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A Look at Chapter 11 Bankruptcy

When a company like General Motors declares bankruptcy, it can prompt even the most stable business owner to take a closer look at the books. Unfortunately, GM is far from the only business to go bust this year.

Business owners should consider bankruptcy as an option when it becomes apparent that the company has liabilities that exceed its assets and cannot meet the financial obligations in store.

The type of bankruptcy filed most often by corporations is Chapter 11. Chapter 11 bankruptcy is unlike the more commonly known bankruptcy — Chapter 7 — in that it was developed specifically for financially troubled businesses to be allowed a period of time to reorganize its debts, continue operations, and hopefully come back stronger than before.

As with Chapter 7, filing Chapter 11 bankruptcy puts an automatic stay on all debts owed by the business, meaning that creditors are temporarily barred from taking further action to collect on the amount they are owed.

The difference is that businesses that file Chapter 11 will not be appointed a bankruptcy trustee to control their assets. Instead, the business owner will be considered a "debtor-in-possession." This position allows the business owner the opportunity to develop his or her own plan, subject to court and creditor approval, to discharge some financial obligations and repay others through the sale of assets or future profits.

One of the benefits of a business filing Chapter 11 bankruptcy over Chapter 7 is that the business owner can control the process and, more importantly, keep operations going.

While filing bankruptcy may be viewed as the end of the line for businesses, Chapter 11 can actually provide an opportunity to save a company. A well-crafted plan can offer the opportunity to rethink operations, recover assets, terminate contracts and leases that were weighing down profitability, and ultimately reduce the business' debt.

Businesses that file bankruptcy under Chapter 11 need to take extra precautions in following the court-approved repayment plan. All rules must be followed and all debts must be accounted for. The rules of bankruptcy court are intricate, complicated and require a close eye familiar with the proceedings to watch over the business' activities. The failure to follow the repayment plan can prompt the court to dismiss the bankruptcy all together, meaning that the business will no longer be protected under the law.

Making the decision to file for bankruptcy is not an easy one for business owners and shouldn't be viewed as a means to an end for financial troubles. Filing Chapter 11 bankruptcy also isn't a guarantee that a business will bounce back.

Proper planning with an experienced bankruptcy attorney from the early stages can make the difference between saving your business and admitting defeat.