



Early Analysis of a Chapter 11 Debtor's Prospects

CAN THIS DOG HUNT?

Most Important Decisions

- To File or Not to File?
- What to File?
- Type of Debtor
- Type of Problem
- Financial Structure
- Debtor's Objectives
- Alternatives to Chapter 11

Type of Debtor

- Hotel
- Automaker
- Retail Chain
- Home Builder
- Trucking Company

Type of Problem

- One-Time Catastrophic Loss
- Unprofitable Locations or Product Lines
- Expanded Too Rapidly
- Competition
- Too Much Secured Debt
- Poor Management or Lack of Financial Controls

ACME Truss Manufacturing Corporation

Financial Structure

- Balance Sheet
- Cash Flow Pro Forma

Balance Sheet

Assets	FN	Book	Liquidation
Total			
Liabilities			
Total			
Footnotes:			

Assets	FN	Book	Liquidation
Cash			
Accounts Receivable			
Inventory			
Rolling Stock (Net of Depreciation)			
Liabilities			
Footnotes:			

Assets	FN	Book	Liquidation
Cash		\$0.00	
Accounts Receivable		\$500,000.00	
Inventory		\$1,250,000.00	
Rolling Stock (Net of Depreciation)		\$150,000.00	
Liabilities			
Footnotes:			

Assets	FN	Book	Liquidation
Cash		\$0.00	\$0.00
Accounts Receivable		\$500,000.00	\$250,000.00
Inventory		\$1,250,000.00	\$375,000.00
Rolling Stock (Net of Depreciation)		\$150,000.00	\$75,000.00
Liabilities			
Footnotes:			

Assets	FN	Book	Liquidation
Cash		\$0.00	\$0.00
Accounts Receivable		\$500,000.00	\$250,000.00
Inventory		\$1,250,000.00	\$375,000.00
Rolling Stock (Net of Depreciation)		\$150,000.00	\$75,000.00
Liabilities			
BankTrust Letter of Credit	1		
Footnotes:			
1. BankTrust Letter of Credit Secured by 1 st Lien on A/R, Inventory & FF&E			

Assets	FN	Book	Liquidation
Cash		\$0.00	\$0.00
Accounts Receivable		\$500,000.00	\$250,000.00
Inventory		\$1,250,000.00	\$375,000.00
Rolling Stock (Net of Depreciation)		\$150,000.00	\$75,000.00
Liabilities			
BankTrust Letter of Credit	1	\$750,000.00	
Footnotes:			
1. BankTrust Letter of Credit Secured by 1 st Lien on A/R, Inventory & FF&E			

Assets	FN	Book	Liquidation
Cash		\$0.00	\$0.00
Accounts Receivable		\$500,000.00	\$250,000.00
Inventory		\$1,250,000.00	\$375,000.00
Rolling Stock (Net of Depreciation)		\$150,000.00	\$75,000.00
Liabilities			
BankTrust Letter of Credit	1	\$750,000.00	\$750,000.00
Footnotes:			
1. BankTrust Letter of Credit Secured by 1 st Lien on A/R, Inventory & FF&E			

Assets	FN	Book	Liquidation
Cash		\$0.00	\$0.00
Accounts Receivable		\$500,000.00	\$250,000.00
Inventory		\$1,250,000.00	\$375,000.00
FF&E (Net of Depreciation)			
Rolling Stock (Net of Depreciation)		\$150,000.00	\$75,000.00
Liabilities			
BankTrust Letter of Credit	1	\$750,000.00	\$750,000.00
Personal Property Leases	2		
Footnotes:			
1. BankTrust Letter of Credit Secured by 1 st Lien on A/R, Inventory & FF&E			
2. Leases of Manufacturing Equipment. ACME Obligated to Purchase			

Assets	FN	Book	Liquidation
Cash		\$0.00	\$0.00
Accounts Receivable		\$500,000.00	\$250,000.00
Inventory		\$1,250,000.00	\$375,000.00
FF&E (Net of Depreciation)		\$700,000.00	
Rolling Stock (Net of Depreciation)		\$150,000.00	\$75,000.00
Liabilities			
BankTrust Letter of Credit	1	\$750,000.00	\$750,000.00
Personal Property Leases	2	\$0.00	
Footnotes:			
1. BankTrust Letter of Credit Secured by 1 st Lien on A/R, Inventory & FF&E			
2. Leases of Manufacturing Equipment. ACME Obligated to Purchase			

