



# THE VALUE LINE

## Convertibles Survey

PART 1

Volume 32

Number 10

www.valueline.com

PAGES 305-312

### *The Convertible Strategist*

March 12, 2001

## Fluctuating Equity Markets and Interest Rates: Their Effect on Convertibles

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Designed as hybrid instruments, convertibles can be broken down into two components; a "straight", non-convertible, bond or preferred stock and a warrant on the issue's underlying interest. By combining the estimated values for each of these components, analysts project a fair market value for a convertible's price. However, depending on analyst's assumptions, the value of each component and the projected fair market value can vary significantly. Still, with one component representing a fixed income security and the other an equity play on the underlying common, convertibles can be determined to be yield plays, equity plays or both—depending on the degree to which one component dominates its pricing. As a result, a portfolio of convertibles can be tailored to have greater exposure to equity or interest rate sensitivity, depending on an investor's investment goals and outlook. Convertibles trading close to conversion value—especially if they offer some degree of call protection—add greater value to the warrant component of the issue. As an issue's premium over conversion value decreases, its sensitivity to the movements in the underlying stock's price will increase. On the other hand, convertibles trading near investment value and well above conversion value will respond more like a straight bond or preferred stock, rising and falling in relationship to bonds or preferreds of similar investment grade, terms and coupon (stated yield).

### Choosing The Right Convertible

Convertibles recommended for purchase can be found each week on our Especially Recommended list, on the third page of this section. These issues are a subset of our 1-ranked issues, which are listed on page V-1 of Part 2, The Convertible Evaluation section, each week. Our Especially Recommended issues, however, are screened from the general list for favorable pricing, some amount of call protection, favorable leverage, and a yield advantage over its underlying common stock; factors which can make an issue a risky play even though our model gives them top ranking. In addition, we screen for factors such as time to maturity, quality, yield to maturity, and risk of being called for refinancing, which affect the performance of all interest rate-sensitive instruments. Still, while all of the Especially Recommended issues appear attractive in relation to their inherent risk, as measured by the relative volatility of each issue, the choice of which convertible to buy can be slanted to issues that are equity- or interest-rate plays, or both.

As mentioned, a specific convertible will have varying sensitivity to interest rate changes or a change in the price of its underlying stock. A convertible trading close to its conversion

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### NOTICE

You can now access our entire publication on the Worldwide Web (the Net) at [www.valueline.com](http://www.valueline.com). The Value Line Electronic Convertible Service is designed to appeal to institutions and individuals alike. It removes the delay experienced via the U.S. Postal Service and the spreadsheets give users some amount of flexibility that is not possible with the printed version. We encourage those convertible investors who loathe to part with the printed service to subscribe to the online version as well. As of June 7, 1999, the VL Convertible Service became available on the Internet. Subscribers to our eight-week trial period, at a cost of \$65.00, have access to both the printed and online versions. If you were a full-time subscriber before May 10, 1999, you will also get access to the online service while still receiving your printed version until renewal time, when a choice between printed or online version has to be made. Orders received after May 10, 1999 must choose either the printed or online service. We encourage convertible investors to browse our service as we continue to provide one of the widest databases of information on convertible securities in the industry. After viewing our product, any opinion or suggestions for improvement will be welcomed. Call us at (800) 634-3583 or (212) 907-1595 or e-mail us at [vlconv@valueline.com](mailto:vlconv@valueline.com).

## Changes in Current Recommendations

This week, the DaVita (Total Renal Care) 5.625s2006 joins its sister convertible on our Especially Recommended list. In addition, Affymetrix' 4.75s2007, which moved to the big service last week, is now rated for purchase. There are no sell recommendations this week.

### WARRANTS – HIGH RISK

Company: **Washington Group**

Convertible: '03 Warrant

	Rank	Old Rank
Common:	2ve	1e
Convertible:	-	2e

Reason for rank change: We suspended the rank of this warrant based on the recent developments in the company's financial outlook. Over the past week both the common and warrant plummeted in price; the common fell 89%, while the warrant fell 88%. Currently, we are closely monitoring the situation and hope to better inform investors next week.

Recommendation: Hold.

On Friday (March 2<sup>nd</sup>), Washington Group announced it could be facing "severe near-term liquidity problems." The company is blaming its liquidation problems on the delay in resolving price adjustments from its acquisition of Raytheon Engineers & Constructors, which was completed in July 2000, when Washington Group paid \$53 million and assumed \$450 million in debt.

Washington Group reported they have incurred "substantial cost overruns and negative cash flows" in some of its projects acquired from Raytheon and is seeking substantial cash retribution from Raytheon for the deception in its balance sheet applying to the acquired business. Raytheon has refuted these arguments by stating they informed Washington Group in the due-diligence process that four of the projects were "high risk" projects. As a result, Washington Group has delayed the release of its forth-quarter results until Friday March 16. A.P.P.

### ABOVE AVERAGE PROFIT POTENTIAL – ABOVE AVERAGE VOLATILITY

Company: **Province Healthcare**

Convertible: 4.5s2005 (144A) cv deb

	Rank	Old Rank
Common:	2ve	1e
Convertible:	2ve	1e

Reason for rank change: The common rank was demoted on the performance of the ranking system used in the VLIS Expanded Edition. The convertible rank followed.

Recommendation: Hold.

