

## **INVESTING; Tide turns for 'distressed' debt specialists; They gobble up the scraps of co but please don't call them vultures.**

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### **Document Text**

CORRECTION: SEE CORRECTION APPENDED; 'Distressed' debt: An article in Thursday's Business section about investors companies in financial trouble misidentified Lakeside Advisors Group, a corporate finance advisory firm, as Lakeside Advisory (

The recent credit crunch and ensuing economic clouds have depressed a lot of people on Wall Street.

But not Wendy Landon.

An investor in "distressed" debt for a Boston investment firm, Landon makes money on companies that fall into trouble.

Since the credit crisis struck this summer, Landon has been scooping up bargain-priced bonds of faltering companies. Her firm profits if the borrowers' plight improves and they get back on track to pay off their debts in full.

Landon isn't alone in her enthusiasm for the financial markets' downturn.

She is part of a larger community of restructuring specialists, bankruptcy lawyers and others who profit in the wake of others' m themselves have suffered in recent years as a strong economy and free-flowing credit propped up companies that might otherv times.

"We are entering what should be a good time for distressed investing," Landon said. "I've been waiting a really long time."

The so-called vulture community prospered after the collapse of the Internet and telecommunications booms around 2002.

But the last few years were relatively fallow -- a fact that buyers of beaten-down debt blame on the easy-money era that appear summer.

While the good times rolled, troubled companies could easily refinance their debt or raise new cash, forestalling at least tempor

"Over the last several years, there have been companies that have been able to stay out of bankruptcy that I've been amazed t Brad Erens, a bankruptcy partner in the Chicago office of law firm Jones Day. "In more normal times, they would have filed [for couple of years ago."

That made it tough for distressed-debt firms such as Denver- based Summit Investment Management, which had to branch into three years ago as companies in financial trouble became hard to find.

"The big home runs you get when you buy distressed debt and play it right just weren't as frequent," said Frank Grimaldi, head "It was frustrating."

Now, however, the implosion of the sub-prime mortgage market and the resulting credit crunch are changing all that.

Bonds of companies with heavy debt loads have fallen in value. More than in the past, many companies are seen as at risk of f fundamental problems with their business operations but because they've simply taken on too much debt, some experts say.

Companies fell prey to the blandishments of investment bankers who encouraged aggressive borrowing, said Patrick Blott, hea in New York.

"Someone shows up on your door and says, 'Here is a rate and a debt level you can't refuse,' " Blott said. "It's partly [the compa Street's fault."

Now such a company may find its bonds being bought up by investors who are prepared, if the borrower defaults, to take control and convert the debt into equity -- either in the bankruptcy process or as part of an agreement that keeps the company out of court.

If that happens, the "loan to own" investors are likely to pressure management to turn things around. If it can't, the investors may buy the company and sell the assets.

Distressed-debt investors reject the notion that they're feasting on the pain of others. Instead, they see themselves as cleaning up the mess created. The investment firms say their restructuring advice and cash infusions can help companies pick themselves up.

"Nobody in the industry likes the phrase 'vulture,' " said Michael Imber of Lakeside Advisory Group, a corporate-restructuring advisor. "There's no question we have a counter-cyclical industry. I'd liken it to an emergency-room physician. You get called in because someone is bleeding profusely, and you need someone to stop the bleeding."

It's still early in the distressed-investing cycle, and the payday for investors may be pushed off again if the economy stays strong through next month's Federal Reserve interest-rate cut.

Nevertheless, distressed-debt players believe their prospects are brightening.

"There is a lot more buzz going on now -- where people are saying, 'We're going to get a lot busier' -- than I've seen in five or six years."

"As long as there are bad businessmen and bad bankers there will always be work for people in my industry."

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Credit: Times Staff Writer

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