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**THE CONTRACTUAL PROVISIONS OF SUBORDINATED
DEBENTURES ISSUED BY INDUSTRIAL COMPANIES, 1955-1965**

By

Jarold Lee Peck

A THESIS

**Presented to the Faculty of
The Graduate College in the University of Nebraska
In Partial Fulfillment of Requirements
For the Degree of Master of Arts
Department of Business Organization and Management**

Under the Supervision of Professor Clifford M. Hicks

Lincoln, Nebraska

June, 1967

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J. L. P.

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CHAPTER I

INTRODUCTION

Purpose of the Study

It shall be the purpose of this study to examine the new issues of industrial subordinated debentures in the period, 1955-1965, and seek to determine the prominent provisions of the subordinated debenture contract and if there have been any significant trends or changes in the contractual provisions during this period.

There is no study which is known that attempts to determine the prominent provisions or trends in the provisions of the subordinated debenture contract during any period. An earlier study¹ was limited to a description of the subordination feature and the extent of, reasons for, and limitations on the use of the subordinated debenture prior to 1955.

Historical Development of the Subordinated Debenture

The principle of subordination has been in existence for many years. Prior to the issuance of the first subordinated debenture, commercial banks and other prospective lenders often required creditors to surrender their claims in the event of liquidation. However, the subordination of

¹Robert W. Johnson, "Subordinated Debentures: Debt That Serves As Equity," Journal of Finance, X, March 1955, p. 1.

the creditor's claims to the lender did not represent an original issue of a subordinated security.

Sales finance companies were largely responsible for the development of the subordinated debenture. The General Finance Corporation was the first sales finance company to sell publicly a subordinated debenture by its offer in March, 1936, of \$750,000 of five per cent, ten-year debentures. These debentures were subordinated to short-term borrowing with a maturity not exceeding nine months. Soon after the first issuance of a subordinated debenture, many sales finance companies and small loan companies began to use the device. However, it was not until 1946 that any of the five largest sales finance companies issued subordinated debentures.

The extent of the usage of the subordinated debenture has increased rapidly since World War II. The considerable extent to which subordinated debentures have been adopted by finance companies may be seen in Table I.

TABLE I

PER CENT OF SUBORDINATED DEBENTURES IN THE TOTAL
LIABILITIES OF FINANCE COMPANIES*

Type of Company	1955	1960
Sales Finance	7.5	9.5
Consumer Finance	6.7	8.9
Other Personal Finance	3.0	5.4
Business Finance	N.A.	9.0

*SOURCES: "Survey of Finance Companies, Mid-1955," Federal Reserve Bulletin, April 1957, p. 397.

"Survey of Finance Companies, Mid-1960," Federal Reserve Bulletin, October 1961, p. 1160.

The subordinated debenture was not adopted by industrial companies until the early 1950's. A number of concerns from fields other than finance, notably the chemical and oil companies, began to use the subordinated debenture. One of the first major industrial concerns to use the subordinated debenture was the Dow Chemical Company. The company issued \$100 million, 3 per cent, convertible subordinated debentures on July 14, 1952.

After Dow Chemical's issuance of subordinated debentures, the device gained popularity among many industrial companies. The number of major industrial subordinated debentures outstanding increased from twenty-six on December 31, 1953² to more than 500 on December 31, 1965.³ The issuance of new subordinated debentures increased from thirty-six in 1955 to seventy-seven in 1959. The number of new issues each year has been declining since the 1959 high.

Although the oil and chemical fields were the first industrial firms to use the device, it is now used by a considerable variety of industrials, both in the size of the issue and the nature of the industry. The device is also used by transportation companies, particularly, the air transportation companies. The number of outstanding subordinated debentures issued by air transportation companies increased from one in 1955 to more than thirty in 1965 with a majority of the issues being convertible subordinated

²Robert W. Johnson, "Subordinated Debentures: Debt that Serves as Equity," Journal of Finance, X, March 1955, p. 1

³Appendix A

debentures.⁴

Generally, the industrial subordinated debenture is a low rated security. The Moody's rating of subordinated debenture issues used in this study concentrated in the areas of Ba, B, and not rated.⁵ While these ratings are low, they are not much lower than that which would be expected of the average industrial bond. A survey of several rated subordinated debentures revealed that the ratings were usually equal to or lower by one classification than the ratings of other funded debt issued by the companies.

Reasons for Use

The principle reason for the increase in the issuance of subordinated debentures is that they serve excellently as a substitute for common and preferred stocks in providing protection for creditors. This protection is provided by the subordination of the claims of the holder of subordinated debentures to the claims of present and future senior debt holders.

Since subordinated debentures serve as equity capital so far as the senior debt holder is concerned, the issuance of subordinated debentures increases the net worth base and consequently provides an additional credit base to allow additional borrowing by the issuing firm.

Additional reasons for the use of subordinated debentures are as follows: (1) The interest rates are usually lower than the dividend rates on preferred stock, (2) The interest

⁴Moody's Transportation Manual, 1955, 1965, blue page inserts.

⁵Appendix A.

is deductible for income tax purposes, and (3) The costs of flotation are likely to be less than those of common and preferred stock.

Sources of Data & Limitations of the Study

The sources of data used in this study were the new issues of industrial subordinated debentures issued by industrial firms during the period, 1955-1965, with these limitations: (1) The issues of subordinated debentures of United States corporations were obtained by a search throughout the 1965 issue of Moody's Industrial Manual and the indexes of the 1955-1964 and the 1966 issues of Moody's Industrial Manual. This search resulted in a total of 535 new issues which accounted for a total volume of \$5.3 billion.⁶ This universe is probably not complete, since occasionally the subordination feature is not indicated when a debenture issue is listed. It undoubtedly omits those subordinated debentures issued by small industrial firms. (2) A sample of ninety-four subordinated debenture issues with a total volume of \$697 million was selected from the universe of 535 new issues. The universe was arranged in alphabetical order by the year of issuance and each sixth issue was made part of the sample. In some instances, Moody's Industrial Manual did not provide sufficient information for the purposes of the study and this necessitated the use of the seventh issue in the list. The composition of the sample contrasted to the total number of new issues may be seen in Table II.

⁶Appendix A.

TABLE II

PER CENT COMPOSITION OF THE SAMPLE AND THE UNIVERSE*

Type of Debenture	SAMPLE	UNIVERSE
Convertible Subordinated Debenture	77.3	76.3
Subordinated Debenture	14.3	14.8
Subordinated Income Debenture	2.1	2.4
Convertible Subordinated Income Debenture	2.1	1.0
Subordinated Sinking Fund Debenture	2.1	3.5
Convertible Subordinated Sinking Fund Debenture	2.1	1.3
Other	0.0	0.7
	100.0%	100.0%

*SOURCE: Appendix A

The sample is supported by an additional forty-eight industrial subordinated debenture issues for which prospectuses were readily available. The prospectuses will be used exclusively to support the findings of the sample and for more extensive study of the contractual provisions.

It is necessary to make such limitations in order to have a consistent and comparable source of information. By limiting the source to Moody's Industrial Manual, all major provisions are ascertainable. The sample reduces the universe to a manageable amount of data and should provide a small margin of error.

Organization of the Study

The study to determine whether there have been any significant trends in the contractual provisions and the major contractual provisions of industrial subordinated debentures will be approached by an examination of the major provisions, individually. Chapter II will deal with the subordination feature and the extent of its subordination. Chapter III will review the use of the convertible feature

and the reasons for its use. The various provisions of the typical convertible subordinated debenture will also be examined. Chapter IV will deal with the restrictions imposed on the issuance of additional funded debt and the payment of dividends and the extent of this restriction on the issuing concern. Chapter V will examine the miscellaneous provisions not covered in the previous chapters such as the provisions for redemption, sinking fund, and restrictive covenants. The final chapter will develop conclusions as to the direction of any changes which have developed and review the typical contractual provisions of the subordinated debenture.

CHAPTER II

THE SUBORDINATION FEATURE

What is Debt Subordination?

Theoretically, debt subordination is regarded as a ranking of debt claims by agreement between or for the benefit of the respective holders. This marshalling of claims may be compared to a marshalling of partnership and individual assets between creditors of a partnership and creditors of an individual partner.¹ The ranking agreement is more a matter of procedure than of substance. While a debt holder may agree to subordinate its claims to another debt holder, the subordinated debt will ordinarily be proved on a parity with the senior debt in a bankruptcy or reorganization court. The collateralized position which the senior debt holder obtains results not from the subordination agreement itself but from the contractual pledge of the junior debt claims as collateral security to the senior debt holder. Debt subordination standing alone is merely an agreement to take a lower rank and the various theories of enforcement are the only means to achieve the enforcement of the ranking agreement but not an end in and of themselves.

Types of Subordination Agreements

There are two basic types of subordination agreements.

¹Golin, Reuben, "Debt Subordination as a Working Tool," New York Law Forum, 1961, p. 370.

The "inchoate" type of subordination is so drawn that it does not become operative until a voluntary or involuntary distribution of assets of the debtor is made to its creditors; the specific event which triggers the subordination, such as bankruptcy or insolvency, is specified in the subordination agreement.² Until such financial distress occurs, the subordinated debt may be redeemed, refunded, amortized, and payments may be made to a sinking fund by the debtor. The holders of the subordinated debentures may also convert the debt, subject to the restrictions provided in the conversion provision.

The inchoate type of agreement is used extensively in corporate indentures which provide for subordinated debenture issues, especially for industrial corporations.

The other type of subordination is the "complete" subordination agreement, under which no payment of principal or interest on the subordinated debt is permitted so long as a specifically identified senior debt remains unpaid.³ The complete subordination agreement often takes the form of a continuing agreement covering then existing and all future indebtedness of the debtor.

The complete subordination agreement is usually drawn in favor of a particular creditor, or relating to a particular senior debt. This type of agreement is commonly used by corporations borrowing from banking institutions.

Both the inchoate and the complete subordination agreements require that upon the distribution of the assets of

²Calligar, Dee Martin, "Subordination Agreements," The Yale Law Journal, 1961, p: 378.

³Ibid.

the debtor, the senior debt must be paid in full before any payment is made on the subordinated debt. Therefore, the holders of the senior debt must be paid, directly, for all payments or distributions on the subordinated debentures which would otherwise be paid to the holders of the subordinated debt. Thus, both subordination agreements have the effect of making the subordinated debt a type of security for the senior debt, available to the senior creditor upon distribution of the assets of the debtor.

The security to the holder of the senior debt may decrease or vanish in the inchoate subordination agreement, if payments are allowed to be made to the subordinated debentures during the continuance of any default in payment of the senior debt. However, this is not the case in the complete subordination agreement. Since no payments can be made to the subordinated debt during the continuance of an act of default, the subordinated debt and its distributional value in bankruptcy is, in effect, locked-in.

Theories of Validity and Enforcement

The courts have upheld the validity of both the inchoate and the complete subordination agreements. However, disputes have arisen in the enforcement of the subordination agreements. Parties opposed to the enforcement of the subordination agreements have contended that the provisions of Section 65a of the Bankruptcy Act do not allow the enforcement of the agreements. In part, Section 65a states: "Dividends of an equal per centum shall be declared and paid on all allowed claims, except such as have priority or are secured." The courts have consistently rejected this contention and

held that such agreements are enforceable so long as they do not violate public policy or the priorities established by the Act.

The rationale of the court is that neither the senior debt nor the subordinated debt has "priority" or is "secured" within the meaning of the Act. Thus, the senior debt and the subordinated debt are substantiated under the Act on a parity with each other and on a parity with the other debt of the borrower.

Four theories of enforceability have developed from the several court rulings on the enforcement of the subordination agreement. The first of these theories is the equitable lien theory which holds that the subordination agreement creates an equitable lien in favor of the senior creditor. The theory was first expressed by Judge Learned Hand in *In re Geo. P. Schinzel & Sons*.⁴ The case involved a meeting between a number of creditors and the subsequently bankrupt corporation. Some, but not all, of the creditors made an agreement with the corporation, under which persons supplying goods to the corporation were to have a priority over the claims existing at the time of the agreement. Judge Hand stated about the creditors who had not signed the agreement:

When former creditors continued to sell to the bankrupt, they got no pledge or mortgage as security; if they have any similar right, it must be by an equitable lien.

and of the creditors who had signed the agreement:

⁴16 F. 2d 289 (S.D.N.Y. 1926).

By signing the agreement, such creditors intended that the supplying creditors should have the first call on any payment made, and from this arose an equitable claim as against the signing creditors.⁵

The second theory of enforceability, the equitable assignment theory, holds that the subordination agreement creates an equitable assignment to the senior creditor of the subordinated debt claim in bankruptcy and dividends payable thereon.⁶ The equitable assignment theory is a result of *In re Handy-Andy Community Stores, Inc.*, in 1932.⁷ The case involved a situation where two principal stockholders of the debtor, in order to induce a bank to loan \$15,000 to the debtor, agreed with the bank to subordinate their existing claims against the debtor for the loan, and to make a proper assignment to the bank of their claim against the debtor, if it should become necessary.⁸ The company subsequently became bankrupt. In reversing the referee's decision, the court said:

While the document does not convey a present title to the claimants, it amounts to an agreement to do so, in so far as relief in a court of equity is concerned, which becomes enforceable when the necessary conditions arise requiring it. For this reason, the legal title to the claims standing in the names of (the junior creditors), it was entirely proper for them (the bank) to prove the same before the referee.⁹

⁵16 F. 2d 289 (S.D.N.Y.) 1926.

⁶Calligar, Dee Martin, "Subordination Agreements," The Yale Law Journal, 1961, p. 384.

⁷2 F. Supp. 97 (W.D. La. 1932).

⁸Everett, Edward, "Subordinated Debt - Nature and Enforcement," The Business Lawyer, July 1965, p. 974.

⁹2 F. Supp. 97 (W.D. La. 1932).

The Constructive Trust theory, which has only been used in *In re Dodge-Freedman Poultry Co.*,¹⁰ holds that the subordinator retains the dividends received as constructive trustee for the holder of the senior debt. Freedman, the president and principal stockholder of the debtor, Dodge-Freedman Poultry Company, in consideration of the extension of credit to the debtor by a trade creditor, agreed with the creditor to subordinate his own claim against the debtor to the claim of the trade creditor against the debtor. Freedman later attempted to waive his claim against the debtor rather than accept payment thereon and turn it over to the trade creditors. The court concluded that Freedman held his claim against the debtor as "Constructive Trustee" for the trade creditor and, therefore, could not waive the claim to the detriment of the senior or trade creditor.

The fourth theory of enforceability is the contract theory. The theory is that the bankruptcy court has the power to distribute the bankrupt estate in accordance with the rights of the parties as fixed by their own contracts. In *re Aktiebolaget Kreuger & Toll*¹¹ and *Elias V. Clarke*¹² are two cases involving subordinated debentures and the contract theory. In the case of *In re Aktiebolaget Kreuger & Toll*, the holder of the subordinated debentures argued that the Bankruptcy Act prohibited contractual agreements for subordination unless the senior creditor claiming the

¹⁰148 F. Supp 647 (D.N.H. 1956).

¹¹96 F. 2d 768 (2d Cir. 1938).

¹²143 F. 2d 640 (2d Cir. 1944).

benefit thereof was a party to the agreement or was the sole beneficiary thereof or unless there was some basis for application of the doctrine of estoppel.¹³ No evidence was offered which would indicate that any holders of the senior debt had relied on the subordination feature of the subordinated debenture.

In its decision the court stated:

Section 64b of the Bankruptcy Act...creates priorities regardless of the parties contracts and overrides inconsistent covenants. But this does not mean that the parties are prohibited from making contracts for a priority or subordination so far as they do not impinge upon statutory priorities. Section 65a... means no more than that dividends paid to creditors shall be pro rata except where there is a priority given by law or by lawful contractual arrangement between the parties.¹⁴

The court therefore enforced the subordination agreement and denied recovery to the holder of the subordinated debentures since the debtor's assets were insufficient to pay the senior creditors.

The case of *Elias V. Clarke*¹⁵ also involved a subordination agreement to which the senior creditors were not a party and were not alleged to have relied on the subordination agreement. The court again ruled in favor of the senior creditors.

It appears that the contract theory is the most

¹³Everett, Edward, "Subordinated Debt - Nature and Enforcement," The Business Lawyer, July 1965, p. 964.

¹⁴96 F. 2d 770 (2d Cir. 1938).

¹⁵143 F. 2d 640 (2d Cir. 1944).

accepted basis for the enforcement of the subordination agreement.¹⁶ It is applicable in situations where the senior debt holder has not required or relied on the subordination agreement and in situations where the senior debt holder has required or relied on the agreement. However, the contract theory is not the only accepted basis for enforcement. The equitable theories also have merit.

Subordination Agreements of Industrial Subordinated Debentures

The subordination agreements of industrial subordinated debentures are of the inchoate type. The subordination agreement does not become operative until a voluntary or involuntary distribution of assets of the debtor is made to its creditors. It only becomes active under financial distress such as bankruptcy or insolvency.

The subordination agreement may be written in several forms such as enumerating the provisions or by a general statement of the subordinating provisions. Generally, the subordination agreement reads as follows:

The Indenture provides that the indebtedness evidenced by the Debentures and the coupons appertaining thereto shall be subordinate and subject in right of payment to the prior payment in full of all Senior Indebtedness of the Company in the event of any distribution of assets of the Company upon any dissolution, winding up or reorganization, whether in bankruptcy or otherwise or upon any maturity of Senior Indebtedness....¹⁷

From a practical point of view, one of the least successful ways for a creditor to collect money from a

¹⁶Everett, Edward, "Subordinated Debt - Nature and Enforcement," The Business Lawyer, July 1965, p. 972.

¹⁷M. Lowenstein & Sons, Inc., Prospectus, Feb. 15, 1956, p. 12.

debtor is to put the debtor into bankruptcy. Therefore, creditors are reluctant to take the step which is essential to cause the subordination agreement to become operational.

The industrial subordinated debentures used in this study did not include a clause which would prevent the subordinator from instigating any bankruptcy, reorganization or insolvency proceedings against the debtor. A clause of this type would prevent small subordinating creditors from taking action contrary to the interests of the senior creditors.

From the senior creditor's point of view, the subordination agreement, stated above, would allow the holders of subordinated debentures to receive payments which would diminish or possibly eliminate the assets of the debtor during the continuance of an act of default. A majority of the subordination agreements examined in this study contained the following clause: "...and after notice of default on Senior Indebtedness, no payments (with certain exceptions) may be made on the Debentures."¹⁸ This clause tends to alleviate the hardships which are placed on the senior creditors by its exclusion.

Another clause which is commonly included in the subordination agreement of industrial subordinated debentures is as follows:

The Indenture will provide that in any dissolution, winding up, liquidation or reorganization of the Company, all cash, property or securities (other than reorganization securities subordinated to Senior Debt) to which the holders of debentures

¹⁸Burroughs Corporation, Prospectus, (November 30, 1956), p. 15.

or the Trustee would otherwise be entitled must first be applied against payment of the Senior Debt until the Senior Debt is paid in full. By reason of such subordination, in the event of insolvency, creditors may recover less ratably, than holders of Senior Debt and may recover more, ratably, than the holders of the Debentures.¹⁹

This provision strengthens the position of senior debt holders in relation to, but not at the expense of, other non-subordinated creditors.²⁰ The other creditors receive the same distributive share of assets, with or without the clause. However, they do benefit from the assets contributed by the holders of subordinated debentures. The holders of senior debt benefit from this clause, since they gain the liquidating payments of the subordinated debt until the senior debt is paid in full.

The subordination agreement of industrial subordinated debentures usually defines "Senior Indebtedness." Senior indebtedness is generally defined as follows:

The principal of and premium, if any, and interest on indebtedness (a) of the Company for borrowed money evidenced by notes, debentures, bonds, or other securities issued or sold by it for money, (b) of others of the character described in clause (a) assumed or guaranteed by the Company and (c) renewals, extensions or refundings of such indebtedness, unless it is provided that such indebtedness is not senior to the Debentures.²¹

The definition may contain clauses such as: "... indebtedness arising out of the sale, discount or guarantee

¹⁹National Cylinder Gas Co., Prospectus, (December 11, 1957), p. 12.

²⁰Johnson, Robert W., "Subordinated Debentures - Debt That Serves as Equity," Journal of Finance, March 1955, p. 1.

²¹Philco Corporation, Prospectus, April 14, 1959, p. 16.

of customers accounts" and "indebtedness or others assumed or guaranteed by the Company in connection with the purchase or leasing of assets by the Company or a subsidiary."²² It may also limit the amount of senior debt to which the subordinated debenture is subordinate. For example, "The aggregate principal amount of all senior indebtedness, less the aggregate amount of indebtedness of the Company to Banks and Trust companies maturing less than twelve months from the date of the creation, assumption or incurrence thereof, shall not exceed \$45,000,000 at any time outstanding."²³

The definition of senior debt coupled with the relinquishment of the claims of the holders of subordinated debentures until such time as the senior creditors are paid in full, results in the subordinated debenture not sharing ratably with other unsecured claims of general status but becoming a part of the equity base so far as such defined debt made expressly, is concerned. Thus, subordinated debentures can be referred to as "debt that serves as equity"²⁴ or that it "occupies much the same position vis-a-vis senior debt that common stock occupies to preferred."²⁵

²²General Foam Corporation, Prospectus, (Oct. 21, 1961), p. 12.

²³Barium Steel Co., Prospectus, (June 27, 1957), p. 16.

²⁴Johnson, Robert W., "Subordinated Debentures - Debt That Serves As Equity," Journal of Finance, March 1955, p. 1.

²⁵Golin, Reuben, "Debt Subordination as a Working Tool," New York Law Forum, 1961, p. 371.

CHAPTER III

CONVERTIBLE SUBORDINATED DEBENTURES

Types of Subordinated Debentures

The subordinated debenture is typically subordinated in its claim to the assets of the company. However, it may also be subordinated in its claim to the income of the company or it may be subordinated in both its asset and income claim. The total percentage of industrial subordinated debentures, as shown in Table III, indicates that all varieties of the subordinated debenture examined by this study were subordinated in their claim to the assets of the issuing companies and, of these, 4.1 per cent were also subordinated in their claim to the income of the issuing companies. The others have a fixed interest claim.

The subordinated debenture of Arden Farms Co., issued September, 1964 illustrates a security which is not only subordinated in its claim to the assets of the company but is also subordinated in its claim to the income of the company. The subordinated income debenture of Arden Farms Company is subordinated to all prior debt of the company and pays interest only as and to the extent that net earnings are available. The subordination of income claim is usually stated as follows:

"Interest payable March 1, and September 1, from available net income or at the director's discre-

tion, from available surplus; cumulative from September 1, 1964."¹

The use of the subordinated income debenture was limited, 4.1 per cent of the total number of issues examined, during the period covered by this study and its greatest use was during the period of 1955 through 1960.