Assets	FN	Book	Liquidation
Cash		\$0.00	\$0.00
Accounts Receivable		\$500,000.00	\$250,000.00
Inventory		\$1,250,000.00	\$375,000.00
FF&E (Net of Depreciation)		\$700,000.00	\$350,000.00
Rolling Stock (Net of Depreciation)		\$150,000.00	\$75,000.00
Liabilities			
BankTrust Letter of Credit	1	\$750,000.00	\$750,000.00
Personal Property Leases	2	\$0.00	\$500,000.00
Footnotes:			
1. BankTrust Letter of Credit Secured by 1 st Lien on A/R, Inventory & FF&E			
2. Leases of Manufacturing Equipment. ACME Obligated to Purchase			

Assets	FN	Book	Liquidation
Cash		\$0.00	\$0.00
Accounts Receivable		\$500,000.00	\$250,000.00
Inventory		\$1,250,000.00	\$375,000.00
FF&E (Net of Depreciation)		\$700,000.00	\$350,000.00
Rolling Stock (Net of Depreciation)		\$150,000.00	\$75,000.00
Real Estate			
Liabilities			
BankTrust Letter of Credit	1	\$750,000.00	\$750,000.00
Personal Property Leases	2	\$0.00	\$500,000.00
First Federal Real Estate Mortgage	3		
Footnotes:			
1. BankTrust Letter of Credit Secured by 1 st Lien on A/R, Inventory & FF&E			
2. Leases of Manufacturing Equipment. ACME Obligated to Purchase			
3. First Federal Mortgage Secured by 1 st Mortgage on Real Estate			

Assets	FN	Book	Liquidation
Cash		\$0.00	\$0.00
Accounts Receivable		\$500,000.00	\$250,000.00
Inventory		\$1,250,000.00	\$375,000.00
FF&E (Net of Depreciation)		\$700,000.00	\$350,000.00
Rolling Stock (Net of Depreciation)		\$150,000.00	\$75,000.00
Real Estate		<u>\$1,500,000.00</u>	
Liabilities			
BankTrust Letter of Credit	1	\$750,000.00	\$750,000.00
Personal Property Leases	2	\$0.00	\$500,000.00
First Federal Real Estate Mortgage	3	<u>\$900,000.00</u>	
Footnotes:			
1. BankTrust Letter of Credit Secured by 1 st Lien on A/R, Inventory & FF&E			
2. Leases of Manufacturing Equipment. ACME Obligated to Purchase			
3. First Federal Mortgage Secured by 1 st Mortgage on Real Estate			

Assets	FN	Book	Liquidation
Cash		\$0.00	\$0.00
Accounts Receivable		\$500,000.00	\$250,000.00
Inventory		\$1,250,000.00	\$375,000.00
FF&E (Net of Depreciation)		\$700,000.00	\$350,000.00
Rolling Stock (Net of Depreciation)		\$150,000.00	\$75,000.00
Real Estate		<u>\$1,500,000.00</u>	<u>\$2,000,000.00</u>
Liabilities			
BankTrust Letter of Credit	1	\$750,000.00	\$750,000.00
Personal Property Leases	2	\$0.00	\$500,000.00
First Federal Real Estate Mortgage	3	<u>\$900,000.00</u>	<u>\$900,000.00</u>
Footnotes:			
1. BankTrust Letter of Credit Secured by 1 st Lien on A/R, Inventory & FF&E			
2. Leases of Manufacturing Equipment. ACME Obligated to Purchase			
3. First Federal Mortgage Secured by 1 st Mortgage on Real Estate			

