O'NEILCANNON
HOLLMAN DEJONG & LAING S.C.

BUSINESS BANKRUPTCY OPTIONS

BizTimes – Published July 24, 2009

The three most common avenues available to corporate entities seeking relief from creditors are Chapters 7 and 11 of the U.S. Bankruptcy Code, and Chapter 128 of the Wisconsin State Statutes.

In a Chapter 7 proceeding, which can be filed voluntarily by an insolvent entity, or involuntarily by an insolvent company's creditors, a trustee is immediately appointed by the court to liquidate the company's assets, on a piecemeal basis. It is not possible for a company in a Chapter 7 proceeding to remain open, or reorganize. As soon as a bankruptcy is filed, all creditors are enjoined and restrained from trying to collect their debts.

In a Chapter 11 proceeding, a company is typically able to remain in control of its affairs, and maintain day-to-day operations in the ordinary course, under supervision of the bankruptcy court, and its creditors. A company may reorganize its debts in a Chapter 11, subject to court approval, and the opportunity for creditors to scrutinize and object to the company's proposed plan for reorganization. A sale of the company, as a going concern, is also possible.

A Chapter 128 proceeding, also known as receivership, or an assignment for the benefit of creditors, is also available to Wisconsin-based companies. It is similar to a Chapter 11 proceeding, however, it takes place in the circuit court for the county in which the company has its place of business, rather than in federal court. A court-appointed receiver, usually selected by the company or the company's lender, may operate the business in the ordinary course while the receiver markets the company's assets for sale, as a going concern.

A receivership can also be started voluntarily, or involuntarily by a company's creditors. Although the filing of a receivership also restrains and enjoins creditors, generally, secured creditors (typically banks) who withhold their consent cannot be bound by a receiver's actions.

Creditors are paid, according to statutory priority, from the proceeds generated by the sale of the company's assets, to the extent such proceeds are enough to pay secured creditors, in full. Or, in the event of a reorganization, creditors are paid, again according to priority, from the company's ongoing revenue.