The contractual provisions of the subordinated debenture usually include provisions for a sinking fund, redemption, modification or amendment of the indenture and a description of the events which constitute default. All of the subordinated debenture issues examined in this study contained provisions for redemption, modification or amendment of the indenture and a description of the events of default. Only four of the issues examined did not contain provisions for a sinking fund or purchase fund. The contract may also contain provisions for dividend and/or funded debt restrictions and other restrictive covenants.

Table III reveals that the subordinated debenture, subordinated only in its claim to assets, constituted 95.9 per cent of the total number of subordinated debentures issued during the period. The conversion provision was attached to 77.6² per cent of those subordinated only in the

¹Moody's Industrial Manual, June 1965, p. 702.

²Table III indicates that subordinated debentures constituted 14.8 per cent, convertible subordinated debentures 76.3 per cent, subordinated sinking fund debentures 3.5 per cent and convertible sinking fund debentures 1.3 per cent of the total number of subordinated debentures issued during the period of 1955 through 1965. A study of the provisions contained in the subordinated

TABLE III
DISTRIBUTION OF VARIOUS TYPES OF SUBORDINATED DEBENTURES, 1955-1965

Year	CLAIM TO ASSETS SUBORDINATED					CLAIM TO INCOME SUBORDINATED					Total Number
	Convertible Subordinated Debenture	Subordinated Debenture	Convertible Subordinated Sinking Fund Debenture	Subordinated Sinking Fund Debenture	Subordinated Income Debenture	Convertible Subordinated Income Debenture	Subordinated Income Debenture	Cumulative Subordinated Income Debenture			
1955	69.4%	25	16.7%	6	0	4.7%	0	2.7%	1	0	36
1956	72.1%	31	11.5%	5	2	4.7%	0	2.3%	2	1	43
1957	67.3%	35	17.3%	9	1	1.9%	0	0	0	0	52
1958	75.7%	28	18.9%	7	0	5.4%	0	0	0	0	37
1959	75.3%	58	18.2%	14	3	3.9%	0	0	0	0	77
1960	77.0%	47	11.5%	7	0	0	0	0	0	0	61
1961	81.2%	56	14.5%	10	0	0	0	2.9%	2	0	69
1962	83.3%	40	8.3%	4	0	0	0	0	0	0	48
1963	68.3%	28	22.0%	9	1	2.4%	0	0	0	0	41
1964	71.0%	22	22.6%	7	0	0	0	0	0	0	31
1965	95.0%	38	2.5%	1	0	0	0	0	0	0	40
TOTAL		408		79	7				3	4	533
AVERAGE	76.3%		14.8%			1.3%				.7%	

SOURCE: Goody's Industrial Manual, 1955-1965, and Appendix A.

claim to assets. The conversion provision was also included in 1.0 per cent of the subordinated debentures, subordinated in both asset and income claims, which resulted in the inclusion of the conversion provision in a total of 78.6 per cent of all the subordinated debentures issued during the period. Therefore, the remainder of this chapter will be devoted to a study of the conversion provision contained in the indenture of industrial subordinated debentures issued during the period of 1955 through 1965.

Conversion Price V. Common Price at Issuance

One of the basic reasons that would appear to be cause for a corporation seeking new capital to sell subordinated debentures with the conversion provision is the eventual addition to common stock. By setting the converted value at a price somewhat higher than the prevailing market price of the common, the corporation may in effect receive a higher price for its common stock. This reason is based on the assumption that, "Most managements sell convertibles with

debenture indicates that they are similar to those contained in the subordinated sinking fund debenture and the provisions contained in the convertible subordinated debenture are similar to those contained in the convertible sinking fund debenture. Table III was calculated by the titles of the securities as they are listed in Moody's Industrial Manual. Therefore, this study will include the subordinated sinking fund debenture in the category of the subordinated debenture (18.3 per cent) and the convertible sinking fund debenture in the category of convertible subordinated debentures (77.3 per cent).

the intention of eventually adding to their common stock outstanding"³ and this is substantiated to an extent by the fact that 76 per cent of the respondents to a questionnaire stated that the reason for the conversion provision being attached to subordinated debt was to raise common capital.⁴ All of the convertible subordinated debentures examined in this study were convertible to common stock.

The position that the convertible subordinated debenture is sold with the intention of eventually adding to common stock was borne out by a random sampling of the price at which convertible subordinated debentures were issued. In these cases the price of common stock at the time of issuance of the convertible subordinated debenture was only a few points above the converted value of the subordinated debenture. This would lead to the conclusion that if these corporations were not actually desirous of having conversion take place, the convertible clause would not be added; or the conversion rate would be set far above the current common stock prices. Table IV indicates the converted value of the subordinated debenture as measured by the common stock prices on the date of issue. The common stock prices are the prices at which common was selling at the close of the market on the date of issue of the subordinated debenture.

The data compiled in Table IV reveals that only two issues of the eighteen selected for the random sampling,

³Hubbard, George A., "Hedges in Convertibles," Barrons, February 17, 1958, p. 9.

⁴Pilcher, James C., "Raising Capital with Convertible Securities," University of Michigan, Ann Arbor, 1955, p. 61.

or 12.2 per cent, needed a price rise of more than \$10 per share to make conversion profitable.⁵ The price rise needed per share of common stock to make the conversion of the subordinated debenture advantageous did show a wide range. This variation was from almost an immediately profitable conversion of a fourteen cent increase per share of common to a needed price rise of \$10.88 per share at the other extreme. The Median increase per \$100 unit of subordinated debentures is \$4.03.

It appears that industrial corporations were not setting the conversion prices at unrealistic rates that might make conversion unprofitable for years to come, or possibly never. Especially since the various stock market indexes indicated, generally, increasing common stock prices throughout the period. However, only one-third of the issues, as shown in Table IV, could have been converted profitably at the highest price of the common stock in the one year period immediately following the issuance of the convertible subordinated debenture. This may be the result of a peculiarity of the sample or it may indicate that management in setting the rate of conversion is attempting to defer the conversion of the subordinated debenture for at least one year.

⁵For Example, Olin Mathieson Chemical Corporation issued 5½ per cent convertible subordinated debentures on November 19, 1957. Under the provisions of the convertible clause, the subordinated debenture was convertible to common stock at any time until November 15, 1972, at a rate of two shares of common in exchange for each one hundred dollar subordinated debenture. The closing price at which common stock of this company was selling on November 19, 1957, was \$41.75. The common stock price times two equals \$83.50, a difference of \$16.50. The price of the common stock would need to rise \$8.25 (exclusive of commissions, etc.) and any price above this would make conversion profitable.

TABLE IV
SELECTED CONVERTED STOCK VALUES OF SUBORDINATED DEBENTURES ON DATE OF ISSUE

Issue	(a) Issue Date	(a) Issue Price	Converted Value at Date of Issue	(a) Shares of Common Convertible Into	(e) Selling Price Closing Sale On Date of Issue	Price Change Per Common Share to Equal Issue Price	(b) Highest Price Of Common During 1 Year Period After Issuance	Highest Converted Value During 1- Year period + or - Issue Price
Food Fair Stores	3/59	100.00	92.66	2.38	41 7/8	.14	34 1/3	-18.73
Avco Manufacturing	1/53	100.00	97.02	8.59	11 1/4	.25	17 1/4	49.90
Coca (V. I.) Co.	10/52	100.00	95.06	4.39	21 5/8	1.12	23 5/8	13.80
Fruehauf Trailer Co.	3/56	100.00	93.51	3.53	27 7/8	1.13	24 1/4	13.80
Meritt Chapman	8/55	100.00	92.76	3.83	28 1/2	1.03	23 3/8	-13.90
Northrop Corp.	11/55	100.00	90.58	3.63	24 3/4	2.52	29 1/2	-10.01
Lowenstein (..)	2/53	100.00	90.74	2.49	25 0/0	2.35	32 0/0	7.97
Surroughs Corp.	11/53	100.00	92.81	2.50	37 1/8	2.37	52 3/8	-23.22
A. C. A.	10/51	102.50	94.81	2.05	43 1/4	3.35	40 0/0	20.94
Gardner-Denver	10/51	101.75	90.12	2.59	33 1/2	4.32	43 7/8	-20.50
Boeing Airplane Co.	7/56	100.00	99.25	2.00	44 5/8	5.28	46 1/2	24.34
Carrier Corp.	2/57	101.50	92.30	1.60	48 0/0	5.44	46 1/4	-7.00
Dresser Industries	3/52	100.00	86.48	1.81	48 0/0	7.47	46 5/8	-27.59
Hooker Chemical Co.	9/59	100.00	82.77	2.22	37 1/4	7.73	41 1/8	-15.52
General Portland Cement Co.	10/57	100.00	86.43	1.72	50 1/4	7.50	37 1/4	-3.75
Olin Mathieson	11/57	100.00	83.50	2.00	41 3/4	3.25	45 1/8	50.07
Chemical Co.	2/57	101.50	90.52	1.05	36 0/0	10.43	74 7/8	30.25
Douglas Aircraft Co.	11/55	102.00	82.76	1.77	46 7/8	10.88	48 0/0	33.22
National Tea Co.								54.53
								-17.04

SOURCE: (a) Prospectuses of Respective Issues, (b) Moody Industrial Manual.

The primary reason for the conversion provisions being attached to the subordinated debenture would appear to bear out the assumption - convertibles are issued with the purpose of raising equity capital at slightly higher prices than those prevailing in the market when the subordinated debenture was issued.

There is another possible assumption as to why the conversion provision is attached to the subordinated debenture. The conversion provision may act as a "sweetener" to give a weak security added appeal by imparting a speculative flavor. No doubt this assumption is a factor in setting the conversion rates. However, if this assumption were the primary consideration, the rates of conversion would probably be a good deal higher than those reported in Table IV.

Rate of Conversion

Convertible subordinated debentures examined in this study were found to have two types of conversion rates. These types were: (1) a fixed rate wherein the number of shares of common for which the subordinated debenture may be converted remains constant, (2) a declining rate which reduces the number of shares of common which the subordinated debenture may be converted as stated intervals of time elapse or as stated amounts of debentures are converted.

An example of the declining type of conversion as determined by the conversion of specified amounts of subordinated debentures may be illustrated by the Burlington Industries, Inc., 4½ per cent, subordinated debentures. The provisions of the convertible clause state:

convertible, unless previously redeemed, into common stock at the following principal amounts of Debentures for each share of common stock; \$18.00 if converted prior to the time Debentures in the principal amount of \$10,000,000 have been presented and surrendered for conversion; thereafter \$19.00 if converted prior to the time Debentures in the principal amount of \$20,000,000 have been presented and surrendered for conversion; and \$20.00 if converted thereafter, but not after October 1, 1965.⁶

The declining rate type of conversion as determined by the elapse of stated intervals of time may be illustrated by the Textron American, Inc., 5 per cent, subordinated debenture. The conversion provision states:

The conversion price per share of common stock through December 31, 1959, is \$27.50, payable in principal amount of Debentures. The Conversion price will increase by \$7.50 per share on January 1 in each of the years 1960, 1964, and 1968.⁷

The holder of a security having a declining rate of conversion such as the subordinated debentures of Textron American, Inc., and Burlington Industries, may find that the feature becomes less valuable in subsequent years. For example, if the market price of the issuer's common stock does not increase more than the increase of the conversion rate per \$100 unit of subordinated debentures, the conversion of the subordinated debentures will result in fewer shares of common stock per \$100 unit of subordinated debentures. The declining rate of conversion is added incentive for the investor to convert to the common stock of the company, which may be attributed to managements desire to have the subordinated debenture converted to its common stock.

⁶Burlington Industries, Inc., Prospectus, October 20, 1955, p. 1.

⁷Textron American, Inc., Prospectus, Jan. 25, 1956, p. 1.

The fixed type of conversion rate is one in which the number of shares of common stock remains constant throughout the life of the subordinated debenture contract. An example of this type of conversion is demonstrated by the conversion provision of Combustion Engineering, 3 3/8 per cent subordinated debenture due 1981. The conversion provision states, "Convertible until maturity, unless previously redeemed, at a conversion price of capital stock (with Debentures taken at their principal amount) of \$30 per share."⁸ Therefore, at any time the subordinated debenture is outstanding it may be converted for approximately 3.33 shares of common stock for each \$100 of subordinated debentures. This type of conversion privilege is of more value to the investor than is the declining type of conversion rate since he may wait a greater length of time for an opportunity to make his conversion profitable.

Table V reveals that the fixed rate of conversion is used more frequently than the declining rate of conversion. In 61.3 per cent of all convertible subordinated debentures issued during the period of 1955 through 1965 by industrial corporations, the conversion rate allowed the exchange of subordinated debentures for a fixed number of common shares.

The percentage of issues in individual years of the fixed conversion rate and the declining conversion rate, did set a distinguishable pattern. During the early years of the subordinated debentures use by industrials, 1955 and 1956, the declining rate of conversion was used more frequently than the fixed rate of conversion. However, since these early

⁸Combustion Engineering, Inc., Prospectus, June 19, 1956, p. 1.

TABLE V
CONVERSION RATE OF INDUSTRIAL CONVERTIBLE
SUBORDINATED DEBENTURES, 1955-1965

Year	Number Offered	Fixed Rate of Conversion (Per Cent)	Declining Rate of Conversion (Per Cent)
1955	4	25.0	75.0
1956	8	37.5	62.5
1957	4	75.0	25.0
1958	5	60.0	40.0
1959	12	50.0	50.0
1960	9	55.5	44.5
1961	9	55.5	44.5
1962	7	85.7	14.3
1963	6	66.7	33.3
1964	4	75.0	25.0
1965	<u>7</u>	<u>100.0</u>	<u>0.0</u>
Total	75		
Average		61.3	38.7

Source: Compiled by author from Appendix B.

years, the fixed rate of conversion has been used most frequently. It is interesting to note that during the years in which the greatest number of subordinated debentures were issued, 1959, 1960 and 1961, the use of the declining rate of conversion increased. This is partly attributable to the tendency of corporations to withdraw liberal contract terms during periods of good market acceptance.

Time During Which Conversion May Take Place

The period during which the holder of subordinated debentures may convert to common stock is of a limited time provision or an unlimited time provision.

The convertible subordinated debenture that has no limitation as to the time during which conversion must take place gives the holder the right to convert at any time before it is called or redeemed. An example of this type of subordinated debenture is Combustion Engineering, 3 3/8 per cent, issued June 19, 1956. This subordinated debenture is convertible until maturity at the rate of \$30 per share.

The convertible subordinated debenture that is limited in the time during which conversion may take place may contain a waiting period before conversion may begin or it may cause conversion to cease before the maturity date. The convertible subordinated debenture of Photon, Inc., issued December 1, 1961 illustrates the waiting period before conversion may begin. The conversion provision states, "convertible into common, at any time on or after June 1, 1962 to maturity..."⁹

⁹Moody's Industrial Manual, June 1965, p. 2278.

The convertible subordinated debenture of the National Tea Company issued November 14, 1955 illustrates a conversion provision which causes conversion to cease before the maturity date. This provision allows conversion to and including November 1, 1965. The maturity date is November 1, 1980.

There is an obvious advantage to the investor who purchases the convertible subordinated debenture which has no limitation upon when conversion may occur. The conversion provision which requires a waiting period before conversion does not appear to be very restrictive. The subordinated debentures examined in this study did not require a waiting period of more than one year. It would be restrictive to the investor only if immediate conversion would be profitable. The conversion provision which causes the conversion privilege to cease before maturity of the issue may be quite restrictive. Conversion must be made before the specified date or the right is lost. It may not be advantageous to convert at such time. The unlimited time conversion gives the holder an unrestricted choice as to when he may exercise his conversion privilege. The holder may wish to wait until such time as the conversion would be profitable and in the mean time he would be retaining a fixed income, senior security.

Table VI shows that a greater percentage of convertible subordinated debentures contained the no time limit provision rather than the fixed time limit provision. The no time limit provision was contained in 84.0 per cent of the convertible subordinated debentures examined contrasted to 10.7 per cent with the fixed time limit provision. The usage of the no time limit provision was consistently high during the individual

years within the period.

The convertible subordinated debentures that have a fixed time limit on conversion have fixed a maximum of ten year conversion period in all of the issues examined by this study. As shown in Table VI, 62.5 per cent of all issues which cause conversion to cease before maturity, specify ten years as the period during which conversion must take place or the conversion privilege lapses. The remaining issues allowed less than ten years. Table VI also reveals that all issues which required a waiting period before conversion became effective required a waiting period of one year or less.

It appears that the time of conversion has generally been favorable to the investor; a further indication that corporations are issuing convertible subordinated debentures to eventually add to their common stock.

To determine whether the conversion privilege has been profitable and to measure the importance of time in conversion, a study was made of selected subordinated debentures issued during the period and traced through the five year period immediately following their issuance. The converted value of the subordinated debenture on the date of issue was computed by multiplying the price of the common shares by the share of common for which the subordinated debenture could be converted. This figure was compared to the issue price to determine if it was more or less. The converted value during the five year period following the date of issuance was computed by multiplying the highest market price attained during the period by the shares of common to which the subordinated debentures could be converted.

TABLE VI
PERIOD DURING WHICH CONVERSION MAY TAKE PLACE,
1955-1965 (In Per Cent)

Year	No Time Limit on Conversion	Fixed Time Limit				
		Period Before Conversion May Begin 1 Year	Duration of Conversion Period			
			4 Years	5 Years	8 Years	10 Years
1955	0.0	75.0	0.0	0.0	0.0	25.0
1956	0.0	62.5	0.0	12.5	0.0	25.0
1957	0.0	100.0	0.0	0.0	0.0	0.0
1958	0.0	60.0	0.0	0.0	0.0	40.0
1959	0.0	100.0	0.0	0.0	0.0	0.0
1960	0.0	100.0	0.0	0.0	0.0	0.0
1961	22.2	55.6	0.0	11.1	11.1	0.0
1962	14.3	85.7	0.0	0.0	0.0	0.0
1963	16.7	83.3	0.0	0.0	0.0	0.0
1964	0.0	100.0	0.0	0.0	0.0	0.0
1965	0.0	100.0	0.0	0.0	0.0	0.0

Source: Compiled by author from data in Appendix B.

This figure was compared to the issue price to see how profitable or unprofitable the conversion could have been if the privilege had been exercised at the highest market price of the common shares.

Table VII details the converted values on the issuance date and the converted value at the highest price attained in the preceding five years. The table reveals that if the conversion privilege had been exercised at the highest price attained by the common stock during the five year period following the issuance of the individual subordinated debentures, 82.3 per cent would have realized a profit and in some instances a substantial profit. At the conclusion of their respective five year periods, 17.7 per cent, could not have made a profitable conversion. Two of the three involved had time remaining on their conversion privilege. The conversion privilege of Merritt Chapman and National Tea lapsed before the conclusion of the five year period. In the case of Merritt Chapman, the conversion privilege could never have been exercised at a profit. However, the conversion privilege of the National Tea Company could have been exercised at a fairly high profit.

The opportunity for a profitable conversion is not necessarily related to the rate of conversion. On the date of issue, the holders of the subordinated debentures of Merritt Chapman needed a common stock price increase of \$1.88 in order to make a profitable conversion. The price of the common stock of the company never did increase the needed amount before the conversion privilege lapsed.

TABLE VII

CONVERTED VALUE OF CONVERTIBLE SUBORDINATED DEBENTURES ON DATE OF ISSUE
COMPARED TO CONVERTED VALUE AT HIGHEST COMMON PRICE DURING THE FIVE
YEAR PERIOD IMMEDIATELY PRECEDING ISSUANCE

Issues and Date of Issues	(b) Conversion Date	(b) Issue Price	(b) Common Date of Issue	Converted Value Date of Issue	+ or - Issue Price	(a) Highest Price of Common During 5-Year Period After Issuance	Highest Converted Value During 5-Year Period	+ or - Issue Price	(b) Period of Conversion At Date Effective on Date of Issue (Years)
Dresser Industries	3/57	100.00	43 0/0	86.43	-13.57	45 5/8	84.39	-15.61	10
Lewitt Chapman	3/55	100.00	28 1/3	92.73	-7.27	23 3/8	89.90	-10.10	3
Douglas Aircraft	2/57	101.50	25 0/0	90.52	-10.98	91 0/0	95.82	-5.68	20
Hooker Chemical	9/59	100.00	37 1/4	82.77	-17.23	47 3/3	105.27	5.27	25
Food Fair Stores	3/59	100.00	41 7/8	99.65	-0.35	43 0/0	114.24	14.24	10
Boeing Airplane Co.	7/53	100.00	44 5/8	89.25	-10.75	58 1/3	116.25	16.25	22
Case (J.I.) Co.	10/53	100.00	21 5/8	95.03	-4.97	26 5/8	117.04	17.04	10
Clin Mathieson									
Chemical Co.	11/57	100.00	41 3/4	85.50	-15.50	51 3/4	123.50	23.50	15
National Ice	11/55	102.00	45 7/8	82.29	-19.71	74 3/4	132.01	30.01	4
Burroughs Corp.	11/50	100.00	37 1/3	92.51	-7.49	52 3/5	130.94	30.94	25
Fruehauf Trailer	3/55	102.50	27 7/8	98.51	-3.99	33 3/8	135.82	33.12	20
Carrier Corp.	2/57	101.50	53 0/0	92.80	-8.70	90 0/0	144.00	42.50	10
General Portland									
Cement Co.	10/57	100.00	50 1/4	36.43	-13.57	37 3/4	150.93	50.93	13
Gardner Denver	10/55	101.75	33 1/2	90.12	-11.63	57 0/0	153.33	51.58	13
A. C. A.	11/55	102.50	45 1/4	94.81	-7.69	78 3/3	160.67	58.17	25
Northrop Corp.	11/55	100.00	24 3/4	90.58	-9.42	47 0/0	172.02	72.02	20
Arco Manufacturing	1/59	100.00	11 1/4	97.82	-2.18	29 1/4	254.33	154.33	23

SOURCE: (a) Moody's Industrial Annual, June 1965; (b) Prospectuses of respective Issues.

Adjustment for Fractional Shares

The adjustment for fractional shares clause of the conversion provision specifies the means of payment for fractional shares resulting from conversion or if there will be any payment. For example, fractional shares would result if the conversion rate was two shares of common for \$100 of subordinated debentures and the current market price of the common stock was \$49 per share. The conversion would result in the investors receiving two shares of common stock for \$98 and \$2 or 0.041 shares of common stock. The adjustment for fractional shares clause will specify the means of payment for the difference between the value of the common stock and the value of the subordinated debenture.

A computation disclosed that 76.7 per cent of the convertible issues made the adjustment with cash and 23.3 per cent made the adjustment with a choice of cash or scrip.¹⁰ The adjustment for fractional shares does not usually allow adjustments for less than \$1.00 per share. However, they are usually carried forward and applied together with any subsequent adjustments.

