

Debt is the new Equity in Bankruptcy Court.

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Nov. 1, 2009 - [PRLog](#) -- Debt is the new Equity in Bankruptcy Court
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Bankruptcy is built around the idea of reorganization where cash-strapped firms enter court and often spend, years paying off creditors and attracting new financing. Now, with that financing in short supply, companies are rushing to hash out deals in weeks and months.

That is reshaping traditional deal making and restructuring. The number of prearranged bankruptcy plans which receive significant creditor blessing before entering court should increase significantly in 2009. Meanwhile, the numbers of asset sales directly out of bankruptcy court are well ahead of last year's pace.

For example Masonite International Inc., a debt-laden door maker once controlled by Kohlberg Kravis Roberts & Co., entered bankruptcy court in mid-March. Three months later it has new owners and virtually no debt.

"The traditional stand-alone reorganization is on the endangered species list due to the lack of financing, so the acquisition in bankruptcy is much more prevalent now. General Motors Corp.'s fast-paced strategy to sell its desirable assets to a "New GM" while its more-onerous assets wind down in bankruptcy court.

So many situations are dire, like with retailers, that there need to be quick solutions; stakeholders have to have a reorganization plan in place even prior to the company's Chapter 11 filing. Masonite chief executive has been quoted as saying the company is poised to use its clean balance sheet to make acquisitions. Whenever you can de-lever the way we have through Chapter 11, it clearly puts you in a position to be on the offensive.

In other cases, investors are acquiring company assets in so-called 363 bankruptcy sales, which are named after a section of the Bankruptcy Code. In such sales, companies quickly auction assets and leave many liabilities behind. That makes the assets attractive to new owners. These auctions can raise legal challenges, with sellers accused of using the sale as a substitute for a reorganization plan requiring creditors' endorsement. But bankruptcy lawyers have generally cited such sales as "bulletproof," because they are difficult to undo once approved by a judge.

Debt is the new equity. There are tremendous opportunities for investors to really take control of, or purchase, companies at a very good price.

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Sidney Turner LLC offers Chapter 11 Bankruptcy, Business Restructuring, and Debt Workouts to corporations, small businesses and startups across South Florida and New York.

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