinated notes
08/18/1993	Distressed exchange offer completed (Contact: Christopher Taylor)

PWA Corporation

11/29/1992	Distressed exchange offer
12/30/1992	Missed interest payment on 7.875% debentures due 1996
04/27/1994	Distressed exchange completed

Synergy Group, Incorporated *Propane Distributor*

03/15/1993	Missed interest payment on 11.625% Notes.
08/22/1994	Distressed exchange
08/16/1995	The company is acquired by Northwestern Public Service (Contact: Mihoko Manabe)

Triangle Corporation Hand Tools

02/01/1993	Missed interest payment on 13 _% Senior Subordinated Debentures due 1996
07/29/1993	Distressed exchange completed (Contact: Brian Oak)

.List of Distressed Exchanges; January 1980- March 2000 (cont.)

Trizec Corporation Ltd *Real Estate Developer & Manager*

10/18/1993 Announced halt of all debentures payments during restructuring negotiations
10/21/1993 Missed interest and principal payments on 6.125% SFr Senior
07/20/1994 Restructuring plan approved by Alberta court
07/25/1994 Distressed exchange
11/04/1996 Acquired by Horsham Corp.
(Contact: Helen Calvelli)

Heron International Finance B.V. *Diversified International Company*

03/04/1994 Announced that interest payment due March 31 will not be paid
03/31/1994 Missed interest payment; the attempt to defer interest payment until June 30, 1994 failed
06/16/1994 H.N.V. Acquisitions, US investor group, offers to buy Heron International N.V.
01/26/1995 Distressed exchange: both senior and junior bonds exchanged into common shares upon the company's acquisition by H.N.V. Acquisitions

Alto Parana S.A. *Pulp & Paper Manufacturer*

03/04/1995 Missed interest and principal payments on both Euronotes
01/17/1996 Distressed exchange offer
02/27/1996 Distressed exchange offer completed: the holders of 12% notes due 1995 agreed to exchange each $1,000 principal amount of 12% notes due 1995 for $90 in cash and $928.57 principal amount of incr. rate
(Contact: Nelson Noel, 553-1611)

America West Airlines, Inc. *Airline*

07/18/1995 Distressed exchange offer
08/14/1995 Distressed exchange completed: the company prepaid $48 million of its $123 million of 11.25% Senior Notes due 9/1/2001 and exchanged the remaining $75 million for new notes with a lower coupon and longer

Grupo Synkro S.A. de C.V. *Apparel*

10/07/1995 Missed interest and principal payments
11/11/1995 Forced the roll-over of commercial paper
08/27/1997 Reached an agreement with creditors to exchange all debt for equity
(Contact: Richard Mercier, 553-7885)

Grupo Tribasa, S.A. de C.V. *Construction*

04/19/1996 Bonds and notes exchanged for debt securities with mandatory conversion into equity at
04/19/97
(Contact: George Meyers, 553-1608)

Movie Star, Inc. *Apparel Manufacturer & Marketer*

04/01/1996 Missed interest payment
10/01/1996 Missed interest payment
10/15/1996 Distressed exchange completed: holders of $10.187 million of 12.875% subordinated debentures exchanged for an equivalent principal amount of 8% senior notes due 9/1/2001; remaining debentureholders received all past due interest payments
(Contact: Catherine Guinee, 553-4385)

NACO Finance Corporation Campground & Resort Owner & Operator

07/15/1996 Missed interest payment
07/17/1996 Distressed exchange completed
(Contact: Tom Keller, 553-1027)

StreamLogic Corp. *Information Storage Products*

06/14/1996 The company reaches an agreement in principal to exchange its convertible debentures for cash and equity
09/15/1996 Missed interest payment
11/21/1996 Exchange offer completed
06/26/1997 Filed Chapter 11
03/05/1998 Reorganization plan confirmed
03/31/1998 Reorganization plan effective
(Contact: Howard Sitzer, 553-4312)

List of Distressed Exchanges; January 1980- March 2000 (cont.)

