

Since the late 1990s, there has been an upward trend in the amount of corporate bankruptcy filings. These filings have been evenly distributed across all industrial and commercial sectors. Although consumers have maintained healthy spending habits, waning profits and rising credit problems have offset the financial health of many corporations. Factors that support the upsurge in corporate bankruptcy filings include uncertainty in the economy, exchange rate volatility, weakness in overseas markets, growth in capital expenditures, and escalating costs of financing.

Corporations typically file for either Chapter 7 Bankruptcy or Chapter 11 Bankruptcy. Chapter 7 Bankruptcy, otherwise known as liquidation, occurs when the court arranges for a trustee to close the firm and sell its assets. Many debtors prefer to file for Chapter 11 Bankruptcy, in which owners of corporations become “debtors-in-possession” while they recommend reorganization plans that outline how each creditor will be compensated.

Owners and creditors bargain over reorganization plans, and bargaining power is leveraged in the valuation of creditor settlements and ownership assets. Reaching an objective premise of value of the creditor’s collateral or debtor corporation’s assets is significant in determining the extent of collateral deficiency or debtor insolvency. The feasibility of a proposed plan of reorganization and a determination of the best interests of the parties in the transaction ultimately hinge on the stability of the capital structure of the debtor entity.

Considering the many nuances in reaching a plan of reorganization, debtors, creditors, and legal counsel should employ the services of an experienced valuation professional with knowledge in statutory procedures regarding corporate bankruptcy transactions. Our valuation analysts have a breadth of industry expertise while specializing in financial advisory services to parties involved in bankruptcy proceedings.

If you are a party to a bankruptcy proceeding, keep your best interests in mind and allow valuation professionals at Postlethwaite & Netterville to guide you in the right direction.