Assets	FN	Book	Liquidation
Cash		\$0.00	\$0.00
Accounts Receivable		\$500,000.00	\$250,000.00
Inventory		\$1,250,000.00	\$375,000.00
FF&E (Net of Depreciation)		\$700,000.00	\$350,000.00
Rolling Stock (Net of Depreciation)		\$150,000.00	\$75,000.00
Real Estate		<u>\$1,500,000.00</u>	<u>\$2,000,000.00</u>
Total		\$4,100,000.00	\$3,050,000.00
Liabilities			
BankTrust Letter of Credit	1	\$750,000.00	\$750,000.00
Trade Payables		\$900,000.00	\$900,000.00
Personal Property Leases	2	\$0.00	\$500,000.00
Taxes		\$75,000.00	\$75,000.00
First Federal Real Estate Mortgage	3	<u>\$900,000.00</u>	<u>\$900,000.00</u>
Footnotes:			
1. BankTrust Letter of Credit Secured by 1 st Lien on A/R, Inventory & FF&E			
2. Leases of Manufacturing Equipment. ACME Obligated to Purchase			
3. First Federal Mortgage Secured by 1 st Mortgage on Real Estate			

Assets	FN	Book	Liquidation
Cash		\$0.00	\$0.00
Accounts Receivable		\$500,000.00	\$250,000.00
Inventory		\$1,250,000.00	\$375,000.00
FF&E (Net of Depreciation)		\$700,000.00	\$350,000.00
Rolling Stock (Net of Depreciation)		\$150,000.00	\$75,000.00
Real Estate		<u>\$1,500,000.00</u>	<u>\$2,000,000.00</u>
Total		\$4,100,000.00	\$3,050,000.00
Liabilities			
BankTrust Letter of Credit	1	\$750,000.00	\$750,000.00
Trade Payables		\$900,000.00	\$900,000.00
Personal Property Leases	2	\$0.00	\$500,000.00
Taxes		\$75,000.00	\$75,000.00
First Federal Real Estate Mortgage	3	<u>\$900,000.00</u>	<u>\$900,000.00</u>
Total		\$2,625,000.00	\$3,125,000.00
Footnotes:			
1. BankTrust Letter of Credit Secured by 1 st Lien on A/R, Inventory & FF&E			
2. Leases of Manufacturing Equipment. ACME Obligated to Purchase			
3. First Federal Mortgage Secured by 1 st Mortgage on Real Estate			

Pro Forma

	April 2021	May 2021	June 2021	July 2021
Income From Operations				
<i>Disbursements</i>				
Total Disbursements				
Cash Surplus / Deficit				
Cash at Beginning of Period				
Cash at End of Period				

	April 2021	May 2021	June 2021	July 2021
Income From Operations	\$550,000	\$625,000	\$675,000	\$675,000
<i>Disbursements</i>				
Materials Cost	\$195,000	\$215,000	\$260,000	\$249,100
Labor Cost	\$210,000	\$237,500	\$262,000	\$265,000
Supplies	\$13,500	\$19,250	\$21,000	\$21,000
Advertising	\$14,726	\$24,650	\$22,285	\$10,445
Depreciation	\$16,666	\$16,666	\$16,666	16,666
Licensing Fee	\$18,375	\$20,985	\$24,381	\$23,607
Accounting	\$3,600	\$3,600	\$3,600	\$3,600
Legal	\$10,000	\$10,000	\$10,000	\$10,000
Insurance	\$8,950	\$7,000	\$8,950	\$7,000
Repairs & Maintenance	\$10,506	\$22,395	\$18,225	\$13,990
Real Estate Taxes	\$8,535	\$8,535	\$8,535	\$8,535
Utilities	\$28,022	\$40,177	\$35,900	\$39,625
BankTrust Interest	\$10,000	\$10,000	\$10,000	\$10,000
First Federal Mortgage Payment	\$20,000	\$20,000	\$20,000	\$20,000
Personal Property Leases	<u>\$20,000</u>	<u>\$20,000</u>	<u>\$20,000</u>	<u>\$20,000</u>
Total Disbursements	\$587,880	\$675,758	\$741,542	\$715,678
Cash Surplus / Deficit	(\$37,880)	(\$50,758)	(\$66,542)	(\$43,568)
Cash at Beginning of Period	\$0	(\$37,880)	(\$88,638)	(\$155,180)
Cash at End of Period	(\$37,880)	(\$88,638)	(\$155,180)	(\$198,748)