Grupo Simec, S.A. de C.V. *Steel Producer*

06/05/1997	Announced that it has begun discussions with creditors to restructure debt and that the interest due 6/15/97 will not be paid until completion of the restructuring
06/15/1997	Missed interest payment
12/17/1997	Distressed exchange completed: the company exchanged US$55.5 million of 8.875% notes due 1998, or 81.6% of the total US$68 million outstanding principal amount of MTNs, for 10.5% third priority notes due November 15, 2007 (Contact: Todd Baker, 553-4999)

Trikon Technologies, Inc. *Manufacturer of Semiconductor Processing Equipment*

10/15/1997	Missed interest payment
11/12/1997	Made interest payment
04/14/1998	Distressed exchange offer: the company offers to exchange $1,000 principal amount of 7.125% convertible subordinated notes for a combination of common and preferred stock
04/15/1998	Missed interest payment
05/14/1998	Distressed exchange completed: holders of $82.103 million principal amount of notes (approximately 95% of the aggregate amount outstanding) have agreed to the terms of the exchange (Contact: Howard Sitzer, 553-4312)

Altiva Financial Corporation *Specialized Consumer Finance Company*

05/13/1998	The company proposes to exchange existing senior subordinated notes for new subordinated notes and convertible stock
06/01/1998	Missed interest payment
06/30/1998	Made interest payment
07/06/1998	Distressed exchange offer completed: approximately $79 million of existing senior subordinated notes exchanged for $41.5 million of new senior subordinated notes due 2001 and $37.5 million of preferred stock
03/22/1999	The company changed its name to Altiva Financial Corporation and effected a one for ten reverse stock split (Contact: Steve Nelson, 553-3781)

American Telecasting, Inc. *Wireless Cable Television Provider*

04/09/1998	Tender offer for a portion of its outstanding notes
04/28/1998	Received consents from the holders of a majority of its outstanding
05/13/1998	Partial distressed exchange completed: the company tendered $30.2 million of notes maturing 2004 and $43.5 million of notes maturing 2005 for a cash price of $255 and $225, respectively, per each $1,000 principal amount
09/11/1998	Second tender offer for a portion of its outstanding notes
10/15/1998	Partial distressed exchange completed: the company tendered $21.5 million of notes maturing 2004 and $22.6 million of notes maturing 2005 for a cash price of $280.5 and $247.5, respectively, per each $1,000 principal amount (Contact: Russell Solomon, 553-4301)

Citra Marga Finance B.V. *Finance Conduit*

06/15/1998	Missed interest payment on floating rate guaranteed euronotes due December 17, 1998
08/20/1998	Paid back past due interest on floating rate guaranteed euronotes maturing in December 1998; made partial payment of interest due on 7.25% guaranteed euronotes maturing 2002 ($0.9 million paid out of required $4.5 million)
12/17/1998	Paid only 10% of the principal payment on floating rate notes which matured on December 17, 1998; asked noteholders to extend payment of the remaining 90% for three months
01/21/1999	3-month grace on $123 million in principal on its floating rate notes
06/16/1999	Distressed exchange completed: bondholders received $630 in cash for each $1,000 par amount of the $99.3 million outstanding of the $175 million floating rate notes that were due in December 1998 (Contact: Tomomichi Nagaoka, 553-1655)

List of Distressed Exchanges; January 1980- March 2000 (cont.)

Hills Stores Company — Discount Department Stores

11/12/1998	Distressed exchange offer
12/30/1998	Distressed exchange: 74% of the bondholders agreed to exchange $700 for $1000 par amount of the senior notes maturing in 2003 (Contact: Marie Menendez, 553-4126)

Hybridon, Inc. — *Developer of Genetic Drugs*

02/06/1998	Commenced a distressed exchange offer: noteholders are asked to exchange their notes for preferred stock and warrants
03/30/1998	Holders of approximately $42 million of the outstanding $50 million of 9% notes have agreed to defer interest payment due April 1, 1998 until October 1, 1998
04/01/1998	Missed interest payment
05/06/1998	Distressed exchange completed: approximately $48.6 million principal amount of 9% notes have been exchanged for shares of Series A convertible preferred stock and warrants (Contact: Margaret Sunier, 553-4946)

PT Ciputra Development — *Real Estate Developer*

01/29/1998	Missed interest payment on guaranteed floating euronotes due 7/27/2000 (issued by Ciputra Development International Finance B.V., its wholly-owned subsidiary)
04/18/1998	Missed interest payment on 18.75% domestic bonds due 7/18/2001
11/26/1998	The bondholders agreed to exchange their bonds into common shares of PT Ciputra Surya Tbk. (Contact: E. Young, 553-1653)

