

**EXERCISE****FINANCING IN BANKRUPTCY: CASH, UNSECURED CREDIT, AND DIP LOANS****Background**

You represent a distressed retail company that's preparing to go through a traditional Chapter 11 bankruptcy. The company's general counsel is concerned because they know that Chapter 11 can be an expensive process, so they've asked for advice on how to pay for it all.

In anticipation of that call, the general counsel has provided the following information:

- The company has very little cash on hand, all of which is subject to creditors' liens.
- One of their vendors has agreed to continue working with the company under their current contract while the company restructures, but most of their service providers have reduced the available lines of credit.
- They know they'll need to close down a few of their stores, but they're not sure how to find temporary workers to help with the store closings.
- The company has several outstanding loans with liens against all of their assets.
- A few of the company's existing secured lenders know about the upcoming bankruptcy and are willing to talk about continuing to provide secured funding.

**Instructions**

Come prepared to discuss what you'll tell the general counsel about the retailer's financing options, including:

- What expenses the company can expect during the Chapter 11.
- What "cash collateral" is and whether the company can use their cash on hand during the Chapter 11.
- Whether they can continue taking credit from their existing vendors and anything they can offer these vendors in return.
- How they could engage a new service provider to help with store closings.
- What a DIP loan is, who the typical lenders are and what benefits the company can offer them under a DIP loan.
- The general process and documentation for a DIP loan and what the company will have to show the court for its DIP loan to be approved.