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Chapter 11 Bankruptcy Laws

Business is often about taking calculated risks. Whilst the property boom was unsustainable, nobody saw the financial meltdown we have all experienced coming. Unfortunately even some of the best run businesses have had to tighten their belts by shedding staff, while others have simply gone to the wall.

The biggest problem faced by companies is often short term cash flow. This is where the company is basically sound, but is facing a few months of inability to meet it's payment commitments, be it to suppliers or to it's own staff in the form of wages.

Firms in this position often have no option but to file for bankruptcy.

Any business can file under chapter 11 bankruptcy, (although farmers and fishermen have their own chapter, chapter 12), which is very similar to chapter 13 in that chapter 11 is a repayment plan. Debts are rescheduled by the court and repaid over 3-5 years. Essentially what this does is to allow the company to catch up and continue trading after discharge.

In this way the court reschedules the company's outstanding debt so that the company can make repayments to creditors in the longer term, thus it can continue trading and "catch up" with its financial commitments.

Whilst a business can file under chapter 7, and indeed this may be necessary if the financial problems extend way beyond cash flow, in chapter 11 no assets have to be sold, unlike the liquidation that occurs under chapter 7.

However, it should be understood that this does not mean that the shareholders necessarily emerge unaffected by the chapter 11 situation, as any form of bankruptcy will reduce the overall value of the company, and the perception amongst its creditors may affect trading relationships.

In addition, it may be that the trustee appointed by the court to oversee the bankruptcy finds it necessary to sell some company assets to fund the repayment plan. At the end of the day, the purpose of the chapter 11 bankruptcy is partly to keep the company trading, but to ensure that its creditors obtain the maximum financial return possible.

Some companies, particularly some of those dealing with public funds and utilities are barred from filing chapter 11, but the rules vary according to the state that the business is located in.

Global corporations present huge legal problems when a division of the corporation wants to file under chapter 11, as companies can attempt to "bend the rules" by "restructuring" to take maximum advantage of the situation.

These large enterprises can change their structure to limit their liability under chapter 11, often at the expense of their creditors, many of whom are often much smaller in scale, and lack the financial muscle to take the corporations on.

When economic times are good you can be inclined to spend and borrow more money. But when the economic conditions change, you can find yourself out of a job and unable to cope. If you are thinking of [declaring yourself bankrupt](#) and want more free information, visit www.declaringyourselfbankrupt.org.