Protection Against Dilution

The convertible provision would be of considerably less value if the number of shares of common stock could be increased by the use of stock splits and dividends. For example, a stock split of three-to-one, if the common stock

¹⁰Appendix B

of the company were selling for \$90, would theoretically reduce the price to \$30 per share. A subordinated debenture that was convertible at \$90 per share would drop from a value of \$90 to \$30. In order to provide protection for the investor, a clause is added to the conversion provision which provides that if a stock split or similar action takes place, the rate of conversion will increase accordingly.

An unqualified protection against dilution clause was included in 86.7 per cent of the subordinated debentures examined in this study and a qualified clause was included in 13.3 per cent of the issues.¹¹ The qualified clause may be illustrated by the Richfield Oil Corporation subordinated debenture in April, 1958. The clause states:

Conversion privilege protected against dilution, except that no adjustment of the conversion price shall be made on sale of or granting options to purchase, 400,000 common shares at less than the conversion price...¹²

It appears that this type of qualified protection against dilution clause would not be detrimental to the investor. However, this would depend on the number of common shares that are outstanding.

Adjustment For Interest And Dividends

At the time of conversion, there may be accrued interest on the subordinated debentures to which the holder is entitled and there may be accrued dividends on the common stock to

¹¹Compiled by the author from data contained in Appendix B.

¹²Moody's Industrial Manual, June 1965, p. 1646.

which the holder of the subordinated debenture is not entitled. The adjustment for interest and dividends clause provides an adjustment for the difference between the accrued interest and the accrued dividends. The subordinated debentures examined in this study provided no adjustment for interest and dividends.

Summary

The convertible subordinated debenture accounted for a high percentage of all subordinated debentures issued during the period of 1955 through 1965. The usage of the conversion provision in the subordinated debenture has been increasing, slightly, throughout the period, 1955-1965.

Industrial corporations appear to want a relatively rapid rate of conversion of their subordinated debentures. This was determined through a sampling which tabulated the converted value of subordinated debentures at the closing price on the date of issuance and comparing this with the issue price. In most cases, a small price rise would make conversion profitable, with one-third of the convertibles developing a profit during the first year immediately following issuance and the median level of a profitable conversion being a gain of \$4.03 per \$100 unit of subordinated debentures.

The fixed rate of conversion was included most frequently in the conversion provision.

A computation revealed that 84 per cent of the convertible issues had no time limit for conversion as opposed to those having a fixed time limit. Convertible issues having a time

limit can be a hazard to the investor but if the conversion privilege had been exercised during the five year period immediately preceding issuance, more than 80 per cent of the issues examined could have been converted at a profit.

The adjustment for fractional shares clause provided for payment with cash in 76.4 per cent of the issues and an alternative of cash or scrip was given in 23.3 per cent of the issues.

An unqualified protection against dilution clause was included in 86.7 per cent of the convertible issues. The qualified clause, which appears to be minor in its restriction, was included in 13.3 per cent of the issues.

The conversion provision of the convertible subordinated debenture provided no adjustment for accrued interest and dividends.

CHAPTER IV

DIVIDEND AND FUNDED DEBT RESTRICTIONS

Dividend Restrictions

The possibility that the corporate issuers of bonds may be too generous in the payment of cash dividends to their stockholders is always a concern to the holder of subordinated debentures, just as it is to all other holders of debt securities. The danger is not so much that excessive dividends will leave too little for sinking fund requirements and bond interest but that the combination of dividends, bond interest and sinking fund payments may result in too little cash for normal operations and consequently an inadequate working capital position. Another danger of excessive dividends is that in the event of a forced liquidation, excessive dividends do not conserve funds for principal repayment. One of the means that subordinated debenture holders may take to have some assurance that these requirements may be met is to impose rules and regulations as to when stock may be paid a dividend. These restrictions are a provision of the subordinated debenture contract and are aimed at preventing the payment to stockholders of excessive dividends at times when business conditions do not warrant such dividend payments. The restrictions also serve to maintain sufficient assets in case of financial difficulty.

It is to the advantage of the holders of the subordinated debenture to have these restrictions. If investors were given the choice, they would probably, always include some form of restriction as to when stock may be paid dividends. However, corporate management which is usually composed of common stockholder interests, will probably prefer that the dividend restriction be omitted. The absence of the restriction allows the management greater flexibility and discretion as to when dividends may be paid and in what amounts.

The inclusion of the dividend restriction on stock in a new issue of subordinated debentures depends to a high degree on the existing marketing conditions at the time of issuance. In a sellers market it is doubtful that the dividend restriction will be included in the subordinated debenture issue but in a buyers market it may be included to give the subordinated debenture added appeal to the investor.

The dividend restrictions imposed on stock prevents the board of directors of a company from declaring dividends which are actually liquidation payments. If a company were on a decline, the board of directors could pay the stockholders the bulk of the assets before the complete collapse of the company. Without the dividend restriction, there would be few, if any, assets remaining for distribution to the holders of subordinated debentures and other senior debt when the company finally folded. Thus the dividend restriction tends to prevent misjudgement of events by management and tends to prevent unscrupulous management from taking steps that are not too honest, which consequently, protects the

interest of the subordinated debentures.

Subordinated Debentures with Dividend Restrictions, 1955-1965

As shown in Table VIII, 76.6 per cent or 72 of the total number (94) of the subordinated debenture issues in the period under study contained some type of restriction on cash dividend payments to stockholders. The remainder, 23.4 per cent or 22 of the issues, contained no restriction on cash dividend payments to stockholders. It is apparent by these percentages that issues with dividend restrictions are most common in the subordinated debenture contract.

It appears that there were no definite trends developed in the usage of the dividend restriction during the period under study. It is interesting to note that during the period of the greatest number of new subordinated debenture issues, 1959-1961, the percentage of new issues with the dividend restrictions was well above the total average for the entire period under study. This may be due to the influence of a buyers market.

The dividend restrictions imposed in the subordinated debenture contract may exempt certain specified stock from its restriction or may exempt the retirement of stock. The dividend restriction applied only to cash dividends and not to stock dividends in all of the subordinated debenture contracts examined in this study. The exclusion of stock dividends is common in the dividend restrictions of all types of securities containing the provision.

The payment of cash dividends to preferred stock which was issued prior to the subordinated debenture issue is

TABLE VIII
SUBORDINATED DEBENTURES WITH DIVIDEND
RESTRICTIONS, 1955-1965

Year	<u>Restrictions</u>		<u>No Restrictions</u>		Total Issues
	No.	%	No.	%	
1955	4	66.7	2	33.3	6
1956	4	50.0	4	50.0	8
1957	8	88.8	1	11.2	9
1958	5	71.4	2	28.6	7
1959	12	92.3	1	7.7	13
1960	10	91.0	1	9.0	11
1961	10	83.3	2	16.7	12
1962	5	62.5	3	37.5	8
1963	5	71.4	2	28.6	7
1964	2	33.3	4	66.7	6
1965	<u>7</u>	<u>100.0</u>	<u>0</u>	<u>0.0</u>	<u>7</u>
	<u>72</u>	<u>76.6</u>	<u>22</u>	<u>23.4</u>	<u>94</u>

Source: Compiled by author from Appendix C.

usually excluded from the dividend restrictions which are imposed on all other stock. The convertible subordinated debenture of the Gardner-Denver Company due October 1, 1976 illustrates the exclusion of preferred stock dividends. The restriction states: "...that the foregoing prohibition shall not prevent the payment of dividends on the existing cumulative preferred stock, 4% Series..."¹ This exemption was included in all of the dividend restrictions of companies which had preferred stock outstanding prior to the issuance of the subordinated debentures examined in this study.

The retirement of stock may also be excluded from the restrictions imposed by the dividend restriction. An example of the exclusion of the retirement of stock is the clause of the Convertible subordinated debenture of Burroughs Corporation, due December 1, 1981 which states:

The restriction does not apply to the retirement of stock of any class in exchange for, or out of the proceeds of the substantially concurrent sale of, other shares of its stock, or the retirement of stock by exchange for, or out of the proceeds of the substantially concurrent sale of, other stock or funded debt of the company.²

Conditions When Restrictions on Dividends Apply

An examination of the contractual provisions of subordinated debenture issues reveals that various conditions must exist before the dividend restrictions become effective.

¹Gardner-Denver Company, Prospectus, October 9, 1956, p. 9.

²Burroughs Corporation, Prospectus, November 30, 1956, p. 15.

Some of these conditions were used frequently, while others were not often used.

The conditions restricting dividend payments to stock in order of their most frequent usage were: (1) No dividends in excess of net earnings, proceeds of the sale of stock, plus a stated dollar amount; (2) No dividends in excess of various combinations of the factors contained in (1);³ (3) Net working capital can not be reduced below a stated dollar amount; (4) Current assets must be maintained at a stated percentage of current liabilities and funded debt; and (5) other.⁴ The statistical break-down of the relative use of each type of condition is shown in Table IX. The restriction, not in excess of net earnings, proceeds of the sale of stock, plus a stated dollar amount accounted for 42.8 per cent and the various combinations of this restriction accounted for 43.9 per cent or a total of 86.7 per cent of all the types of conditions imposed on the payment of cash dividends to stockholders.

It may be noted that the percentage of the types of restrictions total a figure exceeding 100 per cent. This

³The various combinations of the restriction, no dividends in excess of net earnings, proceeds of the sale of stock, plus a stated dollar amount includes: (a) Dividends not in excess of net earnings plus the proceeds of the sale of stock; (b) Dividends not in excess of net earnings plus a stated dollar amount; and (c) Dividends not in excess of a stated percentage of net earnings.

⁴Dividends can not be paid while a specified debt remains outstanding.

results because five of the issues imposed more than one restriction on the payment of dividends to stockholders. For example, the contractual provision of an issue may require that dividends not be paid in excess of net earnings plus a stated dollar amount and it may further require that the dividends not reduce net working capital below a stated dollar amount. Thus, before dividends could be received by the stockholders, both conditions would have to be fulfilled.

The restriction that dividends can not reduce net working capital below a stated dollar amount was used in all five of the issues which had more than one restriction. The restriction was used in conjunction with the restrictions; not in excess of net earnings plus a stated dollar amount in three of the issues; not in excess of a stated percentage of net earnings in one of the issues; and current assets must be maintained at a stated percentage of current liabilities and funded debt in one of the issues.

The restriction that dividends can not reduce net working capital below a stated dollar amount and the restriction that current assets must be maintained at a stated percentage of current liabilities and funded debt were used in conjunction with other restrictions in 83.3 per cent and 50.0 per cent, respectively, of their total usage in the issues examined by this study. Therefore, it appears that these restrictions are used primarily in conjunction with other dividend restrictions in the subordinated debenture contract.

Restrictiveness of the Dividend Restriction

The restrictions imposed on the payment of cash dividends

TABLE IX
RESTRICTIONS MOST OFTEN IMPOSED ON PAYMENT OF CASH DIVIDENDS
BY THE TERMS OF THE SUBORDINATED DEBTENTURE CONTRACT, 1955-1955

Year	Not in excess of net earnings proceeds of the sale of stock, plus a stated dollar amount			Not in excess of net earnings plus a stated dollar amount			Not in excess of net earnings of a percentage of net earnings			Dividend can not reduce net working capital below a stated dollar amount			Maintain current assets at a stated percent of current liabilities and funded debt			Other			Issues with restrictions		
	No.	\$	No.	\$	No.	\$	No.	\$	No.	\$	No.	\$	No.	\$	No.	\$	No.	\$	No.	\$	No.
1955	2	50.0	0	0.0	2	50.0	0	0.0	1	25.0	0	0.0	0	0.0	0	0.0	0	0.0	4	0.0	4
1956	2	50.0	0	0.0	1	25.0	1	25.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	4	0.0	4
1957	3	27.5	0	0.0	1	12.5	1	12.5	1	12.5	1	12.5	1	12.5	2	25.0	2	25.0	3	0.0	3
1958	2	40.0	0	0.0	2	40.0	1	20.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	5	0.0	5
1959	4	33.3	2	16.7	2	16.7	3	25.0	2	16.7	0	0.0	0	0.0	0	0.0	0	0.0	12	0.0	12
1960	6	30.0	1	10.0	0	0.0	2	20.0	0	0.0	0	0.0	1	10.0	0	0.0	0	0.0	10	0.0	10
1961	4	40.0	4	40.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	5	0.0	5
1962	4	30.0	1	20.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	10	0.0	10
1963	2	40.0	1	20.0	1	20.0	1	20.0	2	40.0	0	0.0	0	0.0	0	0.0	0	0.0	5	0.0	5
1964	0	0.0	1	50.0	1	50.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	5	0.0	5
1965	4	57.2	2	28.6	1	14.3	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	2	0.0	2
	<u>23</u>	<u>42.8</u>	<u>12</u>	<u>15.6</u>	<u>11</u>	<u>14.3</u>	<u>11</u>	<u>14.3</u>	<u>6</u>	<u>7.9</u>	<u>2</u>	<u>2.6</u>	<u>2</u>	<u>2.6</u>	<u>2</u>	<u>2.6</u>	<u>2</u>	<u>2.6</u>	<u>22</u>	<u>0.0</u>	<u>22</u>

SOURCE: Compiled by author from Appendix C.

in the subordinated debenture contract do not appear to provide much restriction on the payment of dividends to stockholders. However, they would provide some protection in a severe decline of the company.

The Moody's Industrial Manual reports that the payout ratio, per cent of net earnings paid out as cash dividends, of industrials moved within a range of 50 per cent to 69 per cent payout during the period of 1955-1965 with the average payout being in the lower 50 per cent range. Therefore, dividend restrictions such as no dividends in excess of net earnings, proceeds of the sale of stock plus a stated dollar amount and combinations thereof, would not be too restrictive. The restriction that no dividends may be paid in excess of a percentage of net earnings is the most restrictive of this type of dividend restriction.

The restriction that dividends can not reduce net working capital below a stated dollar amount and the restriction that current assets must be maintained at a stated per cent of current liabilities and funded debt do not appear to offer much restriction. A survey of these restrictions revealed that the stated dollar amount and the percentage of current liabilities and funded debt allowed a considerable amount of freedom. These restrictions are commonly used in conjunction with other restrictions, thus the necessity of meeting more than one requirement may result in an increased amount of restriction.

The "Other" restriction, which prohibits dividends so

long as a specified debt remains outstanding provides the greatest short-term and possibly long-term restriction. However, its use, as shown in Table IX, is quite limited.

Generally, the dividend restrictions examined in this study were not too restrictive. However, the restrictiveness depends primarily upon the financial position of each individual company. It appears that the restrictiveness of the dividend restriction varies inversely with the usage of the various types of dividend restrictions.

Funded Debt Restrictions

The possibility that the corporate issuer of bonds may create so much debt that, in essence, the holder of the subordinated debenture may be written out of any principal repayments in the case of a business failure is a concern to the holders of subordinated debentures. The excessive creation of additional debt by the corporate issuer may also reduce the opportunity of the holders of subordinated debentures to receive their interest payments. Conceivably, without a funded debt restriction, a situation could develop where the holders of subordinated debentures would not receive their interest payments, which is an event of default, but would not begin default proceedings since they would receive little or no principal repayment as a result of any liquidation. Therefore, the funded debt restriction should provide some protection from the occurrence of this type of situation and maintain the relative position of the holders of the subordinated debentures.

The funded debt restriction was included in slightly more than one-half of the new subordinated debentures issued

during the period, 1955-1965. Table X reveals that 54.3 per cent or 51 of the issues contained a funded debt restriction as opposed to 45.7 per cent or 43 of the issues which had no funded debt restrictions.

There appeared to be no development of any trends in the usage of the restrictions. There was no increased usage which could be attributed to a buyers market or decreased usage which would be attributed to a sellers market. A possible exception is the increased use of the funded debt restriction in 1965 which may be attributed to a buyers market.

Conditions When Funded Debt Restrictions Apply

An examination of the contractual provision of subordinated debenture issues reveals that various conditions must exist before the funded debt restrictions become effective. Some of these conditions were used quite frequently, while others were not.

The conditions restricting the creation of additional funded debt in order of their frequency of usage were: (1) Net tangible assets equal at least a stated percentage of funded debt; (2) Consolidated tangible assets minus consolidated current liabilities equal at least a stated percentage of funded debt; (3) Average net income for a stated number of years equal at least a stated percentage of annual fixed charges on funded debt; (4) Not in excess of the sum of debentures plus consolidated capital and surplus; (5) Net worth equal a stated percentage of long-term debt; and

TABLE X
SUBORDINATED DEBENTURES WITH FUNDED DEBT
RESTRICTIONS, 1955-1965

Year	<u>Restrictions</u>		<u>No Restrictions</u>		Total Issues
	No.	%	No.	%	
1955	3	50.0	3	50.0	6
1956	4	50.0	4	50.0	8
1957	5	55.5	4	44.5	9
1958	4	57.1	3	42.9	7
1959	9	69.3	4	30.7	13
1960	9	81.9	2	18.1	11
1961	3	25.0	9	75.0	12
1962	3	37.5	5	62.5	8
1963	3	42.9	4	57.1	7
1964	2	33.3	4	66.7	6
1965	<u>6</u>	<u>87.5</u>	<u>1</u>	<u>12.5</u>	<u>7</u>
	<u>51</u>	<u>54.3</u>	<u>43</u>	<u>45.7</u>	<u>94</u>

Source: Compiled by author from Appendix C.

(6) Others.⁵

A statistical breakdown of the relative use of each type of condition is shown in Table XI. The condition that net tangible assets equal at least a stated percentage of funded debt and the condition that consolidated tangible assets minus consolidated current liabilities equal at least a stated percentage of funded debt were used in an equal number of the issues and were included in a total of 72.8 per cent of all the issues containing the funded debt restriction. A survey of the percentage of funded debt to the above conditions indicated that the percentage was usually within the range of 175 per cent to 225 per cent and the average approached the upper limits of the range.

It would appear that net consolidated tangible assets would be the same as consolidated tangible assets minus consolidated current assets. However, this is not the case. Consolidated net tangible assets is usually defined as:

"The book amount of the assets of the corporation and its subsidiaries...excluding write-ups subsequent to (date) of the assets above cost, treasury stock and intangible assets, less all liabilities (other than appropriations of earned surplus and reserves for deferred income taxes) and adjustments for minority interests."⁶

⁵"Others" consists of two conditions. The first condition that no funded debt may be created in excess of a stated dollar amount was used in one issue and the second condition which did not authorize the issuance of additional funded debt was used in two of the issues examined by this study.

⁶Chance Vought Aircraft, Inc., Prospectus, June 25, 1957, p. 15.

TABLE XI

RESTRICTIONS MOST OFTEN IMPOSED ON THE CREATION OF FUNDED DEBT
BY THE TERMS OF THE SUBORDINATED DEBTENTURE CONTRACT, 1955-1965

Year	Net Tangible Assets equal at least a stated percent of Funded Debt		Consolidated Tangible Assets minus Consolidated Current Liabilities equal at least a stated percent of Funded Debt		Average Net Income for a stated number of years equal at least a stated percent of annual fixed charges on Funded Debt		Not in Excess of the sum of Debentures plus Consolidated Capital and Surplus		Net Worth equal a stated percent of Long Term Debt		Others		Issues with Restrictions	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
1955	2	66.7	1	33.3	0	0.0	0	0.0	0	0.0	0	0.0	3	0.0
1956	3	75.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	4	25.0
1957	1	20.0	2	40.0	0	0.0	1	20.0	0	0.0	1	20.0	5	0.0
1958	1	25.0	1	25.0	1	25.0	2	50.0	0	0.0	0	0.0	4	11.1
1959	4	44.4	3	33.3	1	11.1	0	0.0	1	11.1	1	11.1	9	0.0
1960	1	12.5	2	25.0	0	0.0	1	12.5	0	0.0	0	0.0	3	0.0
1961	1	33.3	1	33.3	1	33.3	0	0.0	0	0.0	0	0.0	3	0.0
1962	2	66.7	1	33.3	0	0.0	0	0.0	0	0.0	0	0.0	4	0.0
1963	2	50.0	2	50.0	0	0.0	0	0.0	1	50.0	0	0.0	5	0.0
1964	1	50.0	1	50.0	0	0.0	0	0.0	1	50.0	0	0.0	3	0.0
1965	2	33.3	2	33.3	2	33.3	0	0.0	1	16.6	0	0.0	5	0.0
	20	36.4	20	26.4	5	9.1	4	7.3	3	5.5	3	5.5	51	5.5

SOURCE: Compiled by the author from Appendix C.

The term consolidated tangible assets is usually defined:

"The total of all assets...of the company and its subsidiaries at their net book value, but excluding any capital write-ups resulting from reappraisals of assets or investments after (date), treasury stock, goodwill and unamortized discounts and expenses incurred in connection with financing by the issuance of securities..."⁷

and consolidated current liabilities is defined:

"The aggregate of the current liabilities of the company and its subsidiaries."⁸

Although the definitions given above are used in most of the issues, they may differ from one issue to another.

It may be noted that the percentage of the types of conditions total a figure exceeding 100 per cent. This results because four of the issues imposed more than one condition on the issuance of additional funded debt. The condition that average net income for a stated number of years equal at least a stated percentage of annual fixed charges on funded debt was used in conjunction with other restrictions in three of the five times the condition was used. No combination of conditions was used more than once in the issues examined.

Restrictiveness of the Funded Debt Restrictions

The restrictions imposed on the creation of additional funded debt do not appear to be very restrictive. The lack of restriction is due in part to the conditions when the restriction applies. A survey of several issues indicated

⁷Douglas Aircraft Company, Inc., Prospectus, February 5, 1957, p. 14.

⁸Douglas Aircraft Company, Inc., Prospectus, February 5, 1957, p. 14.

that the conditions would offer very little restriction during the course of normal operations.

The restrictiveness of the funded debt restriction is limited by the definition of the term itself. The indenture of the convertible subordinated debenture of Burlington Industries, Inc., defines funded debt as: "any indebtedness (other than the convertible subordinated debentures) subordinated to the senior indebtedness of the company."⁹ Funded debt may mean:

"indebtedness for money borrowed which would in accordance with generally accepted accounting practice be classified as funded debt but does not include senior indebtedness, debts secured by liens of the type permitted by the indenture or indebtedness arising in connection with the sale, discount, guarantee or pledge of customers' accounts of paper."¹⁰

Funded indebtedness may also be defined as follows:

"Debt which matures more than one year after the date such funded indebtedness is determined, but there is excluded from such definition, among other things, (a) debt secured by certain permitted encumbrances including purchase money mortgages or other liens created simultaneously with the acquisition of construction of property and encumbrances existing on any property at the time of acquisition, (b) debt secured by any encumbrance hereafter created on any unimproved property now owned by the company, (c) debt secured by certain permitted encumbrances, including liens created under Regulation V of the Federal Reserve System or, under specified conditions, in connection with war or defense production, (d) debt, whether secured or unsecured, identified with government contracts for production, research, or development, (e) debt incurred for the purpose of enabling the Company or a Subsidiary to hold or finance customers' paper arising out of the

⁹Burlington Industries, Inc., Prospectus, October 20, 1955, p. 14.