This unregistered convertible was issued back in November 2000 and was sold to

(Continued on page 309)

## HOLD AND SELL RECOMMENDATIONS

Issues recommended for purchase appearing on the facing page are continuously monitored until a Sell recommendation or other advice appears on this page. The table below consists of all previously recommended issues whose ranks have either fallen to 2 (Above Average) and are considered holds, dropped to 3 (Average) and are now considered sells, or have been suspended (indicated by a "-"), usually because of involvement in a merger, tender offer or redemption.

DATA ON CONVERTIBLES AND WARRANTS	Page Ref.	Exch.	Recent Price	Performance Rank			COMMON DATA		
				Rel. Vol.	Current Yield	Recent Price	Perf Rank	Rel. Vol.	
<b>Warrants - High Risk</b>									
✓ Washington Grp '03 wt		N	0.360	-xe	115%	NIL	1.070	2 e	90%
<b>Above Average Profit Potential - Above Average Volatility (RV 95% or Above)</b>									
Activision 6.75s2005 (144A/R) cv deb	279	O	126 3/8	2 e	190	5.3	23 3/16	3 e	240
AES Corp 4.5s2005 cv deb	262	N	215	2	105	2.1	56 5/8	2	110
CV Therapeutics 4.75s07(144A/R) cv deb	58	O	73 7/8	2 e	95	6.4	35	3 e	210
✓ Province HlthCare 4.5s05 (144A) cv deb		O	106 5/8	2ve	110	4.2	33 7/16	2ve	220
<b>Moderate Profit Potential - Modest Volatility (RV 65% to 90%)</b>									
Charming Shoppes 7.5s2006 cv deb	37	O	101 3/4	2	85	7.4	6 5/8	3	135
Comverse Tech 4.5s2005 (144A/R) cv deb	58	O	348 3/4	2	90	1.3	75 7/16	1	150
Elan Fin. 0s2018 (144A/R) cv deb	311	O	82 1/8	2	75	NIL	54 1/8	2	105
✓ Incyte Genomics 5.5s07 (144A/R) cv deb	341	O	65 1/8	2x	65	8.4	17 1/16	3x	150
IVAX Corp 5.5s2007 (144A) cv deb	358	O	122 3/8	2	70	4.5	36 7/8	2	145
Nuevo Energy (Fin'g) \$2.875 A cv pfd	333	N	27 3/4	2	85	10.3	17 3/8	3	135
Offshore Logistics 6s2003 cv deb	55	O	113 3/4	2 e	80	5.3	24 3/16	2 e	120
Sensormatic Elec \$1.625 (144A/R) cv pfd	326	O	30 1/2	2	90	5.3	21 13/16	2	135
✓ TriQuint Semicond 4s07 (144A/R) cv deb	61	O	65 3/4	2ve	65	6.1	19	3ve	220
<b>Modest Profit Potential - Low Volatility (RV 60% or Below)</b>									
Avatar Holdings 7s2005 cv deb	344	O	94	2 e	40	7.4	22	3 e	70
Gen'l Semicond 5.75s06 (144A/R) cv deb	318	O	84 1/4	2 e	55	6.8	9 5/8	4 e	145
Inco Ltd 7.75s2016 cv deb	287	N	96 1/8	2	30	8.0	18 3/4	3	95
L-3 Comm. Hldgs 5.25s09 (144A) cv deb	326	N	120 5/8	2 e	60	4.4	82 3/4	2 e	105
National Data Corp 5s2003 cv deb	255	N	93 1/8	-	40	5.4	25 3/4	-	130

### THE VALUE LINE Convertibles Survey

Volume 32, No. 10-March 12, 2001

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The Value Line Convertibles Survey (ISSN 1081-986X) is published 48 times a year on the first four Mondays of each month by Value Line Publishing, Inc., 220 East 42nd Street, New York, NY 10017-5891. Subscription Rate: One year in the U.S. and U.S. possessions: \$525. Foreign rates upon request. Periodicals postage paid at New York, NY and additional mailing offices.

POSTMASTER: Send address changes to: The Value Line Convertibles Survey, 220 East 42nd Street, New York, NY 10017-5891.

