

# Restructuring News

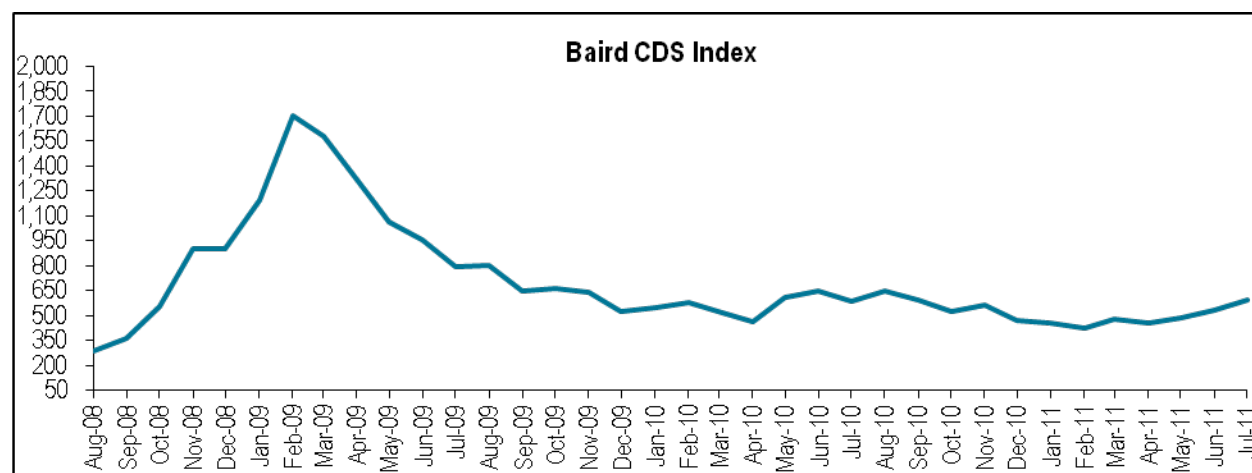
## The Baird CDS Index

The graph below shows the Baird CDS Index for the three-year period ending July 31, 2011. This proprietary index of 36 credit default swap contracts references non-investment grade debt of non-financial U.S.-based companies using pricing information from Bloomberg.

The Baird CDS Index rose for the third consecutive month in July, increasing 59.1 points to 593.7 – up 11.1% from 534.6 on June 30. With the increases over the past three months, the index has broken out of the relatively tight trading range that it had been in during the six-month period from December 2010 to May 2011, and now stands 19.8% above its trailing six-month moving average. This indicates that the cost of insuring against credit default by non-investment grade companies outside the financial sector has become measurably more expensive in recent months.

Last month our view was that the uptick in the index in May and June was relatively modest, most likely representing a benign correction in the almost uninterrupted decline since the height of the credit crisis in 2009. However, the continued and significant rise in the index in July, along with the general stampede from riskier assets across markets in early August, are clear signals that non-investment grade credits now pose a much greater risk of default in the foreseeable future, especially if economic growth continues to weaken.

While our CDS Index is beginning to show signs of stress – and thus the possibility of increased restructuring activity in the future – the current volume of restructurings remains anemic, by number of bankruptcy filings. According to Bankruptcy.com, only five public companies filed for bankruptcy in July 2011 compared to 13 in July 2010, and only 47 public companies filed for bankruptcy during the first seven months of 2011 compared to 66 filings in the same period in 2010. For now, the credit markets in the U.S. remain relatively calm, supported by aggressive actions from the Fed. But, this may be the calm before the storm if the economic slowdown causes an upheaval in the flow of cheap capital to leveraged companies.



If you are interested in additional information about the Baird CDS Index, specific companies on our watch list or our corporate restructuring capabilities, please contact a member of our team.

### William G. Welnhofner

Managing Director  
Head of Financial Restructuring Group  
(312) 609-5476  
[bwelnhofner@rwbaird.com](mailto:bwelnhofner@rwbaird.com)

### Kyle Borkowski

Financial Analyst  
(312) 609-7011  
[kborkowski@rwbaird.com](mailto:kborkowski@rwbaird.com)

\*A credit default swap ("CDS") is a derivative whereby one party to a swap agreement transfers credit risk to the counterparty for a periodic fee. Under the swap agreement, the CDS buyer pays a fixed periodic fee in return for a contingent payment by the CDS seller in the event of a credit default, and thus is similar to an insurance policy on the reference debt. In its simplest form, if there is a default on the reference debt, the CDS buyer puts the debt to the CDS seller in exchange for a payment by the CDS seller of the outstanding principal and unpaid interest. In theory, the market's assessment of the likelihood of default for the reference debt should have a close positive correlation with the price of a CDS for that debt. Thus, the Baird CDS Index should increase as the perceived risk of credit default for the reference debt increases, and should decrease as the perceived risk of credit default for the reference debt decreases. Accordingly, the Baird CDS Index should be a leading indicator of the prospects for restructuring opportunities with respect to the reference debt and, by implication, the overall climate for restructuring opportunities with respect to the debt of financially weaker credits in the wider market. The Baird CDS Index is unmanaged and is not eligible for investment. Past performance does not guarantee future results.