¹⁰Radio Corporation of America, Prospectus, November 17, 1955, p. 25.

sale of products or merchandise and (f) debt hereafter incurred which is expressly subordinated to the convertible subordinated debentures."¹¹

The net result of these assorted definitions of funded debt for the purposes of the funded debt restriction is that the restriction, generally applies only to debt of a rank equal to the subordinated debentures.

The funded debt restriction allows a considerable amount of freedom in the creation of additional funded debt both by the conditions under which it becomes effective and by the limited amount of debt to which it applies. It does not protect the holders of the subordinated debentures from having their relative position deteriorate by the creation of other debt.

Summary

It appears that neither the dividend restriction nor the funded debt restriction affords much protection to the subordinated debenture investor. These restrictions would be of small value, other than as a sales attraction, until such time as the corporate issuer is experiencing financial difficulty and their protection at that time is questionable. The dividend restriction appears to offer the most protection to the investor. Generally, the funded debt restriction may allow the position of the holders of subordinated debenture to completely deteriorate before it becomes applicable since the definition of funded debt is limited to a rank equal to that of the subordinated debenture issue, but not to

¹¹Boeing Airplane Company, Prospectus, July 15, 1958, p. 19.

those securities which are granted more or less priority than the subordinated debenture.

CHAPTER V

MISCELLANEOUS PROVISIONS

This chapter will explore several provisions which may be included in the subordinated debenture contract, but have not been discussed in the previous material. Some of these provisions are included in nearly all subordinated debenture contracts while others are only used occasionally but do merit some discussion.

Sinking Fund Provision

The objective of the sinking fund is the eventual retirement of the subordinated debenture issue. The provision protects the holder of the subordinated debenture by providing an orderly reduction in the volume of outstanding subordinated debentures. The sinking fund provision was included in 88 or 93.6 per cent of the subordinated debenture contracts examined in this study and was excluded in only six of the issues.¹ A study of the mandatory sinking fund contributions revealed that the payments would generally retire between 60 per cent and 70 per cent of the subordinated debenture issue.

The typical sinking fund provision of a subordinated debenture contract specifies, (1) The time when mandatory sinking fund payments are to commence; (2) The rate of the

¹See table XII.

payments, whether it be a dollar amount, percentage of the principal or other means of determining the contribution rate; (3) The form of payments, whether the contribution is to be cash, surrendered subordinated debentures, subordinated debentures which have been converted or combinations thereof; and (4) How the trustee is to apply the cash contributions which may be the purchase of outstanding subordinated debenture issues or the purchase of other securities. A typical sinking fund provision of a subordinated debenture issue may be illustrated by the convertible subordinated debenture of the Oxford Paper Company due October 1, 1978 which states:

"As a mandatory sinking fund for the Debentures, the Company will agree to pay \$745,000 to the Trustee before October 1, 1967, and before October 1, thereafter to and including October 1, 1977. At the option of the Company, sinking fund payments may be made in whole or in part in cash or in Debentures surrendered or by credit for Debentures converted or redeemed (other than Debentures redeemed through the mandatory sinking fund), such Debentures being credited at their principal amount. The Trustee may apply any cash in the sinking fund (if \$25,000 or more) to the redemption on such October 1 of outstanding Debentures at the principal amount thereof, together with accrued interest to the date fixed for redemption."²

Table XII shows the number of years which must lapse before payments to the sinking fund are required. The table indicates that 87.5 per cent of the subordinated debenture issues examined in this study had a waiting period of one to ten years with an average waiting period of about five years. The lapse of time before sinking fund payments begin allows

²Oxford Paper Company, Prospectus, October 14, 1958, p. 17.

the issuer time to implement the borrowed capital and delays the burden of the sinking fund payments. The waiting period is to the advantage of the issuer and is indirectly advantageous to the investor. In light of the fact that the payment of the sinking fund contribution immediately after the issuance of the subordinated debenture would be detrimental to the issuer and defeat the purpose of borrowing capital, the five year average lapse does not appear to be unreasonable.

The amount of the mandatory contribution to be made by the issuer to the sinking fund was most frequently found to be a fixed dollar amount. Thus a specified dollar amount must be presented to the trustee each year for the sinking fund. As shown in Table XIII, 39 or 44.3 per cent of the issues required that a specified percentage of the principal amount of the subordinated debentures outstanding on a specified date, usually the date of the first required sinking fund payment, be set aside for redemption of the subordinated debentures. There were 19 or 21.6 per cent, of the issues having a sinking fund that based the amount of contribution on a fixed percentage of the subordinated debentures outstanding on a specified date. The third category based the contribution on a variable dollar amount. The variable dollar basis of contribution requires that the specified amount increase several times during the life of the subordinated debenture issue. The fourth category is similar to the variable dollar basis of contribution. It requires that the percentage of contribution increase several times during the

TABLE XII
PERIOD BETWEEN ISSUANCE AND THE
FIRST SINKING FUND PAYMENT, 1955-1965

Year	1 - 5 Years		6 - 10 Years		11 - 15 Years		16 - 20 Years		Total Issues With Sinking Fund	Issues With No Sinking Fund
	No.	%	No.	%	No.	%	No.	%		
1955	3	60.0	2	40.0	0	00.0	0	00.0	5	1
1956	4	57.1	2	28.6	1	14.3	0	00.0	7	1
1957	8	88.2	1	11.1	0	00.0	0	00.0	9	0
1958	1	16.6	1	16.7	4	66.7	0	00.0	6	1
1959	7	53.9	5	38.5	1	7.7	0	00.0	13	0
1960	4	36.4	7	63.7	0	00.0	0	00.0	11	0
1961	7	70.0	3	30.0	0	00.0	0	00.0	10	2
1962	2	28.4	3	42.8	2	28.6	0	00.0	7	1
1963	5	71.4	2	28.6	0	00.0	0	00.0	7	0
1964	4	66.7	1	16.7	0	00.0	1	16.6	6	0
1965	<u>2</u>	<u>28.6</u>	<u>3</u>	<u>42.8</u>	<u>2</u>	<u>28.6</u>	<u>0</u>	<u>00.0</u>	<u>7</u>	<u>0</u>
	<u>47</u>	<u>53.4</u>	<u>30</u>	<u>34.1</u>	<u>10</u>	<u>11.4</u>	<u>1</u>	<u>1.1</u>	<u>88</u>	<u>6</u>

Source: Compiled by author from Appendix D.

TABLE XIII
BASIS FOR MANDATORY CONTRIBUTION TO SINKING FUND

Year	Dollar Fixed		Percent Fixed		Dollar Variable		Percent Variable		Other		Total Issues
	No.	%	No.	%	No.	%	No.	%	No.	%	
1955	2	40.0	0	00.0	1	20.0	2	40.0	0	00.0	5
1956	3	42.9	0	00.0	1	14.2	0	00.0	3	42.9	7
1957	5	55.5	1	11.1	1	11.1	0	00.0	2	22.2	9
1958	3	50.0	3	50.0	0	00.0	0	00.0	0	00.0	6
1959	5	38.5	2	15.4	3	23.1	0	00.0	3	23.1	13
1960	6	54.5	2	18.1	1	9.1	0	00.0	2	18.1	11
1961	5	50.0	3	30.0	0	00.0	1	10.0	1	10.0	10
1962	3	42.9	3	42.9	0	00.0	1	14.2	0	00.0	7
1963	2	28.6	2	28.6	2	28.6	0	00.0	1	14.2	7
1964	1	16.6	2	33.3	2	33.3	1	16.6	0	00.0	6
1965	<u>4</u>	<u>57.1</u>	<u>1</u>	<u>14.2</u>	<u>1</u>	<u>14.2</u>	<u>1</u>	<u>14.2</u>	<u>0</u>	<u>00.0</u>	<u>7</u>
	<u>39</u>	<u>44.3</u>	<u>19</u>	<u>21.6</u>	<u>12</u>	<u>13.6</u>	<u>6</u>	<u>6.8</u>	<u>12</u>	<u>13.6</u>	<u>88</u>

Source: Compiled by the author from Appendix D.

life of the subordinated debenture issue. The final category, "others," is composed of other procedures for determining the rate of contribution. This category is generally composed of procedures which require that the contribution be based on a fixed or variable percentage of net earnings.

The fixed dollar and fixed percentage basis for sinking fund contributions provides the most consistent contribution to the sinking fund. The variable dollar and variable percentage basis provides some relief to the issuer from large sinking fund contributions shortly after the issuance of the subordinated debenture. The "Other" methods of contribution, usually based on net income, may result in an unstable contribution to the sinking fund. Relating sinking fund contributions to the size of profits may be a better procedure from the standpoint of the holder of subordinated debentures since the fixed contribution must be met in good and bad years. Fixed requirements can strait-jacket a corporation to the detriment of the holders of the subordinated debenture.

The sinking fund provision may also provide the issuer with the option of making contributions to the sinking fund in addition to the mandatory contributions. Thus the optional sinking fund contribution allows a faster retirement of the issue, but at the discretion of the company. The optional sinking fund provision is usually restricted. The optional contribution usually can not exceed the amount of the mandatory contribution. As shown in Table XIV, 38 or 43.2 per cent, of the 88 subordinated debenture issues which include a sinking fund provision, also included an optional sinking fund

contribution provision. Although the optional sinking fund provision was included in less than one-half of the issues, it appears that the provision has gained some popularity during the period covered by this study.

Callable or Redemption Provision

Each of the 94 subordinated debenture contracts examined by this study contained a callable provision. The call feature is a device that operates largely for the benefit of the corporation that has issued the securities. It is to the advantage of the issuing corporation to have a call clause in order that a burdensome subordinated debenture issue may later be eliminated, or replaced if conditions should warrant taking such action. At the time when new financing is needed, the interest rate may be at a high level. If interest rates fall during the life of the subordinated debenture, it may be advantageous for the company to replace the outstanding issue with a new issue with a lower interest rate. Another reason for the call provision is that the company may find that certain terms of the indenture are too restrictive and they may therefore want to be in a position to remove these restrictions by calling the outstanding subordinated debentures.

In either of these cases it would not be to the advantage of the holder of subordinated debentures to have his issue called. If the corporation calls a high yielding subordinated debenture issue in times of low interest rates, the holder must seek new sources for his savings, in all probability at a correspondingly low rate. If the issue is called

TABLE XIV
OPTIONAL SINKING FUND PAYMENTS

Year	Optional Sinking Fund Payments Permitted No.	%	Optional Sinking Fund Payments Not Permitted No.	%	Total Issues No.
1955	2	40.0	3	60.0	5
1956	2	28.6	5	71.4	7
1957	4	44.4	5	55.5	9
1958	2	33.3	4	66.6	6
1959	2	15.4	11	84.7	13
1960	8	72.8	3	27.3	11
1961	4	40.0	6	60.0	10
1962	3	42.9	4	57.1	7
1963	4	57.1	3	42.9	7
1964	3	50.0	3	50.0	6
1965	<u>4</u>	<u>57.1</u>	<u>3</u>	<u>42.9</u>	<u>7</u>
	<u>38</u>	<u>43.2</u>	<u>50</u>	<u>56.8</u>	<u>88</u>

Source: Compiled by author from Appendix D.

because of the terms of the indenture, the holder will probably reinvest his savings in a security which has terms that are less attractive than those contained in the previous issue.

The provision allows very little delay in the implementation of the call privilege. As shown in Table XV, 90 or 95.8 per cent of the issues were callable within four years after the issuance of the subordinated debenture.

To compensate the holder of subordinated debentures for the disadvantages of the call provision, most of the examined issues provided a premium, if the security was called for purposes outside the scope of sinking fund operations. The call price was found to be either fixed or decreasing. Under the provisions of the fixed call price the amount received by the bond holder remains the same whether the subordinated debenture is called immediately after issuance or twenty years later. The decreasing call price drops a small amount every several years until the par price is attained. The premium that is paid by the corporation, if the issue is called, is thereby eliminated after a period of years.

As indicated in Table XVI at least 80 per cent of the examined issues called for the decreasing call price. Table XVI shows the number of years that are needed to reduce the call price from a premium to the par price. A majority of the issues required more than ten years to reduce the call price to par. Generally, the call price does not attain par until a very few years before maturity, and in some cases the call price does not reach par at maturity. Thus the holder of the subordinated debenture usually receives a

TABLE XV

PERIOD BEFORE REDEMPTION MAY BEGIN
(outside the scope of sinking fund operations)

Year	0 Years		1 - 4 Years		5 - 9 Years		10 - 20 Years		Total Issues
	No.	%	No.	%	No.	%	No.	%	No.
1955	5	83.3	1	16.6	0	00.0	0	00.0	6
1956	7	87.5	1	12.5	0	00.0	0	00.0	8
1957	9	100.0	0	00.0	0	00.0	0	00.0	9
1958	6	85.7	0	00.0	0	00.0	1	14.2	7
1959	11	84.7	2	15.4	0	00.0	0	00.0	13
1960	11	100.0	0	00.0	0	00.0	0	00.0	11
1961	9	75.0	3	25.0	0	00.0	0	00.0	12
1962	7	87.5	0	00.0	0	00.0	1	12.5	8
1963	3	42.9	3	42.9	1	14.2	0	00.0	7
1964	3	50.0	2	33.3	1	16.6	0	00.0	6
1965	<u>7</u>	<u>100.0</u>	<u>0</u>	<u>00.0</u>	<u>0</u>	<u>00.0</u>	<u>0</u>	<u>00.0</u>	<u>7</u>
	<u>78</u>	<u>83.0</u>	<u>12</u>	<u>12.8</u>	<u>2</u>	<u>2.1</u>	<u>2</u>	<u>2.1</u>	<u>94</u>

Source: Compiled by author from Appendix E.

TABLE XVI
PERIOD OF TIME BETWEEN BEGINNING
REDEMPTION RATE TO PAR CALL PRICE

Year	0 Years		1 - 10 Years		11 - 20 Years		21 - 30 Years		More than Par At Maturity	
	No.	%	No.	%	No.	%	No.	%	No.	%
1955	0	00.0	1	16.6	4	66.6	0	00.0	1	16.6
1956	1	12.5	1	12.5	4	50.0	1	12.5	1	12.5
1957	2	22.2	2	22.2	4	44.4	0	00.0	1	11.1
1958	0	00.0	1	14.2	5	71.5	1	14.2	0	00.0
1959	0	00.0	2	15.4	9	69.3	1	7.7	1	7.7
1960	1	9.1	0	00.0	9	81.9	0	00.0	1	9.1
1961	1	8.3	2	16.6	9	74.9	0	00.0	0	00.0
1962	0	00.0	0	00.0	5	62.5	2	25.0	1	12.5
1963	1	14.2	3	42.9	3	42.8	0	00.0	0	00.0
1964	2	33.3	0	00.0	3	49.9	1	16.6	0	00.0
1965	<u>1</u>	<u>14.2</u>	<u>0</u>	<u>00.0</u>	<u>5</u>	<u>71.3</u>	<u>0</u>	<u>00.0</u>	<u>1</u>	<u>14.2</u>
	<u>9</u>	<u>9.6</u>	<u>12</u>	<u>12.8</u>	<u>60</u>	<u>63.8</u>	<u>6</u>	<u>6.4</u>	<u>7</u>	<u>7.4</u>

Source: Compiled by author from Appendix E.

premium for the inconvenience of having his securities called before maturity, if the security is called for purposes other than sinking fund operations.

The previous discussion has been concerned with the callable provision for purposes other than those inside the scope of sinking fund operations. This section will be concerned with the use of the callable provision for sinking fund operations. The distinction between sinking fund operations and non-sinking fund operations results from the fact that sinking fund operations are required by the indenture and non-sinking fund operations are for the benefit of the issuer. Both the mandatory and optional sinking fund contributions are generally included in the classification of sinking fund operations.

Table XVII indicates that 80 or 85 per cent, of the issues examined included a provision whereby the corporation may call the subordinated debenture for sinking fund purposes. The call price for sinking fund purposes was par together with accrued interest in nearly all of the issues examined in this study. However, a few issues did require a premium but at a price lower than the call price for redemptions outside of the scope of sinking fund operations. The reason for the difference in the call price for sinking fund operations and non-sinking fund operations seems to be that because sinking fund redemptions are demanded by the holders of subordinated debentures for their protection, they deserve no premium when their debentures are called for sinking fund operations; but because non-sinking fund operations are undertaken to serve the corporation's own financial objectives, the debenture

TABLE XVII
SINKING FUND REDEMPTION
(within the scope of sinking fund operations)

Year	Issues May Be Redeemed Through The Sinking Fund		Issues May Not Be Redeemed Through The Sinking Fund		Total Issues
	No.	%	No.	%	
1955	5	83.3	1	16.6	6
1956	7	87.5	1	12.5	8
1957	9	100.0	0	00.0	9
1958	6	85.7	1	14.2	7
1959	12	92.4	1	7.7	13
1960	11	100.0	0	00.0	11
1961	9	75.0	3	25.0	12
1962	6	75.0	2	25.0	8
1963	5	71.4	2	28.6	7
1964	4	66.6	2	33.3	6
1965	<u>6</u>	<u>85.7</u>	<u>1</u>	<u>14.2</u>	<u>7</u>
	<u>80-</u>	<u>85.1</u>	<u>14</u>	<u>14.9</u>	<u>94</u>

Source: Compiled by author from Appendix E.

TABLE XVIII
PERIOD BEFORE SINKING FUND OPERATIONS MAY BEGIN

Year	0 - 4 Years		5 - 9 Years		10 - 14 Years		15 or more Years		Total Issues
	No.	%	No.	%	No.	%	No.	%	
1955	2	40.0	3	60.0	0	00.0	0	00.0	5
1956	4	57.1	1	14.2	2	28.6	0	00.0	7
1957	4	44.4	5	55.5	0	00.0	0	00.0	9
1958	1	16.6	2	33.3	3	50.0	0	00.0	6
1959	5	38.5	6	46.2	1	7.7	0	00.0	12
1960	2	18.2	8	72.8	1	9.1	0	00.0	11
1961	5	55.5	4	44.4	0	00.0	0	00.0	9
1962	0	00.0	3	50.0	2	33.3	1	16.6	6
1963	4	80.0	0	00.0	1	20.0	0	00.0	5
1964	1	25.0	3	75.0	0	00.0	0	00.0	4
1965	<u>2</u>	<u>33.3</u>	<u>2</u>	<u>33.3</u>	<u>2</u>	<u>33.3</u>	<u>0</u>	<u>00.0</u>	<u>6</u>
	<u>30</u>	<u>37.5</u>	<u>37</u>	<u>46.0</u>	<u>12</u>	<u>15.0</u>	<u>1</u>	<u>1.5</u>	<u>80</u>

Source: Compiled by author from Appendix E.

holder should be compensated.

The periods before sinking fund operations may begin is shown in Table XVIII. The table indicates that the provision is implemented in a majority of the cases within ten years after the issuance of the subordinated debenture.

There is a large degree of correlation between Table XVII and Table XII. This is not surprising since sinking fund contributions should coincide with the call provision for sinking fund operations.

Events of Default

The holders of subordinated debentures as unsecured creditors and the trustee in his role as protector of the subordinated debenture holder's interests, do have full power to take legal actions to enforce their rights in the absence of permissive provisions in the indenture. However, the indenture usually authorizes various kinds of legal actions. The indenture usually defines what are "events of default" and describes what the trustee and holders of the subordinated debentures may do for the holder's protection upon the occurrence of such events. This provision was included in all of the subordinated debenture contracts examined in this study.

The "Events of Default and Notice Thereof" provision of the subordinated debenture contract is illustrated by the convertible subordinated debenture of Radio Corporation of America due December 1, 1980 which states:

The following events are defined in the Indenture as "events of default": failure to pay interest for thirty days; failure to pay principal or sinking fund

installments when due; failure to perform any other covenants for sixty days after notice; and certain events of bankruptcy, insolvency or reorganization.

The Indenture will provide that the trustee shall, within ninety days after the occurrence of a default, give to the debentureholder notice of uncured defaults known to it (the term default to include the events specified above without grace); provided, that, except in the case of default in the payment of principal (or premium, if any) or interest on any of the Debentures or the payment of any sinking fund installment, the Trustee shall be protected in withholding such notice if it in good faith determines that the withholding of such notice is for the interests of the debentureholders."³

Modification of Indenture

The modification of indenture provision, which was included in all of the subordinated debenture contracts examined by this study, gives the corporation a means of changing or eliminating features of the indenture which may be burdensome, other than the redemption of the issue and replacement of the issue with a new issue which may be costly or disadvantageous to the corporation. The modification of indenture usually provides that any of the terms or conditions of the Indenture can be modified, except the interest rate, the principal obligation, and the due dates of interest and principal with the consent of a specified proportion of the holders of outstanding subordinated debentures. The provision does not prevent the corporation from going to the holders of subordinated debentures with proposals affecting the interest rate, the principal obligation or the due dates of interest and principal. However, changes affecting these features would need the consent of a much

³Radio Corporation of America, Prospectus, November 17, 1955, p. 25.

greater percentage of the holders of the outstanding subordinated debentures in order for the changes to be upheld by the courts.

A typical modification of indenture provision is illustrated by the convertible subordinated debenture of Burlington Industries, Inc., due October 1, 1975. The provision states:

"The Indenture may be modified with the consent of the holders of 66 2/3% of the Debentures, provided that no change shall be made which will (a) permit the extension of the time of payment of the principal at maturity of, or the interest on, any Debenture, or a reduction in principal or premium or the rate of interest, or alter or impair the right to convert such Debentures into Common Stock at the prices and upon the terms provided in the Indenture, without the consent of the holders thereof, or (b) reduce the above-stated percentage of Debentures the consent of the holders of which is required to modify or alter the Indenture without the consent of the holders of all the Debentures then outstanding."⁴

The previous discussion in this chapter has been concerned with provisions which are included in the subordinated debenture contract quite frequently. The remainder of this chapter will describe some provisions of the contract which are not used as frequently.

Creation of Liens

The convertible subordinated debenture of Burroughs Corporation due December 1, 1981 illustrates the creation of liens restriction. The provision is usually stated as follows:

⁴Burlington Industries, Inc., Prospectus, October 20, 1955, p. 14.

