

Information for Creditors when a Customer Files Bankruptcy

If you've sold and shipped product to a customer who files bankruptcy, figuring out what comes next can be scary. Your first concern is your business and its ability to operate without the revenues upon which you were counting. [Getting through the immediate cash crunch](#) will be your priority, and while you may feel helpless, having resources and information at hand can help you navigate this fraught situation—and hopefully guide you to the best outcome for your business.

Bankruptcies, particularly of major retailers, can cause enormous financial strain on creditors, as well as impacting related business management issues. As is the nature of such situations, smaller publishers and makers will be most severely impacted, and might also have the least access to guidance on how to pursue their claim.

When filing for bankruptcy, the company should ideally reach out directly to all of its vendors with specific information on the [type of bankruptcy](#), its planned steps forward, and how creditors can file a claim. If the company hopes to emerge from the bankruptcy and resume operations, such as when restructuring under Chapter 11, it will want to be sure it maintains regular and clear communications with its customers, including as much detail as possible as to when creditors can expect payment on previous orders.

Importantly, since a business in Chapter 11 may continue to operate, they will want and need to place orders with suppliers in the course of such business. You will need to determine the value of the customer to your business, and whether or not you will fill orders or [continue to do business with them](#) while they are in bankruptcy or after they emerge. Should your customer have [debtor-in-possession](#) (DIP) financing in place, orders placed after the bankruptcy filing may actually have administrative claim status and be prioritized for payment over other unsecured claims. Always consult with legal counsel to understand your options and the specifics of your situation.

While in bankruptcy court, a company's payments to creditors will require judge's review. It is important to note that the debtor is required to treat all claimants equally, and they are legally prohibited from making payments to some, or even from returning product, as that is an asset, without doing the same for all. It is important that you file a claim swiftly if your business has outstanding receivables.

Keep in mind, however, that creditors are given priority based on the type of debt they hold. Secured creditors, like banks, typically get paid first in a Chapter 11 bankruptcy, followed by unsecured creditors, like suppliers of goods and services. Stockholders are usually at the end of the line.

[What to do when a bankrupt company owes you money](#) explains the five key steps you should take ensure you are following bankruptcy protocols:

1. Stop contact immediately
2. Read all notices you receive
3. Know the type of bankruptcy filed
4. File a [Proof of Claim](#)
5. Attend the "341" creditors meeting

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