# Especially Recommended Issues

**COMMON DATA**

**DATA ON CONVERTIBLES AND WARRANTS**

Name	Page Ref	Exch	Recent Price	Performance Rank		Rel. Vol.	Current Yield	Liquidity Grade		Recent Price	Perf Rank	Rel. Vol.
				↓	↓			↓	↓			
<b>Warrants - High Risk</b>												
There are no recommendations this week.												
<b>Above Average Profit Potential - Above Average Volatility (Relative Volatility 95% or Above)</b>												
Arkansas Best \$2.875 A cv pfd	86	O	51 1/4	1	100%	5.6	4	19 1/16	1	130%		
Invitrogen 5.5s2007 (144A/R) cv deb	327	O	118 3/4	1 e	150	4.6	3	77 1/2	1 e	270		
WinStar Comm \$72.50 F (144A/R) cv deb	88	O	45 1/2	1	105	15.9	2	11 5/16	3	220		
<b>Moderate Profit Potential - Modest Volatility (Relative Volatility 65% to 90%)</b>												
✓ Affymetrix 4.75s2007 (144A/R) cv deb	295	O	69 7/8	1x	65	6.8	3	56 5/8	2x	130		
Alexion Pharma. 5.75s07 (144A/R) cv deb	309	O	53	1 e	65	10.8	3	25 15/16	3 e	260		
Biovail \$3.375 cv pfd	162	N	70	1	90	5.3	2	38 3/8	1	135		
CNET 5s2006 (144A/R) cv deb	311	O	65	1	65	7.7	3	11 7/8	3	260		
✓ DaVita (Tot Renal) 5.625s2006 cv deb	351	O	90 3/8	1^e	90	6.2	3	17 1/4	1^e	195		
✓ DaVita(Tot Renal) 7s09 (144A/R) cv deb	351	O	86 7/8	1 e	85	8.1	2	17 1/4	1^e	195		
Fin'l Federal 4.5s2005 (144A/R) cv deb	184	O	97	1 e	65	4.6	3	27 3/4	2 e	100		
Health Mgmt 0.25s2020 (144A/R) cv deb	0	N	68 1/8	1	65	.4	2	17	1	140		
Lennar 0s2018 (144A/R) cv deb	328	O	54 3/8	1	75	NIL	3	36 3/16	1	120		
Owens&Minor Tr \$2.688 A(144A/R) cv pfd	325	O	43 5/8	1	85	6.2	3	15	2	110		
<b>Univ'l Hlth Svcs 0.43s20 (144A) cv deb</b>		O	58 5/8	1	65	.7	2	89 5/8	1	100		
<b>Modest Profit Potential - Low Volatility (Relative Volatility 60% and below)</b>												
ACT Manufacturing 7s07 (144A/R) cv deb	250	O	62	1 e	55	11.3	3	18 5/8	3 e	210		
Alkermes 3.75s2007 (144A/R) cv deb	58	O	68 5/8	1 e	50	5.5	3	30 1/8	3ve	260		
✓ Belco Oil & Gas Corp. \$1.625 cv pfd	62	N	15 9/16	1^e	55	10.5	2	9 1/4	3ve	55		
Checkpoint Sys 5.25s05 (144A/R) cv deb	306	O	73	1	40	7.2	1	9 3/16	1^e	150		
Cypress Semiconductor 4s2005 cv deb	165	O	84	1	30	4.8	2	19 1/8	3	155		
E*TRADE Group 6s2007 (144A/R) cv deb	62	O	66 5/8	1	35	9.0	3	9 3/8	3	240		
Getty Images 5s2007 (144A/R) cv deb	301	O	70 7/8	1 e	35	7.1	3	24 3/4	3 e	100		
Healthcare (Med'l Care) 6.75s06 cv deb	229	O	96 7/8	1	25	7.0	2	39	2	105		
Hercules Tr II \$65.00 UNIT cv pfd	328	O	57	1	55	11.2	3	14 7/16	3	100		
Kaman 6s2012 cv deb	93	O	82 1/8	1	45	7.3	5	16 1/4	2	90		
✓ Ligand (Glycomed) 7.5s2003 cv deb	96	O	81 7/8	1 e	20	9.2	3	11 3/8	2^e	165		
Magna Int'l 4.875s2005 (144A/R) cv deb	165	O	90 7/8	1	10	5.4	2	43 1/2	4	65		
MSC Software 7.875s2004 cv deb	263	A	95	1 e	30	8.3	2	10	3 e	125		
Omicare 5s2007 (144A/R) cv deb	192	O	83 7/16	1	50	6.0	3	21 3/16	2	160		
✓ Penn Treaty Am 6.25s03 (144A/R) cv deb	287	O	83 7/8	1 e	30	7.5	3	18 7/8	2^e	125		
RF Micro Devices 3.75s05 (144A/R) cv deb	62	O	65 1/8	1	40	5.8	1	12 5/8	3	240		
Robbins & Myers 6.5s2003 cv deb	271	O	102 1/8	1 e	60	6.4	3	25 1/2	3 e	130		
S3 Inc 5.75s2003 (144A/R) cv deb	349	O	87 1/4	1 e	15	6.6	3	9 3/8	4 e	250		
Semtech 4.5s2007 (144A/R) cv deb	162	O	90 1/2	1	60	5.0	3	26 3/4	2	210		
Speedway Mtspt 5.75s03 (144A/R) cv deb	48	N	97 7/8	1	40	5.9	3	24 3/4	2	115		
Sunrise Ast Liv 5.5s02 (144A/R) cv deb	13	O	95 3/4	1	15	5.7	3	23 3/4	1	160		
Systems & Comp Tech 5s2004 cv deb	349	O	72	1 e	20	6.9	3	11 7/8	3 e	190		
<b>TJX Companies 0s2021 (144A) cv deb</b>		<b>N</b>	<b>69 1/2</b>	<b>1</b>	<b>60</b>	<b>NIL</b>	<b>2</b>	<b>29 15/16</b>	<b>2</b>	<b>120</b>		
Vertex Pharm. 5s2007 (144A/R) cv deb		O	76 3/4	1	40	6.5	2	46	3	170		
ViroPharma 6s2007 (144A/R) cv deb	271	O	31 3/4	1 e	60	18.9	3	28	2 e	270		
Vitesse Semicond 4s05 (144A/R) cv deb	301	O	80 3/8	1	35	5.0	3	39 1/16	2	185		

Issues in bold type are recommended to Qualified Institutional Buyers.