"The Indenture will provide that neither the Company nor any Subsidiary may create, assume or permit to exist, except in favor of the Company or a wholly-owned Subsidiary, any mortgage or other lien upon any of its or their property, without equally and ratably securing the Debentures (subject to the priorities of payment of the Senior Indebtedness), but this restriction will not apply to (a) certain permitted encumbrances described in the Indenture, including purchase money mortgages, and liens created contemporaneously with the acquisition or construction of property to secure or provide for the payment of the purchase or construction price of such property, or (b) any pledge of customers' accounts or paper."

The creation of liens restriction does not appear to be too restrictive. The restriction would allow the company to create a considerable amount of liens before the restriction becomes effective. Thus the restriction does not appear to offer much protection to the interests of the holder of the subordinated debentures. The restriction may also specify that the restriction does not come into effect unless certain conditions exist such as the aggregate principal amount of secured outstanding indebtedness at any one time shall not exceed a specific dollar amount.

Covenant Regarding Consolidation, Merger and Sale

The covenant regarding consolidation, merger and sale provides that in the event of a consolidation, merger or sale of the company, the debenture holders will retain their priority position. The covenant does not appear to be restrictive in nature. It only guarantees the maintenance of priorities if this type of situation should arise. The convertible subordinated debenture of Burroughs Corporation due December 1, 1981 demonstrates this covenant. The provision states:

⁵Burroughs Corp., Prospectus, November 30, 1956, p. 16.

"The Indenture will also provide that no consolidation or merger of the Company and no sale of all or substantially all of its property shall be made with or to another corporation having any obligations secured by mortgage if any assets owned by the Company immediately prior thereto would become subject to the lien of such mortgages, unless the Debentures shall be secured by a direct lien upon all such assets, prior in rank to all liens other than any theretofore existing thereon, subject to the priorities of payment of Senior Indebtedness."⁶

Covenants Regarding Subsidiaries

Other than the previously mentioned restriction, which included subsidiaries, the contract of the subordinated debenture may restrict the issuance of common and preferred stock by a subsidiary or disposal of its stock, indebtedness, and assets. The typical covenant regarding subsidiaries is usually stated as follows:

"No subsidiary may (a) issue any preferred stock except to the Corporation or a Subsidiary or (b) issue any common stock unless after such issuance of common it remains a Subsidiary. The Corporation further agrees not to, nor to permit any Subsidiary to, sell or otherwise dispose of any stock or indebtedness of any Subsidiary (except to the Corporation or a Subsidiary) unless, among other things, all such stock and indebtedness then owned by the Corporation and its Subsidiaries is sold for the fair value thereof. The Corporation will not permit any Subsidiary to sell or otherwise dispose of all or substantially all of its property and assets, except to the Corporation or another Subsidiary, unless, among other things, the consideration received equals the fair value of the assets so disposed of. The Corporation or any Subsidiary may sell or otherwise dispose of any securities of any Corporation which is not itself a Subsidiary."⁷

This covenant like the covenant regarding consolidation, merger and sale is not restrictive in nature. It is designed

⁶Burroughs Corporation, Prospectus, November 30, 1956, p. 16.

⁷Chance Vought Aircraft, Inc., Prospectus, June 15, 1957, p. 16.

to reduce possible dilution of the corporation's total capital and thereby reduce the chances of the debenture holder regaining his investment in the case of liquidation.

Maintenance of Property

The maintenance of property provision, although it is not used frequently, attempts to maintain the fixed assets of the corporation in a condition such that the debenture holders can get a return on his investment in case of liquidation. It is also to the debenture holder's advantage since the maintenance of property seems to be a necessity for a profitable business.

The maintenance of property provision is illustrated by the convertible subordinated debenture of Thompson Products, Inc., due August 1, 1982. The provision states:

"The Company will cause all buildings, plants and other properties owned or operated by it or any of its Subsidiaries to be maintained in such condition, repair and working order and supplied with all such necessary equipment as in the judgment of its Directors is necessary in the interest of the Company."⁸

The provision does not appear to offer the holders of subordinated debentures much protection since the judgment of proper maintenance of property is left to the Directors' discretion.

Covenant Regarding Sale and Lease-Back

The covenant regarding sale and lease-back is included in a small number of subordinated debenture contracts. This

⁸Thompson Products, Inc., Prospectus, August 12, 1957, p. 22.

provision restricts the creation of sale and lease-back contracts to short periods of time and only after certain conditions exist. The restriction on the covenant regarding sale and lease-back is usually quite similar to the restrictions imposed on the creation of funded debt and is usually stated as follows:

"...the Corporation will not, and will not permit any domestic subsidiary to, sell and lease-back any manufacturing or processing plant for a period of ten years or more unless, after giving effect to such sale and adjusting consolidated funded debt and consolidated net tangible assets by adding to each thereof an amount equal to the sale price, consolidated net tangible assets will not be less than 175 per cent of consolidated funded debt."⁹

The covenant does not appear to be too restrictive and is another attempt to maintain the debenture holder's relative position in case of liquidation.

⁹Olin Mathieson Chemical Corp., Prospectus, November 19, 1957, p. 28.

CHAPTER VI

CONCLUSIONS

The subordinated debenture is a hybrid security which has emerged to meet changing situations that develop in the capital markets. It was first used by finance companies and it appears that the finance companies are still the major users of the security. The subordinated debenture was first used by industrial corporations in the early 1950's. The use of the subordinated debenture by industrial corporations increased rapidly from 36 issues in 1955 to 77 issues in 1959, an increase of slightly more than 100 per cent. The number of issues has decreased since 1961 but the average issue size has increased.

The subordinated debenture is sometimes referred to as preferred stock, the dividends on which are deductible as an expense for tax purposes. This statement provides two reasons for the use of the subordinated debenture. The first is that since the subordinated debenture is considered as equity capital so far as the senior debt holder is concerned, the issuance of the subordinated debenture increases the net worth base and consequently provides an additional credit base. The subordinated debenture is considered to be equity capital by the senior debt holder because the claims of the holders of subordinated debentures are inferior to the claims of present and future senior debt holders. The

second reason is the fact that interest expense is deductible for tax purposes whereas dividends are not deductible.

An examination of the conversion provision revealed that it was included in slightly more than 75 per cent of the subordinated debenture contracts examined by this study. The inclusion of the conversion provision in the subordinated debenture contract increased throughout the period under study. The use of the provision increased from 69.4 per cent in 1955 to 95 per cent in 1965.

The conversion provision may be included in the subordinated debenture contract by the issuer for several reasons, two of which are: (1) To give the security added attractiveness to the investor and (2) The issuer's desire for the eventual addition to common stock by the conversion of the subordinated debenture. In most cases, a small market price increase would make conversion profitable. The median level of a profitable conversion was an increase of \$4.03 per \$100 unit of subordinated debentures. The issuer appears to place the eventual addition of common stock in a position of relative importance when issuing convertible subordinated debentures. Why, then, does not the issuer sell common stock in the first place? The issuer, later in making conversions, will receive a better price for the common stock than it would have obtained had it sold common stock at the time of offering the debentures and the flotation costs upon an issue of subordinated debentures are likely to be less than would be those of a common stock flotation.

The dividend restriction was included in 76.6 per cent

of the subordinated debenture contracts examined by this study. There were no definite trends developed in the usage of the dividend restriction during the period under study. However, there was evidence that the restriction was included in an increasing number of the subordinated debenture contracts when under the influence of a buyers market. This indicates that the dividend restriction is included in the subordinated debenture contract for sales appeal.

The dividend restriction applies only to cash dividends and generally does not apply to the dividends of preferred stock outstanding on the date of issuance of the subordinated debenture. In most cases the dividend restrictions would allow the corporation to pay dividends in excess of the net earnings of the corporation and in many cases the dividend restrictions would allow the corporations to pay dividends which are actually liquidation payments. For example, the dividend restriction of Fruehauff Trailer Company's convertible subordinated debenture provides that dividends can not exceed accumulated consolidated net earnings plus net proceeds from the sale of stock and indebtedness plus \$15,000,000.¹ The total assets of the Company on December 31, 1955 were \$188.7 million. This dividend restriction would allow the company to pay liquidation dividends of nearly eight per cent in addition to 100 per cent of net current earnings. Thus the dividend restriction allows the issuer a considerable amount of flexibility in his dividend policy and does not afford the investor much protection.

¹Fruehauff Trailer Co., Prospectus, March 6, 1956, p. 17.

The funded debt restriction was included in 54.3 per cent of the subordinated debenture contracts examined. There was some evidence that the funded debt restriction was also included in the contract when under the influence of a buyers market. However, this evidence was not as strong as that shown by the dividend restriction.

The funded debt restriction allows the issuer much flexibility in the creation of funded debt and results in very little protection to the investor. The restrictiveness of the funded debt restriction is limited by two factors. The first is that funded debt is defined in such a manner as to only include debt of a rank equal to the subordinated debenture. The second factor is that the conditions under which the restrictions apply are such that the issuer would be in serious financial difficulty before the restriction becomes effective. Thus the funded debt restriction provides very little protection for the investor.

Generally, the dividend restriction and the funded debt restriction seem to be included in the contract for sales appeal to the unsophisticated investor, since they do not, in fact, give the investor much protection.

The miscellaneous provisions which were present in nearly all of the subordinated debenture contracts were the sinking fund, redemption, events of default, and modification of indenture provisions. These provisions did not appear to compromise the relative position of the holders of subordinated debentures and are quite common in other types of debt instruments.

Other miscellaneous provisions which were not frequently included in the contract were concerned with the creation of liens, covenants regarding consolidations, merger and sale; subsidiaries; sale and lease-back and the maintenance of property. These provisions were included in less than 25 per cent of the issues examined. These provisions did not afford the investor much protection since they are absent in most contracts and when they are present, their restrictiveness is quite weak.

The examination of the subordination feature revealed that the subordinated debenture is inferior to senior indebtedness. The definition of senior indebtedness provides the depth to which the subordinated debenture is inferior. The senior indebtedness to which the claims of debenture holders are made inferior usually comprises all liabilities for borrowed money, whether short-term or long-term; it includes, therefore, bonds of other classes, including ordinary debentures and bank loans, whether secured or unsecured, but not accounts payable to trade creditors, accrued expenses and dividends payable.

The subordination agreement is not something that is new. It has been in existence for a considerable period of time and has been enforced by the courts on several occasions. The subordinated debenture is unique in that the subordination agreement has been combined with the other provisions of the ordinary debenture which has resulted in a hybrid security, placing it ahead of preferred stock and equal to trade creditors, but definitely at a lesser level of claim than

the general debt agreements of corporations.

The subordinated debenture is an inferior security. Not only does the subordination feature make the subordinated debenture inferior to nearly all of the creditors of the issuing company, it also is placed in an inferior position by the terms of the contractual provisions.

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- Gardner-Denver Co., October 9, 1956, p. 9.
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- Lowenstein, (M) & Sons, Inc., February 15, 1956, p. 12.
- National Cylinder Gas Co., December 11, 1957, p. 12.
- Olin Mathieson Chemical Corp., November 19, 1957, p. 28.
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APPENDIX A

SUBORDINATED DEBENTURE ISSUES, 1955-1965

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Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
1955		
**Aldens, Inc. (Conv. Subord. Deb.) (Ba)*	3,662	9/1/70
American Hide & Leather Co. (Conv. Subord. Income Deb.)	2,426	10/1/75
American Potash & Chemical Corp. (Conv. Subord. Deb.)	7,000	3/1/70
Bogue Electric Manufacturing Co. (Conv. Subord. Deb.)	2,000	6/1/70
Burlington Industries, Inc. (Conv. Subord. Deb.)	30,000	10/1/75
Continental Baking Co. (Conv. Subord. Deb.)	10,543	3/1/80
**Crosse & Blackwell Co. (Conv. Subord. Deb.) (NR)*	500	2/15/65
Daitch Crystal Dairies, Inc. (Conv. Subord. Deb.)	2,000	12/1/75
Dayton Rubber Co. (Conv. Subord. Deb.)	3,000	5/1/70
Duriron (Subord. Deb.)	1,500	6/1/75
Evans Products Co. (Conv. Subord. Deb.)	3,500	5/1/75
Ferro Corporation (Conv. Subord. Deb.)	6,000	7/1/75
**Foremost Dairy, Inc. (Subord. Deb.) (Ba)*	20,000	7/1/80
Fruehauf Trailer Co. (Conv. Subord. Deb.)	1,501	4/1/75
Gera Corporation (Subord. Sinking Fund Deb.)	4,156	1970
Good Humor Company of California (Subord. Income Deb.)	1,542	1975
Grace (W.R.) & Company (Conv. Subord. Deb.)	30,000	5/15/75
Jerrold Electronics Corporation (Conv. Subord. Deb.)	2,750	6/1/75
**Lear, Inc. (Conv. Subord. Deb.) (Ba)*	3,000	12/1/70
Lockheed Aircraft Corporation (Conv. Subord. Deb.)	30,000	5/1/80
Maremont Automotive Products, Inc. (Conv. Subord. Deb.)	1,000	7/1/70
Merritt Chapman & Corp. (Conv. Subord. Deb.)	25,000	7/1/70
Monroe Chemical Company (Subord. Deb.)	692	4/1/85

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Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
Mueller Brass Company (Conv. Subord. Deb.)	5,000	6/1/75
National Tea Company (Conv. Subord. Deb.)	15,000	11/1/80
**Northeastern Steel Company (Subord. Deb.) (NR)*	7,350	2/1/75
Northrop Aircraft, Inc. (Conv. Subord. Deb.)	10,000	12/1/75
Northwest Nitro-Chemical, Ltd. (Subord. Income Deb.)	8,500	7/31/65
Pan American Sulphur Company (Subord. Income Deb.)	4,651	4/1/67
Radio Corporation of America (Conv. Subord. Deb.)	100,000	12/1/80
**Servo Corporation of America (Conv. Subord. Deb.) (NR)*	1,000	10/1/75
TelAutograph Corporation (Conv. Subord. Deb.)	2,396	7/1/65
Texas Industries, Inc. (Subord. Deb.)	6,000	6/1/75
Textron American, Inc. (Subord. Deb.)	21,393	2/1/70
Thorofare Markets, Inc. (Conv. Subord. Deb.)	3,000	7/1/75
U. S. Industries, Inc.	<u>3,715</u>	11/1/70
Total	379,777	
1956		
**ACF-Wrigley Stores, Inc. (Conv. Subord. Deb.) (Ba)*	4,000	4/30/72
Allegheny Ludlum Steel Corporation (Conv. Subord. Deb.)	16,377	10/1/81
American Machinery & Foundry Co. (Conv. Subord. Deb.)	10,897	7/1/81
Arden Farms Company (Subord. Deb.)	4,100	7/1/86
Atlas Plywood Corporation (Conv. Subord. Deb.)	3,000	11/1/75
Burroughs Corporation (Conv. Subord. Sinking Fund Deb.)	30,155	12/1/81
Celotex Corporation (Conv. Subord. Deb.)	10,000	5/1/76
**Century Food Markets Company (Conv. Subord. Deb.) (C)*	2,000	9/1/76
Chicago Railway Equipment Company (Cumulative Subord. Income Deb.)	2,500	9/1/71
Coastal States Gas Producing Co. (Conv. Subord. Deb.)	2,500	2/1/71

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Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
Combustion Engineering, Inc. (Conv. Subord. Sinking Fund Deb.)	15,000	6/1/81
Cott Beverage Corporation (Conv. Subord. Deb.)	1,500	1/1/76
Curtiss Publishing Company (Subord. Income Deb.)	25,000	10/1/86
**Eastern Corporation (Conv. Subord. Deb.) (Ba)*	4,090	5/15/86
Fansteel Metallurgical Corporation (Subord. Deb.)	3,000	10/1/76
Fruehauf Trailer Company (Conv. Subord. Deb.)	29,549	3/1/76
Gardner - Denver Company (Conv. Subord. Deb.)	10,000	10/1/67
General American Transportation Corp. (Conv. Subord. Deb.)	23,811	5/1/81
General Tire & Rubber Company (Subord. Deb.)	2,553	4/1/81
**Georgia-Pacific Corporation (Conv. Subord. Deb.) (NR)*	11,000	7/1/71
Georgia-Pacific Corporation (Subord. Deb.)	15,389	7/1/76
Grain Elevator Warehouse Company (Conv. Subord. Deb.)	2,353	7/15/76
Ling-Temco-Vought, Inc. (Conv. Subord. Deb.)	5,000	10/1/71
Lowenstein (M.) & Sons, Inc. (Conv. Subord. Deb.)	40,000	2/1/81
Mack Trucks, Inc. (Subord. Deb.)	30,000	9/1/68
**Minneapolis-Moline (Conv. Subord. Income Deb.) (NR)*	10,000	5/15/86
National Cash Register Company (Conv. Subord. Deb.)	28,170	12/15/81
Olympic Radio & Television, Inc. (Conv. Subord. Deb.)	1,400	4/1/66
Oswego Falls Corporation (Conv. Subord. Deb.)	5,001	4/15/76
P. R. M., Inc. (Conv. Subord. Deb.)	3,945	7/25/66
San Jacinto Petroleum Corporation (Conv. Subord. Deb.)	15,000	11/1/71
**Security Banknote Company (Conv. Subord. Income Deb.) (NR)*	2,000	6/1/76
Shopping Bag Food Stores (Conv. Subord. Deb.)	1,500	5/15/71
Sinclair Oil Corporation (Conv. Subord. Deb.)	167,247	12/1/86
Southeastern Fund (Conv. Subord. Deb.)	1,000	6/1/71

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Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
Southern Oxygen Company (Conv. Subord. Deb.)	2,650	4/1/66
Stubitz Greene Corporation (Subord. Sinking Fund Deb.)	1,000	5/1/66
**Temco Aircraft Corporation (Conv. Subord. Deb.) (Ba)*	5,000	10/1/71
Textron American, Inc. (Conv. Subord. Deb.)	20,000	1/1/71
Underwood Corporation (Conv. Subord. Deb.)	6,000	10/1/71
U. S. Industries, Inc. (Conv. Subord. Deb.)	3,715	12/1/71
Universal Match Corporation (Conv. Subord. Deb.)	6,500	8/1/76
Vanadium Corporation of America (Conv. Subord. Deb.)	10,000	9/1/76
**Van Norman Industries (Conv. Subord. Deb.) (Ba)*	2,000	4/1/76
Total	595,902	

1957

American Machinery & Foundry Company (Conv. Subord. Deb.)	12,726	2/1/77
Atlantic Refining Company (Conv. Subord. Deb.)	100,000	9/15/87
Barium Steel Corporation (Conv. Subord. Deb.)	10,000	6/15/69
**Barnwell Offshore, Inc. (Subord. Sinking Fund Deb.) (NR)*	2,000	2/15/67
Baxter Laboratories, Inc. (Conv. Subord. Deb.)	1,800	2/15/77
Brewster-Partle Drilling Co. (Conv. Subord. Deb.)	2,000	1/1/72
**Brunswick-Balke-Collender Company (Conv. Subord. Deb.) (Ba)*	5,889	2/1/72
Carrier Corporation (Conv. Subord. Deb.)	18,000	2/1/82
Chance Vought Aircraft, Inc. (Conv. Subord. Deb.)	8,824	7/1/77
Collins Radio Company (Conv. Subord. Deb.)	7,917	6/1/77
Daystrom, Inc. (Conv. Subord. Deb.)	8,000	3/1/77
**Dayton Rubber Company (Conv. Subord. Deb.) (Ba)*	5,000	1/1/72
Douglas Aircraft Company (Conv. Subord. Deb.)	27,900	2/1/77
Dresser Industries, Inc. (Conv. Subord. Deb.)	20,000	3/1/77

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Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
Dunham Bush, Inc. (Subord. Deb.)	4,500	4/1/77
Emerson Electric Manufacturing Co. (Conv. Subord. Deb.)	3,390	7/15/77
Fairbanks, Morse & Company (Conv. Subord. Deb.)	15,000	6/1/72
**Fischer & Porter Company (Conv. Subord. Sinking Fund Deb.) (Ba)*	3,200	3/1/77
General Cigar Company (Cumulative Subord. Income Deb.)	7,000	6/1/87
General Portland Cement Company (Conv. Subord. Deb.)	15,000	10/1/77
General Tire & Rubber Company (Subord. Deb.)	8,640	4/1/81
Green River Steel Corporation (Subord. Income Deb.)	4,000	5/1/82
Grolier Society, Inc. (Conv. Subord. Deb.)	2,500	5/1/67
Homestake Mining Company (Conv. Subord. Deb.)	5,000	9/1/72
I-T-E Circuit Breaker Company (Conv. Subord. Deb.)	10,000	4/1/72
**Kidde (Walter) & Company (Conv. Subord. Deb.) (Ba)*	3,000	4/15/72
Macy (R. H.) & Company Inc. (Conv. Subord. Deb.)	12,281	2/1/77
Maracaibo Oil Exploration Corp. (Subord. Deb.)	3,300	10/15/72
McDermott (J. Ray) & Co., Inc. (Conv. Subord. Deb.)	20,292	9/1/72
**National Alfalfa Dehydrating & Milling Co. (Subord. Deb.) (NR)*	2,353	7/1/75
National Cylinder Gas Company (Conv. Subord. Deb.)	17,500	9/1/77
Olin Mathieson Chemical Corporation (Conv. Subord. Deb.)	60,000	11/15/82
Phillips Petroleum Company (Conv. Subord. Deb.)	171,720	2/15/87
Pittsburgh Brewing Company (Subord. Income Deb.)	6,000	10/31/87
Rapid American Corporation (Subord. Deb.)	4,490	11/15/67
Rapid Electrotpe Company (Subord. Deb.)	6,500	11/15/67
**Reading & Bates Offshore Drilling Co. (Subord. Deb.) (NR)*	1,700	6/1/67
Rohr Aircraft Corporation (Conv. Subord. Deb.)	7,500	1/1/77

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Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
Shamrock Oil & Gas Company (Conv. Subord. Deb.)	17,500	10/1/82
Smith-Corona (Conv. Subord. Deb.)	4,236	5/1/78
Spalding (A.G.) & Bros., Inc. (Conv. Subord. Deb.)	2,017	6/15/62
Supercrete, Ltd. (Conv. Subord. Deb.)	1,150	5/1/67
**Texas City Chemicals (Subord. Income Deb.) (NR)*	400	3/31/67
Thompson Products, Inc. (Conv. Subord. Deb.)	19,730	9/1/82
Thriftmart, Inc. (Conv. Subord. Deb.)	5,000	6/1/77
Topp Industries, Inc. (Conv. Subord. Deb.)	2,750	5/1/77
United Artist Corporation (Conv. Subord. Deb.)	10,000	5/1/69
Victroeen Instrument Company (Conv. Subord. Deb.)	700	11/15/67
**Weingarten (J.), Inc. (Subord. Income Deb.) (NR)*	5,000	8/1/87
Weingarten (J.), Inc. (Subord. Income Deb.)	6,500	8/1/78
Western Nuclear Corporation (Subord. Deb.)	1,950	6/30/61
Western Nuclear Corporation (Subord. Deb.)	400	9/30/61
Total	702,255	
<u>1958</u>		
**Albemarle Paper Manufacturing Co. (Conv. Subord. Deb.) (B)*	3,500	7/1/78
American Art Metals Company (Conv. Subord. Deb.)	1,250	12/1/68
American Electronics, Inc. (Conv. Subord. Deb.)	3,500	4/1/73
American Petrofina, Inc. (Conv. Subord. Deb.)	6,950	1/1/73
Arden Farms, Company (Conv. Subord. Deb.)	1,998	7/1/86
Atlas Sewing Centers, Inc. (Conv. Subord. Deb.)	1,000	1/1/73
**Belock Instruments Company (Conv. Subord. Deb.) (B)*	1,000	12/1/73
Blossman Hydratane Gas, Inc. (Conv. Subord. Deb.)	1,200	12/31/78
Boeing Aircraft Company (Conv. Subord. Deb.)	30,598	7/1/80