	April 2021	May 2021	June 2021	July 2021
Income From Operations	\$550,000	\$625,000	\$675,000	\$675,000
<i>Disbursements</i>				
Materials Cost	\$195,000	\$215,000	\$260,000	\$249,100
Labor Cost	\$210,000	\$237,500	\$262,000	\$265,000
Supplies	\$13,500	\$19,250	\$21,000	\$21,000
Advertising	\$14,726	\$24,650	\$22,285	\$10,445
Depreciation	\$0	\$0	\$0	\$0
Licensing Fee	\$18,375	\$20,985	\$24,381	\$23,607
Accounting	\$3,600	\$3,600	\$3,600	\$3,600
Legal	\$10,000	\$10,000	\$10,000	\$10,000
Insurance	\$8,950	\$7,000	\$8,950	\$7,000
Repairs & Maintenance	\$10,506	\$22,395	\$18,225	\$13,990
Real Estate Taxes	\$8,535	\$8,535	\$8,535	\$8,535
Utilities	\$28,022	\$40,177	\$35,900	\$39,625
BankTrust Interest	\$10,000	\$10,000	\$10,000	\$10,000
First Federal Mortgage Payment	\$20,000	\$20,000	\$20,000	\$20,000
Personal Property Leases	<u>\$20,000</u>	<u>\$20,000</u>	<u>\$20,000</u>	<u>\$20,000</u>
Total Disbursements	\$571,214	\$659,092	\$724,876	\$701,902
Cash Surplus / Deficit	(\$21,214)	(\$34,092)	(\$49,876)	(\$26,902)
Cash at Beginning of Period	\$0	(\$21,214)	(\$55,306)	(\$105,182)
Cash at End of Period	(\$21,214)	(\$55,306)	(\$105,182)	(\$132,084)

	April 2021	May 2021	June 2021	July 2021
Income From Operations	\$550,000	\$625,000	\$675,000	\$675,000
<i>Disbursements</i>				
Materials Cost	\$195,000	\$215,000	\$260,000	\$249,100
Labor Cost	\$210,000	\$237,500	\$262,000	\$265,000
Supplies	\$13,500	\$19,250	\$21,000	\$21,000
Advertising	\$14,726	\$24,650	\$22,285	\$10,445
Depreciation	\$0	\$0	\$0	\$0
Licensing Fee	\$18,375	\$20,985	\$24,381	\$23,607
Accounting	\$0	\$0	\$0	\$0
Legal	\$0	\$0	\$0	\$0
Insurance	\$8,950	\$7,000	\$8,950	\$7,000
Repairs & Maintenance	\$10,506	\$22,395	\$18,225	\$13,990
Real Estate Taxes	\$8,535	\$8,535	\$8,535	\$8,535
Utilities	\$28,022	\$40,177	\$35,900	\$39,625
BankTrust Interest	\$10,000	\$10,000	\$10,000	\$10,000
First Federal Mortgage Payment	\$20,000	\$20,000	\$20,000	\$20,000
Personal Property Leases	<u>\$20,000</u>	<u>\$20,000</u>	<u>\$20,000</u>	<u>\$20,000</u>
Total Disbursements	\$557,614	\$645,492	\$711,276	\$688,302
Cash Surplus / Deficit	(\$7,614)	(\$20,492)	(\$36,276)	(\$13,302)
Cash at Beginning of Period	\$0	(\$7,614)	(\$28,106)	(\$64,382)
Cash at End of Period	(\$7,614)	(\$28,106)	(\$64,382)	(\$77,684)

	April 2021	May 2021	June 2021	July 2021
Income From Operations	\$550,000	\$625,000	\$675,000	\$675,000
<i>Disbursements</i>				
Materials Cost	\$195,000	\$215,000	\$260,000	\$249,100
Labor Cost	\$210,000	\$237,500	\$262,000	\$265,000
Supplies	\$13,500	\$19,250	\$21,000	\$21,000
Advertising	\$14,726	\$24,650	\$22,285	\$10,445
Depreciation	\$0	\$0	\$0	\$0
Licensing Fee	\$18,375	\$20,985	\$24,381	\$23,607
Accounting	\$0	\$0	\$0	\$0
Legal	\$0	\$0	\$0	\$0
Insurance	\$8,950	\$7,000	\$8,950	\$7,000
Repairs & Maintenance	\$10,506	\$22,395	\$18,225	\$13,990
Real Estate Taxes	\$0	\$0	\$0	\$0
Utilities	\$28,022	\$40,177	\$35,900	\$39,625
BankTrust Interest	\$10,000	\$10,000	\$10,000	\$10,000
First Federal Mortgage Payment	\$20,000	\$20,000	\$20,000	\$20,000
Personal Property Leases	<u>\$20,000</u>	<u>\$20,000</u>	<u>\$20,000</u>	<u>\$20,000</u>
Total Disbursements	\$549,079	\$636,957	\$702,741	\$679,767
Cash Surplus / Deficit	\$921	(\$11,957)	(\$27,741)	(\$4,767)
Cash at Beginning of Period	\$0	\$921	(\$11,036)	(\$38,777)
Cash at End of Period	\$921	(\$11,036)	(\$38,777)	(\$43,544)