- e VLIS Expanded Edition Rank
- RV Relative Volatility

- ◇ This security is currently callable or approaching callability. We advise subscribers not to buy this issue at a premium over conversion value. (See Part 2 for current premium, if any). Holders should be aware that if they are forced to convert a bond due to a redemption call, they may forfeit any accrued interest.
- ✓ This security is discussed in this issue, either in the Spotlight or Bulletin Board. We advise subscribers to check this discussion before taking any action.

Issues on the *Especially Recommended* list, above, are selected from the complete list of all 1-ranked issues (see cover page, Part 2). All 1-ranked issues are recommended for current purchase. The issues above are likely to be easier to trade, however. In addition, the convertibles shown above will always offer a yield advantage and more favorable leverage than their underlying stock. A change in price of up to 3% will not change our buy recommendation as long as the price of the underlying stock has changed by a similar percentage. When there is a question, however, use the "leverage projections" (see Columns 29-32, Part 2) to confirm that the price of the convertible has remained in line with its underlying stock.

One or more investment companies or investment advisory accounts for which Value Line, Inc. acts as investment advisor, and officers, directors, or employees of Value Line, Inc. or Value Line Publishing, Inc. may own securities which are reviewed or recommended here.

So that our subscribers may be on our recommendations one day earlier, Value Line Convertibles has installed a "Hot Line". Additions and deletions to our list of especially recommended issues will be announced over the hot line beginning 4:15 (New York Time) each Wednesday. Issues will be identified by page and line number, only, referring to the most recent edition of Part 2, and not by name so that the information will be of use only to current subscribers. The number to call is (212) 907-1923.

# Fluctuating Markets and Interest Rates: Effects on Convertibles

*Continued from Front Page*

value and high above its investment value will show very little price change in response to a change in interest rates. Similarly, convertibles trading near investment value and well above their conversion value will be highly sensitive to changes in interest rates and respond very little to movements in the underlying common. Furthermore, when interest rates are falling, convertibles with long maturities, low coupon rates and low quality will increase a portfolio's sensitivity to the drop. For rising interest rates, convertibles with short maturities, high coupon rates and high quality tend to desensitize portfolios to the rise—barring short-term interest rates rising dramatically faster than long-term rates. One way to determine an issue's sensitivity to changes in interest rates is the ratio of its conversion value to its estimated investment value. (Conversion and investment values can be found in columns 33 and 38 in Part 2, The Convertible Evaluation Section.) In general, issues with a ratio well below 1 will have a high sensitivity to changes in interest rates, while those with ratios well above 2 will have virtually no sensitivity.

## Expectations for Equity and Bond Markets

**Rising Equity Market/ Falling Interest Rates:** This is an ideal situation for convertibles and one that existed last year. In this type of market environment, both markets are moving in a direction that will boost an issue's price, barring weakness in an individual company. In this scenario, issues with low premiums over conversion value or investment value, or both are ideal.

**Rising Equity Market/Flat Interest Rates:** Issues with a low premium over conversion value are desirable to take advantage of rising equity values. Moderate premiums over investment value are preferable since interest rates are expected to remain stable.

**Rising Equity Market/Rising Interest rates:** The magnitude of the interest rate change and whether or not it is a minor fluctuation or a major trend play an important role in positioning a portfolio for this scenario. Minor fluctuations in interest rates will always occur and can often be overlooked. However, it is unusual for equity markets to make a sustained rise when interest rates rise substantially without retreating, because as interest rates increase, the attractiveness of the fixed income market as an equity alternative increases. As a result, capital often flows out of the equity market and into the bond market putting downward pricing pressure on equities. It is extremely rare for both markets to sustain this course for an extended period of time without one market bending. Still, if this type of market is expected to endure, a low premium over conversion value would be desired to take advantage of the rising equity market and a high premium over investment value, to limit sensitivity to the bond market. Conservative investors with this outlook may want to consider adding downside protection through convertible hedging (i.e., selling common short against the long convertible or selling covered call options) in case the equity market takes a downturn.

**Flat Equity Market/Falling Interest Rates:** As mentioned, outlooks for declining interest rates support issues with a low premium over investment value to capitalize on the issue's increase in both its fixed income value and equity price as its yield adjusts to new levels. A low premium over conversion value is not a prime requirement since equity markets are expected to remain flat—however, falling interest rates often boost equity markets—moderate premiums over conversion value would be desirable.

**Flat Equity Market/Flat Interest Rates:** Moderate premiums over conversion and investment values would be in order when both markets are expected to remain flat. This will offer some protection against a decline in either market and allow some participation in an upturn.

**Flat Equity Market/Rising Interest Rates:** If the outlook is for interest rates to go up, emphasis should be placed on convertibles with high premiums over investment value. However, rising interest rates rarely go hand in hand with a flat equity market and, as mentioned, a rising equity market. As a result, a moderate premium over conversion value is also desirable and hedge strategies should be considered.

**Falling Equity Market/Falling Interest Rates:** This type of market is also rare. Lower interest rates will normally boost stock prices as investors pursue the higher returns equities can offer. As a result, capital often flows out of fixed income markets and into stocks putting upward pricing pressure on equities. One would select issues with low premiums over investment values and high premiums over conversion values, if an investor believes this type of market will be sustainable.

**Falling Equity Market/Flat Interest Rates:** Here, the emphasis would be on issues with high premiums over conversion value and low premiums over investment value, reducing the sensitivity of the portfolio to the equity side.