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Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
Brunswick-Balke-Collender Company (Conv. Subord. Deb.)	8,593	4/1/73
Burlington Industries, Inc. (Subord. Deb.)	7,052	10/1/75
Case (J. I.) Company (Conv. Subord. Deb.)	20,130	10/15/83
**Corn Products Corporation (Subord. Deb.) (A)*	40,855	10/1/83
Cuneo Press, Inc. (Conv. Subord. Deb.)	6,000	12/1/78
Deere & Company (Subord. Deb.)	55,107	10/1/83
Dixon Chemical Industries (Subord. Deb.)	5,900	12/1/78
Eastern Stainless Steel (Conv. Subord. Deb.)	5,124	11/15/73
Genung's Inc. (Subord. Deb.)	5,000	2/1/62
Garrett Corporation (Subord. Deb.)	10,000	9/15/78
**Grand Union Company (Conv. Subord. Deb.) (Ba)*	10,450	7/15/78
Horne (Joseph) Company (Conv. Subord. Deb.)	2,523	12/1/73
International Telephone & Telegraph Corp. (Conv. Subord. Deb.)	28,692	5/15/83
Mangel Stores Corporation (Conv. Subord. Deb.)	3,000	3/1/73
Mansfield Tire & Rubber Company (Conv. Subord. Deb.)	5,000	7/1/73
**Miles Laboratories, Inc. (Conv. Subord. Deb.) (Baa)*	6,035	12/1/78
National Homes Corporation (Conv. Subord. Deb.)	15,000	11/1/78
National Theatres, Inc. (Subord. Sinking Fund Deb.)	20,000	3/1/74
Olin Mathieson Chemical Corporation (Conv. Subord. Deb.)	60,000	3/1/83
Oxford Paper Company (Conv. Subord. Deb.)	10,000	10/1/78
Red Owl Stores, Inc. (Conv. Subord. Deb.)	3,500	2/1/78
**Richfield Oil Corporation (Conv. Subord. Deb.) (Baa)*	50,000	4/1/78
Salem-Brosius, Inc. (Conv. Subord. Deb.)	2,500	7/1/73
Southern Oxygen Company (Conv. Subord. Deb.)	1,500	1/1/68

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Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
Sylvania Electric Products, Inc. (Conv. Subord. Deb.)	20,000	3/1/83
Tenney Engineering, Inc. (Conv. Subord. Deb.)	500	11/1/68
Utah-Idaho Sugar Company (Subord. Deb.)	4,282	4/1/68
**Walker-Scott Corporation (Subord. Sinking Fund Deb.) (NR)*	900	5/1/73
Total	458,639	
<u>1959</u>		
**Aldens, Inc. (Conv. Subord. Deb.) (Ba)*	4,551	8/1/79
Aloe (A.S.) Company (Conv. Subord. Deb.)	2,500	3/15/74
AlSCO, Inc. (Conv. Subord. Deb.)	4,000	6/1/74
American-Saint Gobain Corporation (Conv. Subord. Sinking Fund Deb.)	11,173	4/1/83
American Service Company (Subord. Income Deb.)	1,500	10/1/79
Anelex Corporation (Subord. Deb.)	2,250	12/1/74
**Atlas Sewing Centers, Inc. (Conv. Subord. Deb.) (B)*	2,000	11/1/74
Avco Manufacturing Corporation (Conv. Subord. Deb.)	15,000	2/1/79
Bausch & Lomb Optical Company (Conv. Subord. Deb.)	8,543	6/1/79
Belco Petroleum Corporation (Conv. Subord. Deb.)	5,760	9/1/74
Benson Manufacturing Company (Conv. Subord. Deb.)	2,000	11/31/71
Broadway-Hale Stores, Inc. (Conv. Subord. Deb.)	10,000	8/1/79
**Brush Beryllium Company (Conv. Subord. Deb.) (Ba)*	6,500	9/1/74
Byers (A.M.) Company (Subord. Deb.)	2,900	11/1/79
Cary Chemicals, Inc. (Subord. Deb.)	6,000	9/1/79
Cerro De Pasco Corporation (Conv. Subord. Deb.)	26,312	1/1/79
Chadbourne Gothan, Inc. (Conv. Subord. Deb.)	3,000	10/1/74
Chadbourne Gothan, Inc. (Conv. Subord. Deb.)	2,500	4/1/71

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Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
**Champion Paper & Fibre Company (Conv. Subord. Deb.) (Baa)*	20,036	1/15/84
Consolidated Diesel Electric Company (Conv. Subord. Deb.)	1,000	12/1/75
Consolidated Electrodynamics Corp. (Conv. Subord. Deb.)	7,616	6/1/84
Copperweld Steel Company (Conv. Subord. Deb.)	8,000	12/1/79
Daitch Crystal Dairies, Inc. (Conv. Subord. Deb.)	3,500	10/1/79
Di Nco Chemical Arts, Inc. (Conv. Subord. Deb.)	947	5/15/71
**Eitel-McCullough (Conv. Subord. Deb.) (Ba)*	5,000	11/1/74
Emery Industries, Inc. (Conv. Subord. Deb.)	6,104	7/1/79
Fedders Corporation (Subord. Deb.)	3,812	7/1/79
Fed-Mart Corporation (Conv. Subord. Deb.)	4,971	1979
Florida Steel Corp. (Conv. Subord. Deb.)	2,136	5/1/71
Food Fair Stores, Inc. (Conv. Subord. Deb.)	21,203	4/1/79
Frontier Refining Company (Conv. Subord. Deb.)	6,000	11/1/69
**Gabriel Company (Subord. Deb.) (B)*	2,500	6/30/74
General American Oil Company of Texas (Conv. Subord. Deb.)	20,000	5/1/84
General Builders Corporation (Subord. Deb.)	2,131	4/30/63
General Time Corporation (Conv. Subord. Deb.)	6,198	8/1/79
General Tire & Rubber Company (Subord. Deb.)	28,582	10/1/82
General Tire Corporation (Conv. Subord. Deb.)	6,198	8/1/79
**Gilpin (Henry B.) Company (Conv. Subord. Deb.) (NR)*	725	6/1/74
Gulf & Western Corporation (Conv. Subord. Deb.)	1,500	11/15/74
Harmon-Kardon, Inc. (Conv. Subord. Deb.)	600	12/1/69
Herold Radio & Electronics Corporation (Conv. Subord. Deb.)	1,500	7/15/74

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Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
Hickok Electrical Instrument Company (Conv. Subord. Deb.)	500	10/1/74
Hooker Chemical Company (Conv. Subord. Deb.)	24,445	9/15/84
**Kaman Aircraft Corporation (Conv. Subord. Deb.) (B)*	1,250	1/1/74
Lester Engineering Company (Conv. Subord. Deb.)	300	9/15/76
Long Mile Rubber Corporation (Subord. Deb.)	1,500	9/1/74
Mallinckrodt Chemical Works (Conv. Subord. Deb.)	6,000	7/1/74
Mansfield Tire & Rubber Company (Conv. Subord. Deb.)	5,000	6/1/74
National Bellas Hess (Conv. Subord. Deb.)	5,318	10/1/84
**National Cleveland Corporation (Conv. Subord. Deb.) (NR)*	600	9/1/71
Northrop Corporation (Conv. Subord. Deb.)	10,000	7/1/79
Oklahoma Cement Company (Subord. Deb.)	3,600	6/1/74
Pacific Outdoor Advertising Company (Subord. Deb.)	850	9/1/74
Pauley Petroleum, Inc. (Conv. Subord. Deb.)	10,000	5/1/75
Permian Oil Company (Subord. Sinking Fund Deb.)	800	12/1/69
**Perrine Industries, Inc. (Conv. Subord. Deb.) (Caa)*	1,500	12/1/79
Philco Corporation (Conv. Subord. Deb.)	22,000	4/15/84
Plastic Applicators, Inc. (Conv. Subord. Sinking Fund Deb.)	1,000	1969
Rapid-American Corporation (Conv. Subord. Deb.)	15,000	4/30/64
Seiberling Rubber Company (Conv. Subord. Deb.)	3,000	7/15/79
Servo Corporation of America (Conv. Subord. Deb.)	1,000	10/1/74
**Shop Rite Foods, Inc. (Conv. Subord. Deb.) (NR)*	2,500	12/31/74
Simon Hardware Company (Subord. Deb.)	1,700	9/30/71
Smith-Corona Marchant (Conv. Subord. Deb.)	7,443	1/1/79
Spiegel, Inc. (Conv. Subord. Deb.)	15,417	6/1/84
Sports Arenas (Conv. Subord. Deb.)	2,000	10/1/69

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Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
St. Paul Ammonia Products (Conv. Subord. Deb.)	1,250	12/1/69
**Telechrome Manufacturing Corporation (Conv. Subord. Deb.) (NR)*	750	12/1/69
Textron, Inc. (Subord. Deb.)	30,000	8/1/82
Textron, Inc. (Subord. Deb.)	30,000	5/1/84
Thriftmart, Inc. (Conv. Subord. Deb.)	8,000	6/1/80
United Control Corporation (Conv. Subord. Deb.)	2,500	12/1/74
Varian Associates (Conv. Subord. Sinking Fund Deb.)	4,000	7/15/74
**Victoreen Instruments Company (Conv. Subord. Deb.) (B)*	2,500	12/15/74
Ward Baking Company (Subord. Deb.)	1,021	1979
White-Rodgers Company (Conv. Subord. Deb.)	1,000	7/1/79
White Stores, Inc. (Conv. Subord. Deb.)	4,901	3/1/79
Whitmoyer Laboratories, Inc. (Subord. Deb.)	1,000	4/30/77
Total	506,393	
1960		
**Admiral Homes, Inc. (Conv. Subord. Deb.) (Ba)*	400	10/1/70
Aldens, Inc. (Conv. Subord. Deb.)	7,239	10/1/80
American Optical Company (Conv. Subord. Deb.)	8,000	10/1/80
Apache Corporation (Conv. Subord. Deb.)	4,000	12/1/75
Arden Farms Company (Conv. Subord. Deb.)	4,000	7/1/90
Arkansas Valley Industries, Inc. (Conv. Subord. Deb.)	1,000	6/1/70
**Avnet Electronics, Inc. (Conv. Subord. Deb.) (B)*	2,000	8/1/75
Bausch & Lomb, Inc. (Conv. Subord. Deb.)	7,038	7/1/80
Birtch Corporation (Conv. Subord. Deb.)	500	4/30/75
Bunker-Ramo Corporation (Subord. Sinking Fund Deb.)	6,000	4/1/80
Cenco Instruments Corporation (Conv. Subord. Deb.)	5,000	8/1/80

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Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
Coca-Cola Bottling Corporation (Subord. Deb.)	2,038	12/30/90
**Collins Radio Company (Conv. Subord. Deb.) (Ba)*	12,000	3/1/80
Comptometer Corporation (Conv. Subord. Deb.)	10,000	3/15/80
Crown Aluminum Industries Corporation (Subord. Deb.)	1,500	1/15/77
Davega Stores Corporation (Conv. Subord. Deb.)	1,500	8/1/75
Dayton Rubber Company (Conv. Subord. Deb.)	7,500	8/1/80
Dorsey Corporation (Subord. Sinking Fund Deb.)	3,500	10/1/75
**Elco Corporation (Conv. Subord. Deb.) (B)*	1,000	5/15/75
Farrington Manufacturing Company (Conv. Subord. Deb.)	6,000	4/1/70
Fleming Company (Conv. Subord. Deb.)	1,690	4/1/75
Highway Trailer Industries, Inc. (Conv. Subord. Deb.)	3,000	9/1/75
Hydrometals, Inc. (Conv. Subord. Deb.)	2,464	7/1/72
**Jefferson Lake Asbestos Corporation (Subord. Deb.) (NR)*	1,500	12/31/66
Jefferson Lake Asbestos Corporation (Subord. Sinking Fund Deb.)	2,625	12/31/72
Jessop Steel Company (Conv. Subord. Deb.)	3,000	1/1/75
Kayser-Roth Corporation (Conv. Subord. Deb.)	16,135	7/1/80
Keyes Fibre Company (Subord. Deb.)	10,000	12/1/85
Lionel Corporation (Conv. Subord. Deb.)	6,421	10/15/80
Lithium Corporation of America, Inc. (Conv. Subord. Deb.)	2,300	10/1/70
**Loral Electronics Corporation (Conv. Subord. Deb.) (B)*	5,000	12/1/80
Magnin (Joseph) Company (Conv. Subord. Deb.)	1,250	5/1/75
Marsh Supermarkets, Inc. (Conv. Subord. Deb.)	2,000	12/15/80
Metropolitan Broadcasting Corporation (Conv. Subord. Deb.)	6,000	4/1/75
Miles Laboratories, Inc. (Conv. Subord. Deb.)	8,255	7/1/80

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Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
Munsingwear, Inc. (Conv. Subord. Deb.)	3,000	10/1/80
**NAFI, Corporation (Conv. Subord. Deb.) (B)*	7,500	9/1/80
Nalley's, Inc. (Conv. Subord. Deb.)	1,000	4/1/75
National Equipment Rental Ltd. (Subord. Sinking Fund Deb.)	2,000	2/1/70
Nixon-Baldwin Chemical Company (Subord. Deb.)	4,000	11/1/80
Northwest Nitro-Chemicals, Ltd. (Subord. Income Deb.)	8,500	6/30/79
One-Hour Valet, Inc. (Conv. Subord. Deb.)	2,000	3/1/75
**Pacific Vegetable Oil Corporation (Conv. Subord. Deb.) (NR)*	1,500	4/1/75
Pauley Petroleum, Inc. (Conv. Subord. Deb.)	10,000	6/1/76
Penobscot Chemical Fibre Company (Conv. Subord. Deb.)	3,250	12/1/80
Perfect Photo, Inc. (Conv. Subord. Deb.)	4,500	10/1/80
Polycast Corporation (Conv. Subord. Deb.)	400	7/15/70
Polymer Corporation (Conv. Subord. Deb.)	2,750	10/1/75
**Ritter Corporation (Conv. Subord. Deb.) (Ba)*	4,500	12/1/80
Seaboard Plywood & Lumber Corporation (Conv. Subord. Deb.)	300	5/1/70
Simon Hardware Company (Subord. Deb.)	900	9/30/72
Speedy Chemical Products (Conv. Subord. Deb.)	2,000	12/1/75
Southwest Forest Industries (Subord. Income Deb.)	12,000	1/1/85
Telectro Industries Corporation (Conv. Subord. Deb.)	1,000	5/15/70
**Teleregister Corporation (Subord. Sinking Fund Deb.) (B)*	6,000	5/1/80
Tenax, Inc. (Conv. Subord. Deb.)	1,500	11/1/70
Tenney Engineering, Inc. (Conv. Subord. Deb.)	500	2/1/70
Texas National Petroleum Company (Subord. Deb.)	6,500	1/1/75

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Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
Timely Clothes, Inc. (Conv. Subord. Deb.)	1,000	7/1/80
Vendo Corporation (Conv. Subord. Deb.)	5,225	9/1/80
**Yuba Consolidated Industries, Inc. (Conv. Subord. Deb.) (Caa)*	6,000	3/1/75
Total	259,680	
<u>1961</u>		
**Airwork Corporation (Subord. Deb.) (NR)*	1,500	5/1/76
Allied Stores Corporation (Conv. Subord. Deb.)	27,006	10/1/81
American Distilling Company (Conv. Subord. Deb.)	9,552	11/1/86
American Machinery & Foundry Co. (Conv. Subord. Deb.)	39,911	3/1/81
American Petrochemical Corporation (Conv. Subord. Deb.)	1,250	1/1/71
American Recreation Centers (Conv. Subord. Deb.)	1,250	7/1/73
**Apco Oil Corporation (Subord. Deb.) (B)*	10,072	4/1/81
Arkansas Valley Industries (Conv. Subord. Deb.)	1,500	6/1/76
Armour & Company (Conv. Subord. Deb.)	32,648	9/1/83
Automatic Canteen Company of America (Conv. Subord. Deb.)	22,686	7/1/81
BarChris Construction Corporation (Conv. Subord. Deb.)	3,500	5/1/76
Bowl-Mor Company, Inc. (Conv. Subord. Deb.)	2,000	2/15/76
**Brunswick Corporation (Conv. Subord. Deb.) (Ba)*	25,634	1/1/81
B.S.F. Company (Conv. Subord. Deb.)	2,500	12/1/69
Canada Dry Corporation (Conv. Subord. Deb.)	7,138	7/1/81
Chock Full O'Nuts Corporation (Conv. Subord. Deb.)	7,000	8/1/81
City Products Corporation (Conv. Subord. Deb.)	15,000	6/1/82
Continental Baking Company (Conv. Subord. Deb.)	13,200	11/15/83
**Continental Vending Machine Corp. (Conv. Subord. Deb.) (B)*	5,053	9/1/76
Cowles Chemical Company (Conv. Subord. Deb.)	2,500	12/31/80

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Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
Crowell-Collier Publishing Company (Conv. Subord. Deb.)	11,788	4/1/81
Crown Aluminum Industries Corporation (Conv. Subord. Deb.)	2,500	7/1/76
Dixon-Chemical Industries (Conv. Subord. Income Deb.)	2,047	7/1/81
Dumas Milner Corporation (Conv. Subord. Deb.)	2,000	6/1/71
**Eastern Lime Corporation (Conv. Subord. Deb.) (NR)*	1,270	7/1/76
F W D Corporation (Conv. Subord. Deb.)	1,500	1/1/71
FMC Corporation (Conv. Subord. Deb.)	30,000	10/15/81
Fotochrome, Inc. (Conv. Subord. Deb.)	3,500	10/1/81
General Foam Corporation (Conv. Subord. Deb.)	550	1/1/76
General Foam Corporation (Conv. Subord. Deb.)	2,500	10/1/81
**Glenmore Distilleries Company (Conv. Subord. Deb.) (Ba)*	7,500	10/1/81
Grayson-Robinson Stores, Inc. (Conv. Subord. Deb.)	9,598	12/31/85
Great Lakes Bowling Corporation (Conv. Subord. Deb.)	1,250	6/1/76
Gyrodyne Company of America, Inc. (Conv. Subord. Deb.)	1,500	9/15/76
Hartfield Stores, Inc. (Conv. Subord. Deb.)	5,000	12/1/81
Hilco Homes Corporation (Conv. Subord. Deb.)	650	9/1/79
**Hoffman International Corporation (Conv. Subord. Deb.) (NR)*	2,251	6/1/73
Hunt Foods & Industries, Inc. (Subord. Deb.)	38,799	6/1/73
International Silver Company (Conv. Subord. Deb.)	7,822	8/1/81
Interstate Department Stores, Inc. (Conv. Subord. Deb.)	5,859	1981
Interstate Hosts, Inc. (Conv. Subord. Deb.)	2,392	11/1/81
Kawecki Chemical Company (Conv. Subord. Deb.)	3,392	5/1/76
**Keystone Steel & Wire Company (Conv. Subord. Deb.) (Baa)*	20,000	10/1/81
Lafayette Radio Electronics, Inc. (Conv. Subord. Deb.)	2,500	6/1/76
Ling-Temco-Vought, Inc. (Subord. Deb.)	33,994	9/1/76

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Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
Ling-Temco-Vought, Inc. (Conv. Subord. Deb.)	53,650	9/1/76
Mack Trucks, Inc. (Subord. Deb.)	20,000	4/1/81
McCrory Corporation (Subord. Deb.)	50,000	8/15/76
**Modern Homes Construction (Subord. Deb.) (NR)*	5,500	7/15/81
Nash (J.M.) Company (Subord. Deb.)	1,000	7/11/81
Nuclear Corporation of America (Conv. Subord. Income Deb.)	2,088	11/1/76
Occidental Petroleum Corporation (Conv. Subord. Deb.)	3,930	10/1/76
Old Empire, Inc. (Conv. Subord. Deb.)	950	12/1/71
Penn Control, Inc. (Conv. Subord. Deb.)	4,000	9/1/71
**Photon, Inc. (Conv. Subord. Deb.) (NR)*	1,785	12/1/71
Red Star Yeast & Products Company (Conv. Subord. Deb.)	1,000	5/1/76
Reeves Broadcasting Corporation (Conv. Subord. Deb.)	2,000	9/1/76
Southwest Recreation Associates, Inc. (Conv. Subord. Deb.)	150	12/31/73
Special Metals, Inc. (Subord. Deb.)	5,000	7/1/76
Stouffer Foods Corporation (Conv. Subord. Deb.)	7,500	10/1/81
**Strauss-Duparquet, Inc. (Conv. Subord. Deb.) (NR)*	1,000	5/15/76
Talley Industries, Inc. (Conv. Subord. Deb.)	2,500	5/1/76
Thor Power Tool Company (Conv. Subord. Deb.)	4,000	6/1/81
Union Leagues, Inc. (Subord. Sinking Fund Deb.)	700	12/15/76
Union Oil Company of California (Conv. Subord. Deb.)	60,000	6/1/91
Universal Container Corporation (Conv. Subord. Deb.)	1,000	4/1/71
**Vince Corporation (Conv. Subord. Deb.) (B)*	2,000	8/15/76
Vulcan Mould & Iron Company (Conv. Subord. Deb.)	3,500	11/1/81
Walter (Jim) Corporation (Subord. Deb.)	20,000	6/1/81
Total	684,313	

Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
<u>1962</u>		
**Air Reduction Company, Inc. (Conv. Subord. Deb.) (Baa)*	45,000	8/15/87
Albee Homes, Inc. (Conv. Subord. Deb.)	5,000	6/30/82
Allegheny Pepsi Cola Bottling Company (Subord. Sinking Fund Deb.)	4,500	6/1/77
Aluminum Specialty Company (Conv. Subord. Deb.)	1,100	4/1/80
Argus, Inc. (Conv. Subord. Deb.)	8,200	7/15/72
Arkansas Valley Industries (Conv. Subord. Deb.)	1,200	12/1/77
**Arlan's Department Stores, Inc. (Conv. Subord. Deb.) (Ba)*	3,000	5/1/82
Assembly Products, Inc. (Conv. Subord. Deb.)	1,250	9/1/72
Atlas Corporation (Conv. Subord. Deb.)	2,600	8/1/77
Badger Northland, Inc. (Conv. Subord. Deb.)	800	10/1/82
Baldwin-Montrose Chemical Co. (Subord. Deb.)	6,000	9/30/72
Baxter Laboratories, Inc. (Conv. Subord. Deb.)	10,000	4/1/82
**Belco Petroleum Corporation (Conv. Subord. Deb.) (Ba)*	7,500	5/1/77
Bell Electronics Corporation (Conv. Subord. Deb.)	1,250	4/1/77
Bolsa Chica Oil Corp. (Conv. Subord. Deb.)	2,025	2/1/77
Certified Industries, Inc. (Conv. Subord. Deb.)	750	4/30/77
Control Data Corporation (Conv. Subord. Deb.)	15,000	9/1/77
Dart Drug Company (Conv. Subord. Deb.)	1,000	1977
**Doughboy Industries, Inc. (Conv. Subord. Deb.) (B)*	4,000	4/1/77
Duro-Test Corporation (Subord. Deb.)	3,500	10/1/82
Gateway Sporting Goods Company (Conv. Subord. Deb.)	2,000	9/1/77
Gray Drug Stores (Conv. Subord. Deb.)	5,230	2/1/82
Kaltman (D.) & Company (Conv. Subord. Deb.)	1,650	10/15/77
Kearney (James R.) (Subord. Installment Deb.)	5,745	9/30/76

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Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
**Litton Industries, Inc. (4) (Conv. Subord. Deb.) (Ba)*	50,748	4/1/87
MacAndrews & Forbes Company (Conv. Subord. Deb.)	2,177	2/1/87
McCall Corporation (Conv. Subord. Deb.)	9,983	2/1/92
McWood Corporation (Conv. Subord. Deb.)	3,100	12/15/74
Mergenthaler Linotype Company (Conv. Subord. Deb.)	9,600	3/31/77
Microdot, Inc. (Conv. Subord. Deb.)	2,500	7/1/77
**National Biscuit Company (Subord. Deb.) (A)*	43,408	4/1/87
Nebraska Consolidated Mill Company (Subord. Deb.)	10,000	11/1/77
Newark Electronics Corporation (Conv. Subord. Deb.)	2,000	4/1/82
Nopco Chemical Company (Conv. Subord. Deb.)	5,800	7/1/87
Parkview Drugs, Inc. (Conv. Subord. Deb.)	2,000	6/1/77
Pay 'N Save Corporation (Conv. Subord. Deb.)	1,200	8/1/77
**Peckham Industries, Inc. (Conv. Subord. Deb.) (NR)*	500	8/1/72
Rapid American Corporation (Conv. Subord. Deb.)	13,450	1/1/77
Roblin Steel Corporation (Conv. Subord. Deb.)	1,000	7/1/82
Saladmaster Corporation (Conv. Subord. Deb.)	700	6/30/72
Southern California Petroleum Corporation (Subord. Sinking Fund Deb.)	2,500	7/1/82
Stokely Van Camp Corporation (Conv. Subord. Deb.)	15,000	3/1/82
**Symington Wayne Corporation (Conv. Subord. Deb.) (Ba)*	5,006	4/1/82
Tel-A-Sign, Inc. (Conv. Subord. Deb.)	900	3/1/74
Vornado, Inc. (Conv. Subord. Deb.)	5,243	3/1/82
Washington Trotting Association, Inc. (Subord. Sinking Fund Deb.)	2,300	1977
Westbury Fashions, Inc. (Conv. Subord. Deb.)	3,000	4/1/72
Wyle Laboratories, Inc. (Conv. Subord. Deb.)	2,500	9/1/77
Total	332,915	

Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
<u>1963</u>		
**Allen Electric & Equipment Company (Conv. Subord. Deb.) (B)*	1,200	1/15/76
American Biltrite Rubber Company (Conv. Subord. Deb.)	5,000	5/1/83
American Greetings Corporation (Conv. Subord. Deb.)	7,500	8/1/83
American Pipe & Construction Company (Conv. Subord. Deb.)	6,000	3/1/77
American Smelting & Refining Company (Subord. Deb.)	50,000	10/15/88
American Sugar Company (Subord. Deb.)	45,000	4/2/93
**Anadite, Inc. (Conv. Subord. Deb.) (NR)*	800	4/1/78
Ashland Oil & Refining Company (Conv. Subord. Deb.)	25,000	1993
Associated Oil & Gas Company (Conv. Subord. Deb.)	7,600	7/1/75
Automatic Retailers of America, Inc. (Subord. Deb.)	12,000	3/1/83
Belook Instruments Corporation (Conv. Subord. Deb.)	2,152	1/1/75
Bergen Drug Company (Conv. Subord. Deb.)	1,250	10/31/78
**Bush Hog, Inc. (Conv. Subord. Deb.) (NR)*	1,000	2/1/73
Capitol Food Industries, Inc. (Conv. Subord. Sinking Fund Deb.)	1,600	10/1/78
Collins Radio Company (Conv. Subord. Deb.)	12,500	1/1/83
Craft Master Corporation (Conv. Subord. Deb.)	1,000	10/1/73
Crowell-Collier Publishing Company (Conv. Subord. Deb.)	5,430	4/1/83
Dempster Mill Manufacturing Company (Subord. Sinking Fund Deb.)	1,000	12/1/73
**Dorchester Gas Producing Company (Conv. Subord. Deb.) (B)*	3,500	10/1/75
Duval Corporation (Conv. Subord. Deb.)	10,000	8/1/83
Gem International, Inc. (Conv. Subord. Deb.)	3,750	5/1/79
Hardeman (Paul), Inc. (Conv. Subord. Deb.)	7,000	1978
Holly Sugar Company (Conv. Subord. Deb.)	10,000	5/1/83
International Harvester Company (Subord. Deb.)	71,463	3/1/88

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Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
**International Seaway Trading Corp. (Conv. Subord. Deb.) (NR)*	750	6/15/75
Iowa Beef Packers, Inc. (Subord. Sinking Fund Deb.)	10,000	10/1/78
Iowa Beef Packers, Inc. (Subord. Sinking Fund Deb.)	10,000	3/1/77
King-Stevenson Gas & Oil Company (Conv. Subord. Deb.)	2,500	12/31/77
Lewis Business Forms, Inc. (Conv. Subord. Deb.)	1,250	9/1/75
Maust Coal & Coke Corporation (Conv. Subord. Deb.)	5,000	6/1/83
**Mohawk Rubber Company (Conv. Subord. Deb.) (Ba)*	4,000	8/15/83
Monarch Marking System (Conv. Subord. Deb.)	2,500	9/1/83
National Lead Company (Subord. Deb.)	51,304	4/1/88
Ramo, Inc. (Subord. Deb.)	6,000	10/1/75
Redman Industries, Inc. (Conv. Subord. Deb.)	1,200	10/15/75
Sterneco Industries, Inc. (Conv. Subord. Deb.)	400	5/15/77
**Sunset International Petroleum Corp. (Subord. Deb.) (NR)*	5,000	6/1/83
Tandy Corporation (Subord. Deb.)	3,500	1/1/78
TelAutograph Corporation (Conv. Subord. Deb.)	5,000	7/1/78
United Aircraft Corporation (Conv. Subord. Deb.)	42,884	8/15/88
Wallace (William) Corporation (Subord. Deb.)	2,500	2/1/81
Total	445,533	
1964		
Alan Wood Steel Company (Conv. Subord. Deb.)	7,500	1/1/85
**Anthony Pools, Inc. (Conv. Subord. Deb.) (B)*	1,200	11/1/79
Arden Farms Company (Subord. Income Deb.)	33,000	9/1/2014
Basic-Wirtz Furniture Industries, Inc. (Conv. Subord. Deb.)	1,738	1/1/81
Buffum's, Inc. (Conv. Subord. Deb.)	1,000	3/1/76
Bulova Watch Company (Conv. Subord. Deb.)	8,052	8/1/84

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Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
**California Computer Products, Inc. (Conv. Subord. Deb.) (NR)*	1,000	10/1/84
Cluett, Peabody & Company (Conv. Subord. Deb.)	12,750	9/15/84
Cole National Corporation (Conv. Subord. Deb.)	6,000	3/1/84
Control Data Corporation (Conv. Subord. Deb.)	35,000	1989
Esterbrook Pen Company (Conv. Subord. Deb.)	1,000	5/31/74
Flick-Reedy Corporation (Conv. Subord. Deb.)	1,200	2/1/72
Global Marine, Inc. (Subord. Deb.)	10,400	12/1/84
**Granite City Steel Corp. (Conv. Subord. Deb.) (Ba)*	30,000	12/1/94
Hayes International Corporation (Conv. Subord. Deb.)	1,280	3/15/79
Hobam, Inc. (Conv. Subord. Deb.)	850	1/15/74
Irving Air Chute Company (Conv. Subord. Deb.)	1,500	6/1/76
**Jade Oil & Gas Company (Conv. Subord. Deb.) (NR)*	2,500	1/1/79
Klein (S.) Department Stores, Inc. (Conv. Subord. Deb.)	3,500	6/1/79
MSL Industries, Inc. (Conv. Subord. Deb.)	12,000	10/1/84
Madway Main Line Homes, Inc. (Conv. Subord. Deb.)	1,750	6/1/79
Michigan Sugar Company (Subord. Cumulative Income Deb.)	2,319	7/1/89
Molybdenum Corporation (Subord. Deb.)	12,493	12/1/76
**National General Corporation (Subord. Deb.) (NR)*	25,000	5/15/84
Penn Dairies, Inc. (Subord. Deb.)	500	3/1/80
Standard Motor Products, Inc. (Conv. Subord. Deb.)	3,000	4/1/84
Tribune Oil Corporation (Subord. Deb.)	5,892	1/1/79
U. S. Natural Corporation (Conv. Subord. Deb.)	5,000	1/1/77
Xerox Corporation (Conv. Subord. Deb.)	51,272	5/1/84
**Yonkers Raceway, Inc. (Subord. Deb.) (NR)*	12,000	1/1/84
Total	290,696	

Issues, Type, Year of Issue	Dollar Volume (Thousands)	Maturity Date
<u>1965</u>		
**Alcolac Chemical Corporation (Conv. Subord. Deb.) (NR)*	1,200	9/1/85
Allied Farm Equipment, Inc. (Conv. Subord. Deb.)	1,500	3/1/80
American Music Stores, Inc. (Conv. Subord. Deb.)	2,000	12/1/85
Associated Oil & Gas Company (Conv. Subord. Deb.)	6,500	7/1/77
Astrodata, Inc. (Conv. Subord. Deb.)	4,000	4/1/80
Aurora Plastics Corporation (Conv. Subord. Deb.)	3,500	11/1/80
**Baldwin-Montrose Chemical Company (Conv. Subord. Deb.) (B)*	4,135	5/1/80
Bayly Manufacturing Company (Subord. Sinking Fund Deb.)	1,000	3/1/80
Beaunit Corporation (Conv. Subord. Deb.)	25,000	8/1/90
Bethlehem Steel Corporation (Subord. Deb.)	163,430	1/1/90
Big "C" Stores, Inc. (Conv. Subord. Deb.)	2,000	2/1/81
Celanese Corporation of America (Conv. Subord. Deb.)	78,860	4/1/90
**Chance (A.B.) Company (Conv. Subord. Deb.) (Ba)*	3,000	1/15/85
Crescent Corporation (Conv. Subord. Deb.)	11,067	1/1/80
Crestmont Oil & Gas Company (Conv. Subord. Deb.)	2,200	5/1/80
E & B Carpet Mill, Inc. (Conv. Subord. Deb.)	1,500	11/30/80
Fabri-Tek, Inc. (Conv. Subord. Deb.)	4,000	8/1/80
Garan, Inc. (Conv. Subord. Deb.)	2,500	7/1/85
**General Instrument Corporation (Conv. Subord. Deb.) (Ba)*	12,000	12/1/85
Giddings & Lewis Machine Tool Company (Conv. Subord. Deb.)	4,000	10/1/85
Grace (W.R.) & Company (Conv. Subord. Deb.)	85,000	3/1/90
Grant (W.T.) Company (Conv. Subord. Deb.)	35,000	6/1/90
Hancock Manufacturing Company (Conv. Subord. Deb.)	1,700	4/15/80
Head Ski Company, Inc. (Conv. Subord. Deb.)	2,125	1/15/85

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Issues, Type and Year of Issue	Dollar Volume (Thousands)	Maturity Date
**International Silver Company (Conv. Subord. Deb.) (Ba)*	12,091	5/1/85
Keystone Valve Corporation (Conv. Subord. Deb.)	1,400	7/31/77
Macy (R.H.) & Company (Conv. Subord. Deb.)	23,000	6/1/90
Pneumo Dynamics, Inc. (Conv. Subord. Deb.)	6,000	7/1/85
Recognition Equipment, Inc. (Conv. Subord. Deb.)	6,000	7/15/75
Retail Centers of the America, Inc. (Conv. Subord. Deb.)	2,250	1/15/80
**Revco (D.S.), Inc. (Conv. Subord. Deb.) (B)*	2,500	11/1/85
Spiegel, Inc. (Conv. Subord. Deb.)	17,579	4/1/90
Standard Packaging Corporation (Conv. Subord. Deb.)	31,291	4/30/90
Stevens (J.P.) & Company (Conv. Subord. Deb.)	30,000	4/1/90
Twentieth Century-Fox Corporation (Conv. Subord. Deb.)	18,364	6/1/90
United Merchants & Manufacturing Co. (Conv. Subord. Deb.)	40,000	11/1/90
**Walston Aviation, Inc. (Conv. Subord. Deb.) (NR)*	6,000	6/1/80
Wetterau Food, Inc. (Conv. Subord. Deb.)	2,000	8/1/80
Work Wear Corporation (Conv. Subord. Deb.)	6,000	9/1/85
Zayre Corporation (Conv. Subord. Deb.)	6,000	5/1/85
Total	<u>667,692</u>	
Grand Total	<u>5,323,797</u>	

* Moody's Industrial Manual Rating

**Subordinated Debenture issues Examined by this Study.

APPENDIX B

CONVERSION PROVISION

Issues	Conversion		Adjustment For Interest of Dividends	Adjustment For Fractional Shares	Conv. Rate	Protected Against Dilution
	Begins After (Years)	Expires Before Maturity (Years)				
1955						
Aldens, Inc.	0	0	No	Cash	Fixed	Yes
Crosse & Blackwell Co.	0	0	No	No	Dec.	Yes
Foremost Dairy, Inc.	NA	NA	NA	NA	NA	NA
Lear, Inc.	0	5	No	Cash	Dec.	Qualified
Northeastern Corp.	NA	NA	NA	NA	NA	NA
Servo Corp. of America	0	0	No	Cash	Dec.	Yes
1956						
ACP-Wrigley Stores, Inc.	0	0	No	Cash-Scrip	Dec.	Yes
Century Food Markets Co.	0	0	No	Cash	Dec.	Yes
Eastern Corporation	0	20	No	Cash-Scrip	Fixed	Yes
Georgia-Pacific Corp.	0	5	No	Cash-Scrip	Fixed	Yes
Minneapolis-Moline Co	0	20	No	Cash	Dec.	Yes
Security Banknote Co.	0	0	No	Cash-Scrip	Fixed	Yes
Temco Aircraft Corp.	0	0	No	Cash	Dec.	Yes
Van Norman Industries, Inc.	0	0	No	Cash	Dec.	Yes
1957						
Barnwell Offshore, Inc.	NA	NA	NA	NA	NA	NA
Brunswick-Balke-Collender	0	0	No	Cash	Fixed	Yes
Dayton Rubber Co.	0	0	No	Cash	Fixed	Yes
Fischer & Porter Co.	0	0	No	Cash	Fixed	Yes
Kidde (Walter) & Co.	0	0	No	Cash-Scrip	Dec.	Yes
National Alfalfa Dehydrating and Milling Company	NA	NA	NA	NA	NA	NA
Reading & Bates Offshore Drilling Company	NA	NA	NA	NA	NA	NA

Issues	Conversion		Adjustment For Interest or Dividends	Adjustment For Fractional Shares	Conv. Rate	Protected Against Dilution
	Begins After (Years)	Expires Before Maturity (Years)				
<u>1957(Cont.)</u>						
Texas City Chemicals Co.	NA	NA	NA	NA	NA	NA
Weingarten (J.), Inc.	NA	NA	NA	NA	NA	NA
<u>1958</u>						
Albemarle Paper Mfg. Co.	0	10	No	Cash	Dec.	Yes
Belock Instrument Co.	0	0	No	Cash	Fixed	Qualified
Corn Products Corp.	NA	NA	NA	NA	NA	NA
Grand Union Co.	0	10	No	Cash-Scrp	Fixed	Yes
Miles Laboratories, Inc.	0	0	No	Cash	Fixed	Yes
Richfield Oil Corp.	0	0	No	Cash	Dec.	Qualified
Walker-Scott Corp.	NA	NA	NA	NA	NA	NA
<u>1959</u>						
Aldens, Inc.	0	0	No	Cash	Fixed	Qualified
At las Sewing Centers, Inc.	0	0	No	Cash	Dec.	Yes
Brush Beryllium Co.	0	0	No	Cash-Scrp	Fixed	Yes
Champion Paper & Fibre Co.	0	0	No	Cash	Fixed	Yes
Eitel-McCullough	0	0	No	Cash-Scrp	Dec.	Qualified
Gabriel Co.	NA	NA	NA	NA	NA	NA
Gilpin (Henry B.) Co.	0	0	No	Cash	Fixed	Yes
Kaman Aircraft Corp.	0	0	No	Cash-Scrp	Fixed	Yes
National Cleveland Corp.	0	0	No	Cash	Fixed	Yes
Perrine Industries, Inc.	0	0	No	Cash	Dec.	Yes
Shop Rite Foods, Inc.	0	0	No	Cash	Dec.	Yes
Telechrome Manufacturing Co.	0	0	No	Cash	Dec.	Yes
Victoreen Instruments Co.	0	0	No	Cash	Dec.	Yes
<u>1960</u>						
Admiral Homes, Inc.	0	0	No	Cash	Fixed	Qualified

Issues	Conversion		Adjustment For Interest or Dividends	Adjustment For Fractional Shares	Conv. Rate	Protected Against Dilution
	Begins After (Years)	Expires Before Maturity (Years)				
<u>1960 (Cont.)</u>						
Avnet Electronics	0	0	No	Cash-Scrip	Dec.	Yes
Collins Radio Co.	0	0	No	Cash-Scrip	Fixed	Yes
Elec Corporation	0	0	No	Cash	Dec.	Yes
Jefferson Lake Asbestos Co.	NA	NA	NA	NA	NA	NA
Loral Electronics Corp.	0	0	No	Cash	Fixed	Yes
NAPI Corporation	0	0	No	Cash	Fixed	Qualified
Pacific Vegetable Oil Corp.	0	0	No	Cash-Scrip	Dec.	Yes
Ritter Corporation	0	0	No	Cash	Fixed	Yes
Teleregister Corp.	NA	NA	NA	NA	NA	NA
Yuba Consolidated Industries	0	0	No	Cash	Dec.	Qualified
<u>1961</u>						
Airwork Corporation	NA	NA	NA	NA	NA	NA
Apeo Oil Corp.	NA	NA	NA	NA	NA	NA
Brunswick Corp.	0	0	No	Cash	Fixed	Qualified
Continental Vending Machine	1	0	No	Cash	Fixed	Yes
Eastern Lime Corp.	0	5	No	Cash	Dec.	Yes
Glenmore Distilleries, Co.	0	0	No	Cash	Dec.	Yes
Hoffman International Corp.	0	8	No	Cash-Scrip	Dec.	Yes
Keystone Steel & Wire Co.	0	0	No	Cash-Scrip	Fixed	Yes
Modern Homes Construction	NA	NA	NA	NA	NA	NA
Photon, Inc.	1	0	No	Cash	Fixed	Yes
Strauss-Duparquet, Inc.	0	0	No	Cash	Dec.	Yes
Vinco, Inc.	0	0	No	Cash	Fixed	Yes
<u>1962</u>						
Air Heduction, Inc.	0	0	No	Cash-Purch.	Fixed	Yes
Arlan's Dept. Stores, Inc.	0	0	No	Cash	Fixed	Yes
Belco Petroleum Corp.	1	0	No	Cash	Fixed	Yes

Issues	Conversion		Adjustment For Interest or Dividends	Adjustment For Fractional Shares	Conv. Rate	Protected Against Dilution
	Begins After (Years)	Expires Before Maturity (Years)				
<u>1962 (Cont.)</u>						
Doughboy Industries, Inc.	0	0	No	Cash	Fixed	Yes
Litton Industries, Inc.	0	0	No	Cash	Dec.	Qualified
National Biscuit Co.	NA	NA	NA	NA	NA	NA
Peckham Industries, Inc.	0	0	No	Cash	Fixed	Yes
Symington Wayne Corp.	0	0	No	Cash	Fixed	Yes
<u>1963</u>						
Allen Electric & Equipment Co.	0	0	No	Cash	Dec.	Yes
Anadite, Inc.	0	0	No	Cash	Fixed	Yes
Bush Hog, Inc.	0	0	No	Cash	Fixed	Yes
Dorchester Gas Producing Co.	1	0	No	Cash	Fixed	Yes
Internat'l Seaway Trading Co.	0	0	No	Cash	Dec.	Yes
Mohawk Rubber Co.	0	0	No	Cash-Purch.	Fixed	Yes
Sunset Internat'l Petroleum	NA	NA	NA	NA	NA	NA
<u>1964</u>						
Anthony Pools, Inc.	0	0	No	Cash	Fixed	Yes
California Computer Products	0	0	No	Cash	Dec.	Yes
Granite City Steel	0	0	No	Cash-Scrip	Fixed	Yes
Jade Oil & Gas Co.	0	0	No	Cash-Scrip	Fixed	Yes
National General Corp.	NA	NA	NA	NA	NA	NA
Yonkers Raceway, Inc.	NA	NA	NA	NA	NA	NA
<u>1965</u>						
Alcolac Chemical Corp.	0	0	No	Cash	Fixed	Yes
Baldwin-Montrose Chemical	0	0	No	Cash	Fixed	Yes
Chance (A.B.) Co.	0	0	No	Cash	Fixed	Yes
General Instrument Corp.	0	0	No	Cash	Fixed	Yes