	April 2021	May 2021	June 2021	July 2021
Income From Operations	\$550,000	\$625,000	\$675,000	\$675,000
<i>Disbursements</i>				
Materials Cost	\$195,000	\$215,000	\$260,000	\$249,100
Labor Cost	\$210,000	\$237,500	\$262,000	\$265,000
Supplies	\$13,500	\$19,250	\$21,000	\$21,000
Advertising	\$14,726	\$24,650	\$22,285	\$10,445
Depreciation	\$0	\$0	\$0	\$0
Licensing Fee	\$18,375	\$20,985	\$24,381	\$23,607
Accounting	\$0	\$0	\$0	\$0
Legal	\$0	\$0	\$0	\$0
Insurance	\$8,950	\$7,000	\$8,950	\$7,000
Repairs & Maintenance	\$10,506	\$22,395	\$18,225	\$13,990
Real Estate Taxes	\$0	\$0	\$0	\$0
Utilities	\$28,022	\$40,177	\$35,900	\$39,625
BankTrust Interest	\$0	\$0	\$0	\$0
First Federal Mortgage Payment	\$20,000	\$20,000	\$20,000	\$20,000
Personal Property Leases	<u>\$20,000</u>	<u>\$20,000</u>	<u>\$20,000</u>	<u>\$20,000</u>
Total Disbursements	\$539,079	\$626,957	\$692,741	\$669,767
Cash Surplus / Deficit	\$10,921	(\$1,957)	(\$17,741)	\$5,233
Cash at Beginning of Period	\$0	\$10,921	\$8,964	(\$8,777)
Cash at End of Period	\$10,921	\$8,964	(\$8,777)	(\$3,544)

	April 2021	May 2021	June 2021	July 2021
Income From Operations	\$550,000	\$625,000	\$675,000	\$675,000
<i>Disbursements</i>				
Materials Cost	\$195,000	\$215,000	\$260,000	\$249,100
Labor Cost	\$210,000	\$237,500	\$262,000	\$265,000
Supplies	\$13,500	\$19,250	\$21,000	\$21,000
Advertising	\$14,726	\$24,650	\$22,285	\$10,445
Depreciation	\$0	\$0	\$0	\$0
Licensing Fee	\$18,375	\$20,985	\$24,381	\$23,607
Accounting	\$0	\$0	\$0	\$0
Legal	\$0	\$0	\$0	\$0
Insurance	\$8,950	\$7,000	\$8,950	\$7,000
Repairs & Maintenance	\$10,506	\$22,395	\$18,225	\$13,990
Real Estate Taxes	\$0	\$0	\$0	\$0
Utilities	\$28,022	\$40,177	\$35,900	\$39,625
BankTrust Interest	\$0	\$0	\$0	\$0
First Federal Mortgage Payment	\$0	\$0	\$0	\$0
Personal Property Leases	<u>\$20,000</u>	<u>\$20,000</u>	<u>\$20,000</u>	<u>\$20,000</u>
Total Disbursements	\$519,079	\$606,957	\$672,741	\$649,767
Cash Surplus / Deficit	\$30,921	\$18,043	\$2,259	\$25,233
Cash at Beginning of Period	\$0	\$30,921	\$48,964	\$51,223
Cash at End of Period	\$30,921	\$48,964	\$51,223	\$76,456

