EXERCISE

PREPACKAGED AND PRENEGOTIATED BANKRUPTCIES

Background

You represent Tempo Cycles, Inc., a public company that manufactures road bikes and accessories. They're in significant financial distress and need help planning a restructuring of their business. They have a fairly long liquidity runway, which gives them time to prepare for a Chapter 11 filing.

Your client tells you the following:

- They have a few secured creditors, who they are on good terms with, and a large number of unsecured creditors.
- They're past due on payments to the largest of their creditors and have already negotiated a one-time extension to the due date.
- They're current in their payments to their suppliers, though they anticipate not being able to pay them all by the end of the next quarter.
- The company has about 40 retail locations and they're considering trying to break some of the leases, but they're not sure if that's a good idea.

Tempo's Board of Directors is interested in getting in and out of Chapter 11 as quickly as possible and they want to discuss the option of using a prepackaged or prenegotiated case

Instructions

Come prepared to discuss what you'll tell the client, being sure to cover:

- Whether a prepackaged or prenegotiated bankruptcy case is an option for them.
- What the main pros and cons are of each type of restructuring.
- Whether there are any special considerations given that they are a public company.
- How the decision about their leases will impact the type of restructuring they choose.
- What the next steps are if the company decides to pursue a prepack vs. a prenegotiated case.
- How your advice would change if the company tells you that the largest creditor is willing to discuss an exchange of their outstanding security for one with terms more favorable to the company.