Issues	Conversion		Adjustment For Interest of Dividends	Adjustment For Fractional Shares	Conv. Rate	Protected Against Dilution
	Begins After (Years)	Expires Before Maturity (Years)				
<u>1965 (Cont.)</u>						
International Silver Co.	0	0	No	Cash	Fixed	Yes
Revco (D.S.), Inc.	0	0	No	Cash	Fixed	Yes
Walston Aviation, Inc.	0	0	No	Cash	Fixed	Yes

APPENDIX C

FUNDED DEBT AND DIVIDEND RESTRICTIONS

Issues	Funded Debt Restriction	Type of Funded Debt Restriction*	Dividend Restriction	Type of Dividend Restriction*		
<u>1955</u>						
Aldens, Inc.	Yes	A	Yes	A		
Crosse & Blackwell Co.	No	NA	Yes	C		
Foremost Dairy, Inc.	Yes	A	Yes	A		
Lear, Inc.	Yes	B	Yes	C & E		
Northeastern Steel Corp.	No	NA	No	NA		
Servo Corp. of America	No	NA	No	NA		
<u>1956</u>						
ACP-Wrigley Stores, Inc.	No	NA	No	NA		
Century Food Markets Co.	Yes	E	Yes	C		
Eastern Corporation	Yes	A	Yes	D		
Georgia-Pacific Corp.	No	NA	No	NA		
Minneapolis-Moline Co.	No	NA	No	NA		
Security Banknote Co.	No	NA	No	NA		
Temco Aircraft Corp.	Yes	A	Yes	A		
Van Norman Industries, Inc.	Yes	A	Yes	A		
<u>1957</u>						
Barnwell Offshore, Inc.	No	NA	No	NA		
Brunswick-Balke-Collender	Yes	B	Yes	A		
Dayton Rubber Co.	No	NA	Yes	A		
Fischer & Porter Co.	Yes	A	Yes	G		
Kidde (Walter) & Co.	Yes	B	Yes	A		
National Alfalfa Dehydrating and Milling Company	Yes	F	Yes	E & F		
Reading & Bates Offshore Drilling Company	Yes	D	Yes	D		

Issues	Funded Debt Restriction	Type of Funded Debt Restriction*	Dividend Restriction	Type of Dividend Restriction*
<u>1957 (Cont.)</u>				
Texas City Chemicals, Inc.	No	NA	Yes	G
Weingarten (J.), Inc.	No	NA	Yes	C
<u>1958</u>				
Albemarle Paper Mfg. Co.	Yes	D	Yes	C
Belock Instrument Co.	Yes	A & C	Yes	D
Corn Products Corp.	No	NA	No	NA
Grand Union Co.	Yes	D	Yes	A
Miles Laboratories, Inc.	Yes	B	Yes	C
Richfield Oil Corp.	No	NA	No	NA
Walker-Scott Corp.	No	NA	Yes	A
<u>1959</u>				
Aldens, Inc.	Yes	B	Yes	A
Atlas Sewing Centers, Inc.	Yes	E	Yes	A
Brush Beryllium Co.	No	NA	Yes	C
Champion Paper & Fibre Co.	Yes	A	Yes	A
Eitel-McCullough	Yes	B	Yes	D
Gabriel Company	Yes	A	Yes	C & E
Gilpin (Henry B.) Co.	Yes	A	Yes	A
Kaman Aircraft Corp.	Yes	B & C	Yes	B
National Cleveland Corp.	Yes	F	Yes	E
Perrine Industries, Inc.	No	NA	Yes	B
Shop Rite Foods, Inc.	No	NA	Yes	D
Telechrome Manufacturing Co.	No	NA	No	NA
Victoreen Instruments Co.	Yes	A	Yes	D
<u>1960</u>				
Admiral Homes, Inc.	No	NA	Yes	F

Issues	Funded Debt Restriction	Type of Funded Debt Restriction*	Dividend Restriction	Type of Dividend Restriction*
<u>1960 (Cont.)</u>				
Avnet Electronics, Inc.	Yes	B	Yes	A
Collins Radio Co.	Yes	B	Yes	B
Elco Corporation	No	NA	Yes	D
Jefferson Lake Asbestos Co.	Yes	D	Yes	D
Loral Electronics Corp.	Yes	A	Yes	A
NAFI Corporation	Yes	B	Yes	A
Pacific Vegetable Oil Corp.	Yes	B	Yes	A
Ritter Corporation	Yes	B	Yes	A
Teleregister Corporation	No	NA	No	NA
Yuba Consolidated Industries	Yes	B	Yes	A
<u>1961</u>				
Airwork Corporation	No	NA	Yes	D
Apco Oil Corp.	No	NA	Yes	B
Brunswick Corporation	No	NA	Yes	A
Continental Vending Machine	Yes	A	Yes	B
Eastern Lime Corporation	Yes	C	Yes	A
Glenmore Distilleries Co.	Yes	B	Yes	A
Hoffman International Corp.	No	NA	Yes	B
Keystone Steel & Wire Co.	No	NA	Yes	A
Modern Homes Construction	No	NA	Yes	B
Photon, Inc.	No	NA	No	NA
Strauss-Duparquet, Inc.	No	NA	No	NA
Vinco, Inc.	No	NA	Yes	D
<u>1962</u>				
Air Reduction, Inc.	Yes	A	Yes	A
Arlan's Dept. Stores, Inc.	No	NA	Yes	A
Belco Petroleum Corp.	No	NA	Yes	B

Issues	Funded Debt Restriction	Type of Funded Debt Restriction*	Dividend Restriction	Type of Dividend Restriction*
<u>1962 (Cont.)</u>				
Doughboy Industries, Inc.	Yes	A	No	NA
Litton Industries, Inc.	No	NA	Yes	A
National Biscuit Co.	No	NA	No	NA
Peckham Industries, Inc.	No	NA	No	NA
Symington Wayne Corp.	Yes	B	Yes	A
<u>1963</u>				
Allen Electric & Equipment Co.	Yes	E	Yes	C & E
Anadite, Inc.	Yes	B	Yes	D & E
Bush Hog, Inc.	No	NA	No	NA
Dorchester Gas Producing Co.	No	NA	Yes	B
Internat'l Seaway Trading	Yes	A & B	Yes	A
Mohawk Rubber Co.	Yes	A	Yes	A
Sunset International Petroleum	No	NA	No	NA
<u>1964</u>				
Anthony Pools, Inc.	Yes	A	Yes	B
California Computer Products	Yes	B	No	NA
Granite City Steel Corp.	No	NA	Yes	C
Jade Oil & Gas Company	No	NA	No	NA
National General Corporation	No	NA	No	NA
Yonkers Raceway, Inc.	No	NA	No	NA
<u>1965</u>				
Alcolac Chemical Corp.	Yes	B	Yes	A
Baldwin-Montrose Chemical	Yes	C	Yes	B
Chance (A.B.) Co.	Yes	A	Yes	A
General Instrument Corp.	Yes	A	Yes	A

Issues	Funded Debt Restriction	Type of Funded Debt Restriction*	Dividend Restriction	Type of Dividend Restriction*
1965 (Cont.)				
International Silver Co.	Yes	B	Yes	A
Revco (D.S.), Inc.	No	NA	Yes	C
Walston Aviation, Inc.	Yes	C & E	Yes	B

FUNDED DEBT RESTRICTIONS*

- (A) Net Tangible Assets = At least (%) of funded debt.
- (B) Consolidated Tangible Assets - Consolidated Current Liabilities = at least (%) of Funded Debt.
- (C) Average Net Income = At least (%) of Annual Fixed charges on Funded Debt.
- (D) No Senior Debt in excess of the sum of Debentures + Consolidated Capital and Surplus.
- (E) Net Worth = (%) of Long Term Debt.
- (F) Does not authorize the issuance of additional securities or no funded debt may be created in excess of a dollar amount

DIVIDEND RESTRICTIONS*

- (A) Fixed Dollar + Net Income + New Shares Sold.
- (B) Net Income + New Shares Sold.
- (C) Fixed Dollar + Net Income.
- (D) Dividends not in Excess of stated (%) of Net Income.
- (E) Dividend cannot reduce Net Working Capital below Dollar amount.
- (F) Current Assets at least (%) of Current Liabilities and Funded Debt.
- (G) Dividends cannot be paid while a specified debt is outstanding.

APPENDIX D

SINKING FUND PROVISION

Issues	Years Before Mandatory Contributions May Begin	Determination of Mandatory Contribution Rate	Optional Sinking Fund Contribution	Optional Sinking Fund Contribution Restricted
<u>1955</u>				
Aldens, Inc.	5	Fixed	Yes	Yes
Crosse & Blackwell Co.	NA	NA	NA	NA
Foremost Dairy, Inc.	6	Variable	No	No
Lear, Inc.	6	Fixed	Yes	Yes
Northeastern Steel Corp.	2	Variable	No	No
Servo Corp. of America	4	Variable	No	No
<u>1956</u>				
ACP-Wrigley Stores, Inc.	6	Fixed	Yes	Yes
Century Food Markets Co.	NA	NA	NA	NA
Eastern Corporation	10	Other	No	No
Georgia-Pacific Corp.	11	Fixed	No	No
Minneapolis-Moline Co.	0	Other	No	No
Security Banknote Co.	1	Other	No	No
Temco Aircraft Corp.	3	Fixed	Yes	Yes
Van Norman Industries, Inc.	5	Variable	No	No
<u>1957</u>				
Barnwell Offshore, Inc.	5	Fixed	No	No
Brunswick-Balke-Collender	6	Fixed	Yes	Yes
Dayton Rubber Co.	5	Variable	Yes	Yes
Fischer & Porter Co.	3	Fixed	Yes	Yes
Kidde (Walter) & Co.	5	Fixed	No	No
National Alfalfa Dehydrating and Milling Company	2	Other	No	No
Reading & Bates Offshore Drilling Company	5	Fixed	No	No

Issues	Years Before Mandatory Contribution May Begin	Determination of Mandatory Contribution Rate	Optional Sinking Fund Contribution	Optional Sinking Fund Contribution Restricted
<u>1957 (Cont.)</u>				
Texas City Chemicals, Inc.	3	Other	No	No
Weingarten (J.), Inc.	0	Fixed	Yes	Yes
<u>1958</u>				
Albemarle Paper Mfg. Co.	11	Fixed	No	No
Bellock Instrument Co.	11	Fixed	No	No
Corn Products Corp.	0	Fixed	No	No
Grand Union Co.	11	Fixed	Yes	Yes
Miles Laboratories, Inc.	6	Fixed	Yes	Yes
Richfield Oil Corp.	11	Fixed	No	No
Walker-Scott Corp.	3	Fixed	No	No
<u>1959</u>				
Aldens, Inc.	6	Fixed	Yes	Yes
Atlas Sewing Centers, Inc.	2	Other	No	No
Brush Beryllium Co.	4	Variable	No	No
Champion Paper & Fibre Co.	11	Fixed	No	No
Eitel-McCullough	5	Fixed	Yes	Yes
Gabrial Co.	6	Variable	No	No
Gilpin (Henry B.) Co.	8	Fixed	No	No
Kamon Aircraft Corp.	6	Fixed	No	No
National Cleveland Corp.	3	Variable	No	No
Ferrine Industries, Inc.	3	Variable	No	No
Shop Rite Foods, Inc.	6	Fixed	No	No
Telechrome Manufacturing Co.	3	Fixed	No	No
Victoreen Instruments Co.	3	Other	No	No
<u>1960</u>				
Admiral Homes, Inc.	6	Fixed	Yes	Yes

Issues	Years Before Mandatory Contribution May Begin	Determination of Mandatory Contribution Rate	Optional Sinking Fund Contribution	Optional Sinking Fund Contribution Restricted
<u>1960 (Cont.)</u>				
Avnet Electronics, Inc.	5	Fixed	No	No
Collins Radio Co.	10	Fixed	Yes	Yes
Elco Corporation	2	Other	No	No
Jefferson Lake Asbestos Co.	6	Other	No	No
Loral Electronics Corp.	10	Fixed	Yes	Yes
NAPI Corporation	10	Fixed	Yes	Yes
Pacific Vegetable Oil Corp.	3	Fixed	Yes	Yes
Ritter Corporation	10	Fixed	Yes	Yes
Teleregister Corp.	5	Variable	Yes	Yes
Yuba Consolidated Industries	6	Fixed	Yes	Yes
<u>1961</u>				
Airwork Corporation	4	Fixed	No	No
Apco Oil Corporation	7	Fixed	No	No
Brunswick Corporation	10	Fixed	Yes	Yes
Continental Vending Machine	1	Fixed	No	No
Eastern Lime Corporation	3	Fixed	No	No
Glenmore Distilleries Co.	6	Fixed	Yes	Yes
Hoffman International Corp.	NA	NA	NA	NA
Keystone Steel & Wire Co.	5	Fixed	Yes	Yes
Modern Homes Construction	5	Fixed	Yes	Yes
Photon, Inc.	NA	NA	NA	NA
Strauss-Duparquet, Inc.	2	Other	No	No
Vinco, Inc.	2	Variable	No	No
<u>1962</u>				
Air Reduction, Inc.	15	Fixed	Yes	Yes
Arlan's Department Stores, Inc.	10	Fixed	Yes	Yes
Belco Petroleum Corp.	9	Fixed	No	No

Issues	Years Before Mandatory Contribution May Begin	Determination of Mandatory Contribution Rate	Optional Sinking Fund Contribution	Optional Sinking Fund Contribution Restricted
<u>1962 (Cont.)</u>				
Doughboy Industries, Inc.	5	Fixed	No	No
Litton Industries, Inc.	10	Fixed	Yes	Yes
National Biscuit Co.	0	Fixed	No	No
Peckham Industries, Inc.	NA	NA	NA	NA
Symington Wayne Corp.	12	Variable	No	No
<u>1963</u>				
Allen Electric & Equipment Co.	3	Other	No	No
Anadite, Inc.	4	Fixed	Yes	Yes
Bush Hog, Inc.	3	Variable	No	No
Dorchester Gas Producing Co.	4	Variable	Yes	Yes
International Seaway Trading	3	Fixed	Yes	Yes
Mohawk Rubber Co.	10	Fixed	Yes	Yes
Sunset International Petroleum	9	Fixed	No	No
<u>1964</u>				
Anthony Pools, Inc.	3	Variable	Yes	Yes
California Computer Products	5	Fixed	Yes	Yes
Granite City Steel Corp.	17	Fixed	No	No
Jade Oil & Gas Co.	5	Variable	No	No
National General Corp.	6	Variable	No	No
Yonkers Raceway, Inc.	5	Fixed	Yes	Yes
<u>1965</u>				
Alcolac Chemical Corp.	11	Fixed	Yes	Yes
Baldwin-Montrose Chemical	8	Variable	No	No
Chance (A.B.) Co.	1	Fixed	Yes	Yes
General Instrument Corp.	10	Fixed	Yes	Yes

Issues	Years Before Mandatory Contribution May Begin	Determination of Mandatory Contribution Rate	Optional Sinking Fund Contribution	Optional Sinking Fund Contribution
1965 (Cont.)				
International Silver Co.	10	Fixed	Yes	Yes
Revco (D.S.), Inc.	11	Fixed	No	No
Walston Aviation, Inc.	2	Variable	No	No

APPENDIX E

REDEMPTION PROVISION

Issues	Issuance to Maturity (Years)	Years Before Call May Begin	Beginning Call Price to Par (Years)	Sinking Fund Call	Years Before Sinking Call May Begin	Call Price For Sinking Fund
<u>1955</u>						
Aldens, Inc.	15	0	15	Yes	5	Dec. Prem. 0
Crosse & Blackwell Co.	10	0	10	No	0	105
Foremost Dairy, Inc.	25	0	105-Mature	Yes	6	Dec. Prem. 100
Lear, Inc.	15	0	15	Yes	6	Dec. Prem. 100
Northeastern Steel Corp.	20	0	20	Yes	2	Dec. Prem.
Servo Corp. of America	20	1	19	Yes	4	Dec. Prem.
<u>1956</u>						
ACP-Wrigley Stores, Inc.	15	0	15	Yes	6	100
Century Food Markets Co.	20	0	20	No	0	0
Eastern Corporation	25	0	25	Yes	10	100
Georgia-Pacific Corp.	15	0	101-Mature	Yes	11	101
Minneapolis-Moline Co.	30	1	6	Yes	0	100
Security Banknote Co.	20	0	0	Yes	1	100
Temco Aircraft Corp.	15	0	15	Yes	3	100
Van Norman Industries, Inc.	20	0	20	Yes	4	100
<u>1957</u>						
Barnwell Offshore, Inc.	10	0	10	Yes	5	100
Brunswick-Balke-Collender	15	0	15	Yes	6	100
Dayton Rubber Co.	15	0	15	Yes	5	Dec. Prem.
Fischer & Porter Co.	20	0	20	Yes	3	Dec. Prem.
Kidde (Walter) & Co.	15	0	15	Yes	5	100
National Alfalfa Dehydrating and Milling Company	18	0	0	Yes	2	100
Reading & Bates Offshore Drilling Company	20	0	6	Yes	5	100

Issues	Issuance to Maturity (Years)	Years Before Call May Begin	Beginning Call Price to Par (Years)	Sinking Fund Call	Years Before Sinking Fund Call May Begin	Call Price For Sinking Fund
<u>1957 (Cont.)</u>						
Texas City Chemicals Co.	10	0	0	Yes	3	100
Weingarten (J.), Inc.	30	0	103-Mature	Yes	0	101
<u>1958</u>						
Albemarle Paper Mfg. Co.	20	0	20	Yes	11	100
Bellock Instrument Co.	15	0	15	Yes	6	100
Corn Products Corp.	25	20	3	No	0	0
Grand Union Co.	20	0	20	Yes	11	100
Miles Laboratories, Inc.	20	0	20	Yes	6	100
Richfield Oil Corp.	25	0	25	Yes	11	100
Walker-Scott Corp.	15	0	15	Yes	3	100
<u>1959</u>						
Aldens, Inc.	20	0	20	Yes	6	100
Atlas Sewing Centers, Inc.	25	0	25	No	0	0
Brush Beryllium Co.	15	0	15	Yes	4	100
Champion Paper & Fibre Co.	15	0	15	Yes	11	100
Eitel-McCullough	15	0	15	Yes	5	100
Gabriel Co.	15	2	13	Yes	6	100
Gilpin (Henry B.) Co.	15	0	7	Yes	8	100
Kaman Aircraft Corp.	15	0	14	Yes	6	100
National Cleveland Corp.	12	0	101-Mature	Yes	3	100
Perrine Industries, Inc.	20	0	20	Yes	3	100
Shop Rite Foods, Inc.	15	0	15	Yes	6	100
Telechrome Manufacturing Co.	10	3	7	Yes	3	100
Victoreen Instruments Co.	15	0	15	Yes	3	100
<u>1960</u>						
Admiral Homes, Inc.	20	0	20	Yes	6	100

Issues	Issuance to Maturity (Years)	Years Before Call May Begin	Beginning Call Price to Par (Years)	Sinking Fund Call	Years Before Sinking Fund Call May Begin	Call Price For Sinking Fund
<u>1960 (Cont.)</u>						
Avnet Electronics Corp.	15	0	0	Yes	5	100
Collins Radio Co.	20	0	20	Yes	10	100
Elco Corporation	15	0	15	Yes	2	100
Jefferson Lake Asbestos Co.	12	0	101-Mature	Yes	6	100
Loral Electronics Corp.	20	0	20	Yes	5	Dec. Prem.
NAFI Corporation	20	0	20	Yes	5	Dec. Prem.
Pacific Vegetable Oil Corp.	15	0	15	Yes	3	100
Ritter Corp.	20	0	20	Yes	6	Dec. Prem.
Teleregister Corp.	20	0	20	Yes	5	100
Yuba Consolidated Industries	15	0	15	Yes	6	100
<u>1961</u>						
Airwork Corporation	15	3	12	Yes	4	100
Apco Oil Corp.	20	0	0	No	0	0
Brunswick Corp.	20	0	20	Yes	5	100
Continental Vending Machine	15	0	15	Yes	1	100
Eastern Lime Corp.	15	0	13	Yes	3	100
Glenmore Distilleries Co.	20	0	20	Yes	6	100
Hoffman International Corp.	12	2	8	No	0	0
Keystone Steel & Wire Co.	20	0	20	Yes	5	Dec. Prem.
Modern Homes Construction	20	0	20	Yes	5	100
Photon, Inc.	10	1	1	No	0	0
Strauss-Duparquet, Inc.	15	0	15	Yes	2	100
Vinco, Inc.	15	0	15	Yes	2	100
<u>1962</u>						
Air Reduction, Inc.	25	0	25	Yes	15	100
Arlan's Dept. Stores, Inc.	20	0	20	Yes	10	100
Belco Petroleum Corp.	15	0	15	Yes	9	100

Issues	Issuance to Maturity (Years)	Years Before Call May Begin	Beginning Call Price to Par (Years)	Sinking Fund Call	Years Before Price Sinking Fund For Call May Begin	Call Price Sinking Fund
<u>1962 (Cont.)</u>						
Doughboy Industries, Inc.	15	0	15	Yes	5	100
Litton Industries, Inc.	25	0	25	Yes	5	100
National Biscuit Co.	25	10	15	No	0	0
Peckham Industries, Inc.	10	0	105-Mature	No	0	0
Symington Wayne Corp.	20	0	20	Yes	12	100
<u>1963</u>						
Allen Electric & Equipment Co.	13	3	7	Yes	4	100
Anadite, Inc.	15	5	10	Yes	4	100
Bush Hog, Inc.	20	2	18	No	0	0
Dorchester Gas Producing Co.	13	3	10	Yes	4	100
Internat'l Seaway Trading Co.	12	0	12	Yes	3	100
Mohawk Rubber Co.	20	0	20	Yes	10	100
Sunset Internat'l Petroleum	20	0	0	No	0	0
<u>1964</u>						
Anthony Pools, Inc.	15	3	12	Yes	3	100
California Computer Products	20	0	20	Yes	5	100
Granite City Steel	30	0	30	No	0	0
Jade Oil & Gas Co.	15	1	0	Yes	6	100
National General Corp.	20	0	0	No	0	0
Yonkers Raceway, Inc.	20	5	15	Yes	5	100
<u>1965</u>						
Alcolac Chemical Corp.	20	0	20	Yes	5	100
Baldwin-Montrose Chemical	15	0	0	Yes	8	100
Chance (A.B.) Co.	20	0	20	Yes	1	100
General Instrument Corp.	20	0	20	Yes	10	100

Issues	Issuance to Maturity (Years)	Years Before Call May Begin	Beginning Call Price to Par (Years)	Sinking Fund Call	Years Before Sinking Call May Begin	Call Price For Sinking Fund
<u>1965 (Cont.)</u>						
International Silver Co.	20	0	20	Yes	10	100
Revco (D.S.), Inc.	20	0	20	No	0	0
Walston Aviation, Inc.	15	0	15	Yes	2	100