	April 2021	May 2021	June 2021	July 2021
Income From Operations	\$550,000	\$625,000	\$675,000	\$675,000
<i>Disbursements</i>				
Materials Cost	\$195,000	\$215,000	\$260,000	\$249,100
Labor Cost	\$210,000	\$237,500	\$262,000	\$265,000
Supplies	\$13,500	\$19,250	\$21,000	\$21,000
Advertising	\$14,726	\$24,650	\$22,285	\$10,445
Depreciation	\$0	\$0	\$0	\$0
Licensing Fee	\$18,375	\$20,985	\$24,381	\$23,607
Accounting	\$0	\$0	\$0	\$0
Legal	\$0	\$0	\$0	\$0
Insurance	\$8,950	\$7,000	\$8,950	\$7,000
Repairs & Maintenance	\$10,506	\$22,395	\$18,225	\$13,990
Real Estate Taxes	\$0	\$0	\$0	\$0
Utilities	\$28,022	\$40,177	\$35,900	\$39,625
BankTrust Interest	\$0	\$0	\$0	\$0
First Federal Mortgage Payment	\$0	\$0	\$0	\$0
Personal Property Leases	\$ 0	\$ 0	\$ 0	\$ 0
Total Disbursements	\$499,079	\$586,957	\$652,741	\$629,767
Cash Surplus / Deficit	\$50,921	\$38,043	\$22,259	\$45,233
Cash at Beginning of Period	\$0	\$50,921	\$88,964	\$111,223
Cash at End of Period	\$50,921	\$88,964	\$111,223	\$156,456

	April 2021	May 2021	June 2021	July 2021
Income From Operations	\$550,000	\$625,000	\$675,000	\$675,000
<i>Disbursements</i>				
Materials Cost	\$195,000	\$215,000	\$260,000	\$249,100
Labor Cost	\$210,000	\$237,500	\$262,000	\$265,000
Supplies	\$13,500	\$19,250	\$21,000	\$21,000
Advertising	\$14,726	\$24,650	\$22,285	\$10,445
Depreciation	\$0	\$0	\$0	\$0
Licensing Fee	\$18,375	\$20,985	\$24,381	\$23,607
Accounting	\$0	\$0	\$0	\$0
Legal	\$0	\$0	\$0	\$0
Insurance	\$8,950	\$7,000	\$8,950	\$7,000
Repairs & Maintenance	\$10,506	\$22,395	\$18,225	\$13,990
Real Estate Taxes	\$0	\$0	\$0	\$0
Utilities	\$28,022	\$40,177	\$35,900	\$39,625
BankTrust Interest	\$0	\$0	\$7,500	\$7,500
First Federal Mortgage Payment	\$0	\$0	\$0	\$0
Personal Property Leases	\$ 0	\$ 0	\$ 15,000	\$ 15,000
Total Disbursements	\$499,079	\$586,957	\$675,241	\$652,267
Cash Surplus / Deficit	\$50,921	\$38,043	(\$241)	\$22,733
Cash at Beginning of Period	\$0	\$50,921	\$88,964	\$88,723
Cash at End of Period	\$50,921	\$88,964	\$88,723	\$111,456

Debtor's Objectives

- Maximize Liquidation Value?
- Save the Business?

Alternatives to Chapter 11

- Friendly Repossession
- “ABC” (Assignment for the Benefit of Creditors)
- Chapter 7
- Sale of Business
- Out-of-Court Workout

The “Williamson Rule”

Never put a
corporation into
chapter 7
bankruptcy!

- Creates Problems for Insiders
- Waives Attorney-Client Privilege for Communications with the Debtor and Possibly the Debtor’s Principals

Problems for Insiders

- How Do You Characterize Payments to Insiders?
 - Debt – Must be Repaid to Debtor
 - Compensation – Must Pay Taxes
- Expose Insiders to Liability for Avoidance Actions.
 - Preference Actions
 - Fraudulent Transfer Actions

Privilege Issues

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- The Trustee alone controls the ability to assert—or waive—the corporate debtor’s attorney-client privilege.
- Thus, the Trustee is entitled to all the corporate debtor’s pre-bankruptcy communications with counsel.

CO-CLIENT EXCEPTION

- Applies when one lawyer represents two or more persons in the same matter.
- Communications between lawyer and Client A are not confidential as to Client B—even if Client B was not present during the communications with Client A.