**Falling Equity Market/Rising Interest Rates:** Most convertible investors view this type of market as a worst case scenario for convertibles because downward pricing pressure is placed on both components (bond and warrant) of the convertible. The strategy here would be to select issues that have high premiums over both conversion and investment value. A quest that is virtually impossible to find because of the inverse relationship of the premiums, in that if one is high, the issue will usually trade based on the traits of the other (either like a bond or an equity play). This would be an ideal time for investors to consider hedge strategies. In addition, issues should be selected on the financial strength of the company, focusing on industries that are likely to do well under the circumstances, as well as high yields that can help withstand the downturn.

# Fluctuating Markets and Interest Rates: Effects on Convertibles

## Final Note

The guidelines described above should enable a convertible investor to attain various desired levels of sensitivity to the bond and equity markets, given an individual's view of market prospects, investment goals,

and the magnitude of premium levels. In addition to conversion and investment value premium levels, investors can use an issue's leverage projections, which may be found in Columns 29 through 32 of Part 2, The Convertible Evaluation Section, and Stock Market Risk and Bond Market Risk,

found in columns 35 and 36, to aid in determining the sensitivity an issue has to the bond and equity markets.

Prepared by George Graham  
Editor

## Changes in Current Recommendations

*Continued from Page 306*

QIBs only. However, over the three months the issues has been as high as 120.42 on December 28<sup>th</sup> and as low as 87.27 on February 21<sup>st</sup>. Still, most of its call protection is still intact and for this reason we advise holders to keep their holdings. As the issue trades at a modest 26% premium over conversion value, there will be some modest participation in the activities of the underlying common stock. G.S.G.

### MODERATE PROFIT POTENTIAL - MODEST VOLATILITY

#### Company: Affymetrix

Convertible: 4.75s2007 (144A/R) cv deb

	Rank	Old Rank
Common:	2x	-X
Convertible:	1x	-X

Reason for rank change: The transition from the Expanded to the Standard Edition is now settled, and an above average rank was assigned to the common. This translated into a top rank for the convertible.

Recommendation: Buy.

Conversion Ratio: 6.23

Yield Advantage: 6.8%

Premium over Conversion Value: 98%

Premium over Investment Value: 3%

Leverage (Expected price Movement vs. the Common): 14% up; 2% down

Break-even Time: NMF

Call Provision: Not callable until February 20<sup>th</sup>, 2003; initial call price is 102.83, unless common trades at \$240.75 or above for 20 of 30 consecutive trading days.

Affymetrix is a biotechnology company that focuses their research in the field of DNA chip technology. The company develops and manufactures GeneChip prod-

ucts that are used to analyze and manage genetic information. It currently has a 6.8% yield advantage over the common and a yield to maturity of 12.3%. As a "busted" convertible, the issue displays minimal, but positive equity participation. G.S.G.

#### Company: DaVita (Total Renal)

Convertible: 7s2009 (144A/R) cv deb

	Rank	Old Rank
Common:	1^e	2 e
Convertible:	1 e	1 e

Reason for rank change: The common rank rose on the dynamics of the Performance ranking system in the VLIS Expanded Edition. The convertible is already top rated. Recommendation: Buy

The rise in the common rank augurs well for the buy recommendation we have on this issue. Although busted, the convertible still displays some positive equity participation should the equity start moving. G.S.G.

#### Company: Davita (Total Renal Care)

Convertible: 5.625s2006 cv deb

	New Rank	Old Rank
Common:	1e	2e
Convertible:	1e	2e

Reason for rank change: The common rank rose due on the dynamics of the Value Line common stock ranking system. The convertible rank followed suit.

Conversion Ratio: 39.030.

Yield Advantage: 6.3% (6.3% vs. NIL).

Premium over Conversion Value: 32%

Premium over Investment Value: 20%.

Leverage (Expected Price Movement vs. the Common): 38% up; 28% down.

Break-even Time: 3.75 yrs.

Call Provision: Callable at 103.38 until July 14, 2001.

Recommendation: Buy.

Davita, Inc. (previously named Total Renal Care Holdings) is now the second largest provider of dialysis services in the United States, treating more than 40,000 patients daily. Up until mid-1999, the company followed a very aggressive growth strategy, acquiring other dialysis businesses. Revenues expanded more than 10-fold over a 5-year period, but a rising debt burden caused the bottom line to sink. The company now appears to be well on the mend, however. Earnings last year came in at \$0.42 cents per share versus a loss of \$0.69 in 1999. For 2001, analysts are estimating that the bottom line will advance to around \$0.74. The Davita common, which still trades below where it was in 1998, is now ranked 1 by the Expanded Edition of the Value Line Investment Survey. We are recommending the 5.625s2006 convertible as a less risky alternative to the highly ranked common. With a relative volatility of 90% versus the common's 195%, it offers a 6.3% current yield and leverage to participate in 38% of a rise in the stock with exposure to only about 28% of a decline should the stock move 50% or more in either direction. The bond is currently callable, but is an unlikely call candidate, in our opinion, unless the stock rises by 60% to 70% from current levels and the company calls the bond to force conversion into the common.L.D.C.