PT Ciputra Surya Tbk. — *Real Estate Developer*

03/25/1998	Missed interest payment
11/26/1998	The bondholders agreed to exchange their bonds into common shares of PT Ciputra Surya Tbk. (Contact: Teresa McCarthy, 553-3878)

Royal Oak Mines Inc. — *Gold Mining Company*

05/15/1998	The senior subordinated bondholders consented to indenture modifications which decreased economic value of their bonds
12/23/1998	Announced that interest and principal payments will be deferred until February 15, 1999 on all of its debt
02/15/1999	Filed for bankruptcy under the Canada's Companies' Creditors Arrangement Act
04/16/1999	PricewaterhouseCoopers Inc. was appointed as an interim receiver
02/14/2000	Sold its main asset to Northgate Exploration Ltd., liquidated the other assets and issued a combination of common stock and debt
03/10/2000	Liquidating plan confirmed (Contact: Steve Oman, 553-1673)

United Communication Industry Public Company — *Telecommunications Company*

11/28/1998	The bondholders approve the company's restructuring plan and agree to accept shares of common stock in exchange for about $120 million in debentures
12/29/1998	The shareholders approve the restructuring plan
02/26/1999	The restructuring plan completed: approximately $79 million of 2.75% convertible eurodebentures due 2006 and $41 million of 11.5% domestic debentures due 2000 exchanged into common stock (Contact: Charles Macgregor, 553-1655)

Wilshire Financial Services Group Inc. — *Diversified Financial Services*

11/13/1998	Reached an agreement with the majority of noteholders to exchange their respective notes into equity
03/03/1999	Chapter 11
04/13/1999	Reorganization plan confirmed
06/11/1999	Emerged from Chapter 11 (Contact: Thomas Foley, 553-7225)

List of Distressed Exchanges; January 1980- March 2000 (cont.)

Abraxas Petroleum Corporation		*Oil & Gas*
11/18/1999	Distressed exchange offer	
12/17/1999	Holders agreed to receive $700 for each $1,000 par amount of the 11.5% senior notes due 2004 in exchange of new 11.5% senior notes due 2004, plus 16.1 million shares of common stock and 16.1 million contingent value rights	
12/22/1999	Distressed exchange completed (Contact: Helen Calvelli, 553-7295)	
AMF Bowling Worldwide, Inc.		*Operator of Bowling Centers*
06/28/1999	Distressed exchange offer	
07/28/1999	Distressed exchange completed on 45.7% of the $1.125 billion convertible zero coupon notes maturing in 2018 (issued through AMF Bowling, inc., the parent company): bondholders received $140 in cash for each $1,000 par amount of the notes (Contact: Kevin Kusnierek, 553-3835)	
AMF Bowling, Inc.		*Operator of Bowling Centers*
06/28/1999	Distressed exchange offer	
07/28/1999	Distressed exchange completed on 45.7% of the $1.125 billion convertible zero coupon notes maturing in 2018: bondholders received $140 in cash for each $1,000 par amount of the notes or approximately half of the current accredited value (Contact: Kevin Kusnierek, 553-3835)	
Dailey International, Inc.		*Specialty Drilling Services*
05/21/1999	Prepackaged Chapter 11 announcement and distressed exchange completed: bondholders agreed to receive $185 million of the $275 million senior notes paid in common stock by Weatherford International, Inc., the acquiring company	
05/28/1999	Prepackaged Chapter 11	
08/19/1999	Reorganization plan confirmed	
08/31/1999	Acquired by Weatherford International, Inc. (Contact: Daniel Gates, 553-7923)	
General Media, Inc.		*Publishing & Entertainment*
04/27/1999	Distressed exchange offer	
05/21/1999	Distressed exchange completed: bondholders agreed to receive $950 in cash for each $1,000 par amount of $28 million of the $80 million outstanding senior secured notes maturing in 2000 (Contact: Elizabeth Tallmadge, 553-1027)	
Golden Ocean Group Limited		*Shipping*
09/14/1999	Bondholders agreed to exchange approximately half of the accreted value of the senior notes due 2001($291 million) of which $47 million represents a portion of the principal amount for 90% of the company's equity (less than $59 million)	
01/14/2000	Chapter 11 (Contact: Richard Bittenbender, 553-0396)	
Grupo Azucarero Mexico, S.A. de C.V.		*Sugar Company*
03/31/1999	Distressed exchange offer	
05/13/1999	Distressed exchange completed: bondholders agreed to receive $450 in cash for each $1,000 par amount of the 11.5% senior notes maturing in 2005	
05/09/2000	Sought protection from creditors under Mexico's bankruptcy law (Contact: Philip Li, 553-4578)	

List of Distressed Exchanges; January 1980- March 2000 (cont.)

