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TRADE SECRETS Research

Looking Into Bankruptcy Law

Lorraine McGowen of Orrick, Herrington & Sutcliffe
relies on BLAW. By Tom Becker and Mary K. Wood

◀ LORRAINE MCGOWEN, HEAD of New York law firm Orrick, Herrington & Sutcliffe LLP's bankruptcy group, says the globalization of business means that U.S. lawyers must pay attention to the legal landscape of other nations. In the past, a company that filed for bankruptcy protection in New York might have had all of its units and creditors in the U.S. Now, corporations have subsidiaries around the globe, bringing a mix of laws into play when bankruptcy looms. "It's a challenge dealing with the cross-border issues, but it's a challenge I like," says McGowen, 43.

A global bankruptcy law would make people feel more secure about investing outside their borders, McGowen says. "If you expect investors to invest in a particular country, their first question is, What happens if the deal doesn't go well," she says. "They say, 'I want to know that my investment is going to be returned to me.' Who can blame them?"

McGowen says the U.S. bankruptcy code is emerging as a worldwide standard. Jay Westbrook, chairman of business law at the University of Texas School of Law, says the U.S. and the U.K. are among countries considering a global bankruptcy model called Chapter 15, which would be similar to Chapter 11 reorganization in the U.S. code. Formulating a common standard would make bankruptcy cases more efficient by creating common statutes and addressing

conflicts that may arise when a company based in one country files for bankruptcy protection in another.

McGowen, who relaxes on weekends by baking with her four daughters—six-year-old triplets and a five-year-old—earned a bachelor's degree from Georgetown University's Edmund A. Walsh School of Foreign Service in 1983. When she graduated from Columbia University's law school three years later, she thought she was leaving the world of conflicting government statutes behind to represent creditors in domestic bankruptcy proceedings. "I'm glad I was wrong," she says.

MCGOWEN TYPES BLAW <Go> for the main Bloomberg Law menu to begin reviewing the latest legal news and research. She then uses the Bloomberg Law Search (BLS) function to search through Bloomberg's legal and regulatory database for new bankruptcy cases. Type TLAW <Go> to list headlines for the day's top legal stories, or type BNKF <Go> for new bankruptcy filings. Type NH BL <Go> to monitor all headlines from the Bloomberg Law wire. For daily legal reports on new and ongoing securities cases, type SLDR <Go>.

McGowen also uses the Bloomberg Professional service to monitor potential bankruptcy filings. She types RATC <Go> to look for companies with recent credit rating reductions, limiting her



McGowen heads
Orrick Herrington's
bankruptcy group.

TRADE SECRETS

Research

Lorraine McGowen

Orrick, Herrington
& Sutcliffe

Partner

Current job: Serves as chairwoman of Orrick Herrington's bankruptcy and debt restructuring group, representing creditors and bondholder committees. Has worked on big bankruptcy cases such as US Airways Group Inc.'s.

Background: Received a bachelor's degree in international politics from Georgetown University before earning a juris doctorate from Columbia Law School. Started as a summer associate at Milbank, Tweed, Hadley & McCloy in Washington and then joined its bankruptcy group. She also worked as a bankruptcy attorney at Bogle & Gates in Seattle. She's been at Orrick Herrington for 11 years and was made a partner in 1996.

Personal: Age 43. Married, with four children. Enjoys baking.

Favorite functions: Bloomberg Law (BLAW) and Company Credit Rating Revisions (RATC)

Bloomberg Law Search

Type **BLAW** <Go> for a menu of legal news, research and other law-related functions. Click on **BBLs** to look for documents based on source and topic. You can save the searches that you create.



search to ratings that are below investment grade. She clicks on the Rating Search Criteria button to specify rating types, rating firms and direction of rating changes. Then she begins checking the level and maturity status of the downgraded company's debt. Type the company's ticker symbol and <Equity> ISSD <Go> to analyze the company's aggregate debt information. Next, type DDIS <Go> to see a graph and a table of the company's outstanding debt totals by year of scheduled maturity.

THE ALTMAN Z-SCORE Model (AZS) function is one tool for quantifying a company's chances of going bankrupt. The model is based on Edward Altman's mathematical formula that incorporates financial measures such as working capital and sales to total assets. Altman is a finance professor at New York University. Type a ticker symbol followed by <Equity> AZS <Go>. Use the CALCULATE field near the bottom of the screen to specify whether you want to solve for the Altman Z-score, the Double Prime Z-score or the Hillegeist Z-score. Altman developed his original Z-score for manufacturers. The Double Prime model is more suited to nonmanufacturing companies, while the Hillegeist formula generates a probability of default in addition to the Z-score. Type XAZS <Go> for an application that lets you track a company's Z-scores historically. Press <Help> twice to ask questions about Z-scores.

Once McGowen locates a company

that may be headed for bankruptcy, she and her team try to find out who owns the company's debt. McGowen primarily represents unsecured creditors and bondholders. "Bondholders have the greatest stake in the outcome of a bankruptcy and will have a huge say in what law firm is selected as committee counsel," she says. "It is important for us to have a means of being selected as bondholder counsel well in advance of any bankruptcy filing."

To accomplish that, McGowen puts together a pitch letter that details the most important issues a creditor faces if and when a company files for Chapter 11. "If there are fraud issues, we outline lawsuit targets," she says. "If the company is going to have to be sold, we point out likely buyers."

McGowen says one of her proudest professional moments was when she represented the unsecured creditors of Stone & Webster Inc., a Boston-based construction and engineering company that built about two-thirds of U.S. nuclear power plants. "That case had many creditor constituencies vying for a limited pot of assets, and we helped unsecured creditors maximize their recovery," she says. McGowen says she helped them at least double the amount they'll receive under a restructuring plan.

To get background information for the pitch letter, McGowen and her team use functions listed on BLAW. They also use the Company Filings (CF) function to search for loan agreements, bond indentures, private placement memorandums and other documents and the Relative Value (RV) function to rank companies within an industry based on operating performance, balance sheet data and valuation. McGowen says the time between a cold-call bankruptcy pitch and the selection of counsel is short, so she gains an advantage when she has company financials, industry data and key documents at hand. ▶

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