#### Company: Incyte Genomics

Convertible: 5.5s2007 (144A/R) cv deb

	New Rank	Old Rank
Common:	3x	-X
Convertible:	2x	-X

Reason for rank change: Like Affymetrix, the shifting from the small service to the big service is now completed. The common was

## Changes in Current Recommendations

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assigned a neutral rank and the convertible a 2 rank. We already have this issue on our Hold table.

### Company: **TriQuint Semiconductor**

	New Rank	Old Rank
Convertible: 4s2007 (144A/R) cv deb		
Common:	3ve	2e
Convertible:	2ve	1e

**Reason for rank change:** The common rank was down on the dynamics of VLIS Expanded Edition Performance ranking system, the convertible rank fell in sympathy. Over the last week the common tumbled roughly 13.5%, while the convertible only fell 2.2%. The deterioration in the common price relative to the convertible only proves the importance of the convertible for downside protection.

**Recommendation:** Hold.

Currently, we do not advise any new purchases on the TriQuint convertible, but advise current holders to maintain their position and enjoy the 6.1% yield advantage,

along with the future prospects of the company and the industry. A.P.P.

### MODEST PROFIT POTENTIAL – LOW VOLATILITY

### Company: **Alkermes**

	New Rank	Old Rank
Convertible: 3.75s2007 (144A/R) cv deb		
Common:	3ve	2e
Convertible:	1e	1e

**Reason for rank change:** The common rank fell on the dynamics of the Value Line Investment Survey Expanded Edition ranking system. However, the convertible maintained its buy rating. Over the week, the common fell 6% while the convertible only declined 1.6%.

**Recommendation:** Buy.

The issue offers investors a 5.5% current yield advantage and a yield to maturity of 11.4% over the common, which does not pay dividends at this time. We continue to recommend this busted convertible on the basis of current income and as a less risky alterna-

tive to the common. The convertible is 81% less volatile than the common, based on their Relative Volatilities of 50% and 260%, respectively. The issue has a conditional call feature valid until February 17, 2003 that states that the common must reach and maintain \$135.5 for 20 of 30 consecutive trading days, before a call can be made. Currently, with the common trading at 30.125 and we do not see the conditional call coming into play anytime soon. A.P.P.

### Company: **Belco Oil & Gas**

	New Rank	Old Rank
Convertible: \$1.625 cv pfd		
Common:	3ve	2e
Convertible:	1^e	2e

**Reason for rank change:** The common rank was down on the dynamics of VLIS Expanded Edition Performance ranking system. However, the convertible outperformed the common over the week, falling 9.6% while the common fell only 5.6%. As a result, the premium over conversion value contracted and our leverage projections improved. According to our model, the preferred is now suitable for purchase, but recent news from the common has caused us to hold that buy recommendation. Recently, the company made a public announcement that after payment of the March dividend on this preferred, the company was uncer-

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### Convertibles Maturing in 2001

\*The following convertibles currently being evaluated in our service mature in 2001.

Chiquita Brands 7s2001	3/28/01
Camden Pty Trst 7.33s2001	4/01/01
Pliant Sys. (Broadband) 5s2001	5/15/01
Wachovia (S.C. Nat'l) 6.5s2001	5/15/01
Liberty Prop Trst 8s2001	7/01/01
Korea Electric Power 5s2001	8/01/01
St. Jude (Ventritex) 5.75s2001	8/15/01
Sports Authority 5.25s2001	9/15/01
Lechters 5s2001	9/27/01
Citigroup (Berkshire) 1s2001	12/02/01

### Additions:

XM Satellite Radio 7.75s2006 cv deb  
Viacom (Liberty Media) 3.25s2031 144A

### Deletions:

Elan (Athena Neuro) 4.75s2004 cv deb  
Alkermes \$3.25 cv pfd

### SOON TO BE CALLABLE

Over the next six issue dates, the call protection of the following convertible securities will expire.

Security	Call Date	Call Price	Premium
Doubleclick Inc. 4.75s2006 cv deb	03/15/01	\$1030.00	115%
Hutchinson Technology 6s2005 cv deb	03/15/01	\$1034.30	43%
Exodus Communications 5s2006 cv deb	03/15/01	\$1040.00	0%
Hyperion Solutions 4.5s2005 cv deb	03/20/01	\$1025.70	183%
CKE Restaurants 4.25s2004 cv deb	03/20/01	\$1021.30	NMF
Winstar Communications \$3.50 cv pfd	03/20/01	\$51.75	32%
Dura Automotive \$1.875 cv pfd	03/31/01	\$26.31	190%
Sensormatic Elec \$1.625 cv pfd	04/01/01	\$25.93	9%
Suiza Cap Trust \$2.75 cv pfd	04/01/01	\$51.72	24%
Clear Channel Comm 2.625s2003 cv deb	04/01/01	\$1010.50	13%
Vornado Realty Trust \$3.25 cv pfd	04/01/01	\$50.00	2%
EMCOR Group 5.75s2005 cv deb	04/01/01	\$1000.00	6%
Central Parking \$1.313 cv deb	04/03/01	\$25.75	52%
HealthSouth Corp. 3.25s2003 cv deb	04/04/01	\$1013.00	128%
Avatar Holdings 7s2005 cv deb	04/06/01	\$1047.80	36%
Alpharma 5.75s2005 cv deb	04/06/01	\$1032.90	5%
Union Pacific Co. \$3.125 cv pfd	04/10/01	\$51.56	25%
Emmis Communications \$3.125 cv pfd	04/15/01	\$52.46	24%
XO Communications \$3.25 cv pfd	04/15/01	\$50.00	9%
Genesco 5.5s2005 cv deb	04/17/01	\$1031.40	8%
Goodrich BF (Coltec) \$2.625 cv pfd	04/20/01	\$51.31	16%
Camden Property Trust \$2.25 A cv pfd	04/30/01	\$25.00	45%
Amkor Technologies 5.75s2003 cv deb	05/01/01	\$1023.20	2%

