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## Organizing Chaos

REED SMITH'S BANKRUPTCY GROUP PUTS CLIENTS BACK ON THE LEVEL

**By Amaris Elliott-Engel  
Of the Legal Staff**

Bankruptcy lawyers are at the front lines of economic chaos.

The steel industry fell on hard times. The American automotive industry had an existential crisis. The Internet and real estate bubbles popped. The telecommunications industry and the financial-service industries saw such drastic declines that storied names like Lehman Brothers, Bear Stearns, WorldCom and Nortel no longer exist.

There's always the need to adjust businesses and loan transactions based on the turns in the economy, and bankruptcy and commercial restructuring lawyers are there to do it.

"We're there in the real time to restructure and adjust when all of a sudden a bubble starts to burst when everyone was riding high in the telecommunications or the Internet [industries]," said Robert P. Simons, a partner with Reed Smith's commercial restructuring and bankruptcy practice group in Pittsburgh. "The parties involved were able to put the deals together. They're not necessarily prepared to restructure and adjust that."

There is no shortage of problems that can arise when firms are in financial trouble, said Eric A. Schaffer, another Reed Smith partner in the group based in Pittsburgh. People can lose their jobs and their pensions, but restructuring and bankruptcy "can provide an opportunity to keep some assets in productive use," he said.

When a prospective client approaches Reed Smith's bankruptcy and commercial restructuring practice group, Peter S. Clark II, the firmwide head of the group, said he finds out about the client's line of business and whether the firm has expertise in that industry.

Clark cited Schaffer's work on municipal finance in his representation of the trustee in the Jefferson County, Ala., bankruptcy and Claudia Z. Springer's expertise in nonprofit law in

her representation of the Philadelphia Orchestra's creditors committee. Schaffer also represented the Bank of New York Mellon, which is the trustee of bonds issued by Argentina in exchange for other nonexchanged, defaulted private bonds as part of the fallout from the country's sovereign debt default in 2001.

The Jefferson County case — which was the largest municipal bankruptcy filing ever — involves issues of first impression about revenue bonds in connection to the county sewer system

### Reed Smith's Firmwide Bankruptcy Department

**59** Department Size  
(Headcount)

**3.14** Department as Percent  
of Firm (Headcount)

**4.25** Department as Percent  
of Firm (Revenue)



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and the eligibility to be a Chapter 9 debtor, Schaffer said.

Springer, a partner in the group based in Philadelphia, said she was able to apply her knowledge of Pennsylvania not-for-profit law gleaned from representing nonprofit health care institutions when representing the Philadelphia Orchestra creditors committee. Everyone involved "gave a pound of flesh" to make the restructuring of the orchestra work so that the cultural icon could continue to exist, Springer said.

Springer, who said she likes the bankruptcy practice because it's a blend of litigation and transactional work, said as a bankruptcy/restructuring attorney "you need to understand the market your business is in in order to be effective."

Springer said she tells clients looking to hire a bankruptcy lawyer that Reed Smith has more than 50 people worldwide who do insolvency work with depths of experience in many, many industries.

"You have to be a business counsel," Simons said. "You have to know your client's industry. You also have to know a great deal of law because ... the client you're working with may have tax issues, environmental issues, labor issues and any number of legal substantive areas that may be causing their financial problems. And the workout



*(Left to Right) Derek Baker, Peter Clark, Matthew Tashman, Claudia Springer, Robert Simons and Scott Esterbrook.*

practitioner has to know the business, has to know financial analysis, has to know other legal areas in order to solve the problem."

Clark, who is based in Philadelphia, joined Reed Smith from Duane Morris when Reed Smith already had a very strong bankruptcy practice in Pittsburgh, and he helped build the bankruptcy practice in Philadelphia, he said.

"I don't think there's another firm that has a strong bankruptcy practice in the eastern part of the state and the western part of the state," Clark said.

The firm grew from a Pittsburgh-based firm to an international firm in about 10 years, Clark said. Its main client base is financial institutions like Bank of New York Mellon, Wells Fargo, PNC Bank and Bank of America.

Many of the firm's key leaders were young legal eagles who came out of law school just as the U.S. Bankruptcy Code was instituted. Both Schaffer and Simons said they ended up practicing in bankruptcy and restructuring law because they entered the profession at that time.

The 1979 code made bankruptcy a more attractive option for a lot of trou-

bled companies, Schaffer said, because it allowed a firm's management to stay intact and for the insolvent businesses to keep on doing what they were doing.

Yet, corporate restructuring takes place more often than bankruptcy, Schaffer said. Creditors act on the basis of rational expectations and know that bankruptcy involves costs and risks and that it can be more efficient to restructure outside of bankruptcy.

For practitioners, it's important to know the expenses that can be avoided if bankruptcy is not pursued, Simons said, including legal fees, financial adviser fees and the costs of disclosure and following the strict procedures in bankruptcy court.

There might be some parties who choose to be "militant or be renegades," Simons said, but it is important to "not add to any more economic waste and try to get parties to maximize the value for everybody in a fair way." •