Kelley Oil & Gas Corporation *Oil & Gas*

04/19/1999 Distressed exchange offer
05/15/1999 Distressed exchange offer completed : bondholders agreed to receive $590 for each $1,000 par amount of the 8.5% convertible debentures maturing in 2000 and 7.875% convertible notes maturing in 1999 (both issued through Kelley Oil & Gas Partners, Ltd.)
(Contact: Andrew Oram, 553-1649)

Kelley Oil & Gas Partners, Ltd. *Oil & Gas*

04/19/1999 Distressed exchange offer
05/15/1999 Distressed exchange offer completed : bondholders agreed to receive $590 for each $1,000 par amount of the 8.5% convertible debentures maturing in 2000 and 7.875% convertible notes maturing in 1999
(Contact: Andrew Oram, 553-1649)

PanOceanic Bulk Carriers Limited *Shipping*

12/24/1998 Distressed exchange offer
01/25/1999 Distressed exchange completed: bondholders agreed to receive $750 in cash for each $1,000 par amount of the 12% first preferred ship mortgage notes maturing in 2007
(Contact: Per Regnarsson, 553-1653)

PRIMESTAR Satellite, Inc. *Satellite Television Provider*

01/22/1999 Purchase agreement with Hughes Electronics' Direct TV subsidiary to sell its direct-to-home satellite broadcast assets
02/01/1999 Distressed exchange offer
04/28/1999 Asset purchase agreement consummated for approximately $1.35 billion in cash and stock; After rejecting the initial tender offer, holders of 84% of the senior subordinated notes received 85.6 cent in cash for each accreted dollar plus stock rights
04/29/1999 The company changed its name to Phoenixstar, Inc.
05/07/1999 Distressed exchange offer to purchase the outstanding notes upon the sale by the company of substantially all of its assets
06/04/1999 Sale of the company's assets effective
06/15/1999 Distressed exchange completed: holders of the senior subordinated discount notes agreed to receive $735.87 in cash for each $1,000 principal amount of such notes
(Contact: Russell Solomon, 553-4301)

Specialty Foods Acquisition Corporation *Producer of Baked Goods*

05/12/1999 Distressed exchange offer
06/11/1999 Distressed exchange of the 13% senior secured discount debentures maturing in 2005 was approved by the majority of bondholders and initial coupon payment date was postponed from February 2000 to December 2004
(Contact: Philip Li, 553-4578)

Specialty Foods Corporation *Producer of Baked Goods*

05/12/1999 Distressed exchange offer
06/11/1999 Distressed exchange approved by bondholders of Specialty Foods Acquisition Corporation (the parent) and Specialty Foods Corporation (the subsidiary); lenders approved the extension of the revolving credit and term loan from January 2000 to January 2001
(Contact: Philip Li, 553-4578)

Tevecap S.A. *Pay Television Operator*

05/19/1999 Distressed exchange offer
06/03/1999 Distressed consent solicitation approved: bondholders agreed to receive $500 in cash for each $1,000 par amount of the 12.625% senior notes maturing in 2004
07/28/1999 Distressed exchange completed
(Contact: Russell Solomon, 553-4301)

List of Distressed Exchanges; January 1980- March 2000 (cont.)

Tultex Corporation *Manufacturer of Active Wear*

04/13/1999	Distressed exchange offer
05/10/1999	Distressed exchange completed: bondholders received $600 in cash for each $1,000 par amount of the 10.625% and 9.625% senior notes maturing in 2005 and 2007, respectively; lenders received $0.72 per dollar of the $53.8 million outstanding credit facility
12/03/1999	Chapter 11
	(Contact: Catherine Guinee, 553-4385)

Grant Geophysical Incorporated *Provider of Seismic Data Services*

01/19/2000	Distressed exchange offer
03/03/2000	The majority of debtholders agreed to exchange $56.3 million of the senior notes due 2008 for 389,722 shares of convertible preferred stock; They also agreed to relax certain restrictive covenants in the indenture governing those notes
	(Contact: Andrew Oram, 553-1649)

Special Comment

Moody's Approach to Evaluating Distressed Exchanges

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