## Convertible Bulletin Board

### Cendant

Cendant (CUC) 3s2002 cv deb

0s2021 144A cv deb

Walter A Forbes, former Chairman and E. Kirk Shelton, former Vice Chairman, 2 top former executives of Cendant, (CD, 3, \$13.04) were convicted on criminal charges of fraudulently inflating the companies earnings. The scheme allowed CUC International to artificially inflate its stock price in order to acquire other companies, and to look more attractive on a merger basis. The two men are also guilty of insider trading as they both profited from the inflated stock price. Over the last two years shares of Cendant have plummeted from more than \$40 in April 1998, to today's current price of \$13, a market cap loss of over \$15 billion. Also, Cendant is once again the sole owner of Avis Group Hldgs. In 1997, Cendant spun off Avis however, three years later the two have once again become one, as Cendant purchased the remaining 26 million shares outstanding. Both, Cendants convertible bonds are ranked to under perform the market averages over the next 6-12 months.

### Rite Aid

5.25s2002 cv deb

Over the past two years, Rite Aid has had nothing but uncertainty surrounding the company financial accounting methods. Their financial statements were highly scrutinized for accounting irregularities. As debt continued to mount up and the possibility of Chapter XI crept into the picture, the common stock continued its descent from over \$40 to \$1.75 in the two year period. Now, resurgence from the company to reduce debt and streamline operation have improved the company such that the common stock up over 300% this year, while the convertible's future was uncertain, as it traded just slightly above the "junk-junk" rating. On February 6, 2001, the company offered to reset the exchange ratio on its 5.25s2002 convertible bond from 27.672 shares per \$1000.00, to 145 shares per \$1000.00. Note: The company will offer as much as \$321.6 million, or 90 percent, of the notes due in 2002 in exchange for common stock. The new exchange was an aggressive attempt on the company's part to reduce its debt load. The news sent the convertible price skyrocketing from \$295.60 on January 22, 2001 to \$503.80 on February 6, 2001. Currently, as of March 5, 2001, the issue trades at \$917.50, while the common trades at \$6.19. A.P.P.

### Corning

(OAK) 4.875s2008 cv deb

0s2015 cv deb

Corning (GLW, 3, \$29) said it would cut 825 jobs from its Photonic Technologies division, citing a slowdown in the telecommunications industry. The job cut will account for roughly 2% of Corning worldwide work force. The company stated the cut backs were the result of the weakness of key customers' demand. Earlier, Corning had already revised growth expectations for the division from 90% to 50%, however the company still believe with cost control and the continued strength of its other products that they will be able to achieve their 2001 EPS targets of \$1.40 to \$1.43. A.P.P.

### SpeedFam-IPEC

6.25s2004 cv deb

SpeedFam (SFAM, 3, \$8.44) announced they were laying off 220 people,

or 18% of its workforce. The semiconductor company is expected to report a net loss for the third quarter. Estimates for the loss range from \$46 to 58 million. The loss is largely due to a one-time accounting change mandated by the Securities and Exchange Commission under accounting bulletin 101. A.P.

### Chevron (Pennzoil)

4.95s2008 cv deb

4.9s2008 cv deb

### Texaco

3.5s2004 cv deb

On October 16, 2000, Chevron (CHV, 3, \$84.56) announced their intention to acquire Texaco (TX, -, \$63.05) in a \$100 billion stock-for-stock swap. A major hurdle in their efforts, the nod from the European Union Committee, has been passed as the EUC approved the merger, which it believes will only have minimal impact. The combined company would be the world's fourth-largest oil company. Now, the U.S. Federal Trade Commission must review and decide the fate of the two companies. Preliminary indications see no reason why the U.S. FTC will block the merger. If the merger is approved, each share of Texaco common will be converted into 0.77 shares of Chevron common. The new conversion ratio for Texaco 3.5s2004 convertible bond would be adjusted to about 10.9887 shares of Chevron common stock. A.P.P.

### Atrix Laboratories

7s2004 cv deb

Atrix announced the completion of the private transaction of exchanging approximately \$26 million (market value) of its 7% convertible bonds due 2004 for 1.46 million shares of its common stock. The effect of this transaction has reduced the outstanding float of the 7% convertible to approximately \$10 million from \$50 million. In reducing the outstanding debt load, Atrix enters the New Year with renewed strength in its balance sheet. A.P.P.

### Brightpoint

0s2018 CV deb

Brightpoint announced it has completed its repurchase of 130,000 of its convertible zero-coupon bonds due 2018. The board approved the plan as they saw an opportunity to repurchase their highly undervalued bonds. The bond carried a book value as of December 31, 2000 of \$506; while Brightpoint was able to buy these bonds in the open market for on average \$302 per bond. A.P.P.

### Exchange Offer

#### Loral Space & Communication

\$3.00 Series C cv pfd

\$3.00 Series D cv pfd

Loral (LOR, 4, \$3.49) has begun an exchange offer for Series C and Series D convertible preferred shares. Preferred shareholders have the option of exchange their Series C shares in to 4.1 shares of LOR common stock, while the Series D shareholders have a provisional condition to be met before the exchange is triggered. The condition states that the common price of Loral must reach at least \$22.80, before the offer is triggered. Terms of the exchange for the Series D have not been disclosed at this time, but the offer is expected to expire on March 22, 2001. A.P.P.

## Changes in Current Recommendations

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tain of future dividend payments. Based on that information, we are keeping the Belco Oil & Gas convertible preferred on the hold table. We are currently analyzing the prospects of the company to pay dividend on a regular basis going forward. A.P.P.

### Company: Checkpoint Systems

	Convertible: 5.25s2005 (144A/R) cv deb	
	New Rank	Old Rank
Common:	1 <sup>^</sup>	2
Convertible:	1	1

Reason for rank change: The common rank was up on dynamics of the Value Line common stock ranking system, thus strengthening the convertible's buy rating. Recommendation: Buy.

Currently, the model values this convertible as being 3% undervalued. With a 46% conversion premium, the issue may be considered busted, hence the minimal but positive equity participation. The issue has virtually no downside exposure as it currently trades on its bond floor. The convertible is 73% less volatile than the common based on their Relative Volatilities of 40% and 150%, respectively. The issue offers investors a 7.2% current yield and 13.6%

yield to maturity verses the common, which pays no dividend. On October 31, 2001, this issue becomes callable at \$1010.00. Currently, we do not see Checkpoint as a potential call candidate. Patient investors should enjoy the yield and future prospects of the company. A.P.P.

### Company: Ligand (Glycomed)

	Convertible: 5.25s2005 (144A/R) cv deb	
	New Rank	Old Rank
Common:	2 <sup>^</sup> e	3e
Convertible:	1e	1e

Reason for rank change: The common rank was up on the dynamics of the Value Line Expanded Edition Survey, while the convertible remained a buy rating.

Recommendation: Buy.

The move in the common only reiterates our buy rating on this busted convertible. The busted convertible has no equity participation as it trades 91% above its conversion value. However, the risk investors face here is a downgrade in the investment quality of this issue. Still, the convertible is 88% safer than the common based on their Relative Volatilities of 20% and 165%, respectively. Also, the convertible offers investors a 9.2% current yield advantage, while investors who remain in position to matu-

rity could see a 20.9% yield. We recommend this issue as a less risky alternative to the common, with the attraction of current income and capital appreciation. The issue is callable till December 31, 2001, at \$1000.00. We do not see the threat of this being a call candidate.

### Company: Penn Treaty Am.

	Convertible: 6.25s2003 (144A/R) cv deb	
	New Rank	Old Rank
Common:	2 <sup>^</sup> e	3e
Convertible:	1e	1e

Reason for rank change: The common was up on the dynamics of the Value Line Expanded Edition Survey. The convertible remained a buy, as the model deemed it to be 10% undervalued.

Recommendation: Buy.

This convertible has essentially only upside participation, as it trades 27% above its conversion value. However, for some reason the issue is trading 11% below its investment value, making the Penn convertible extremely attractive for its yield of 7.5% and its yield to maturity of 13.9%, but could also point to a upcoming downgrade inn investment quality. Currently, the issue is callable at \$1020.75, until November 30, 2001. Looking forward we do not see this as a likely call candidate. A.P.P.

## Redemption Notices

Description	Redemption Date	Face Amt Redeemed	Redemption Price Call prx + Accr'd int/div'd	Last Day of Conversion Priv	Allow Cash Call if Common Below	Conversion Value
ProLogis \$1.75 B cv pfd	20-Mar	1.282 Mil Shrs	\$25.44	13-Mar	\$19.84	\$26.86
HRPT Prop. 7.5s2003 cv deb	30-Mar	\$40.889 Mil	\$1000.00	30-Mar	\$17.99	\$44.11
Diamond Offshore 3.75s2007 cv deb	06-Apr	\$400 Mil	\$1026.11	05-Apr	\$41.56	\$109.21

## Recently Priced Convertible Issues

Company/Ticker	Price Talk Range/Actual Terms	Lead Underwriter	Cv Type	Type of Issue/ Days to Rgstrn	Offering Date	VLIS Cm Rk
XM Satellite Radio (XMSR)	\$125 Mil; 7.75%; 20% Conv Prem; 5 yr Mat; 3 yrs Hard Call Prot;	BS	Bond	REG	3/5/01	-
Viacom (Liberty Media) (VIA)	\$817.7 Mil; 3.25%; 9.25% Conv Prem; 30 yr Mat; 5 yrs Hard Call Prot;		Bond	144A	3/5/01	
Barnes & Noble (BKS)	\$200 Mil; 5.25-5.75%; 23-27% Conv Prem; 8 yr Mat CSFB		Bond	Proposed	3/8/01	
Fleming (FLM)	\$100 Mil; 5.25-5.75%; 20-25% Conv Prem; 8 yr Mat	BS, DBAB	Bond	Proposed	3/8/01	
Hanover Compressor (HC)	\$150 Mil; 4.75-5.25%; 21-25% Conv Prem; 7 yr Mat; 3 yrs Hard Call Prot;	GS	Bond	Proposed	3/8/01	