

## Bankruptcy

You want to get your money back for a product or service you were not satisfied with, but found that the company has gone bankrupt. What can you do?

### How does bankruptcy work?

Bankruptcy is a legal procedure in federal court that cancels some or all of the debts of persons who are unable to pay them. An individual or company may file a petition for bankruptcy with a United States bankruptcy court. The petition includes a set of papers that list all debts, property, and certain other information. Most people who file for bankruptcy hire a lawyer because this is a very complicated area of law. When companies or individuals file for bankruptcy, it can protect them from creditors in the following ways:

- new lawsuits against the individual or company may not be filed and pending lawsuits that are outside

the bankruptcy court will generally be stopped pending the outcome of the bankruptcy;

- creditors must stop attempting to collect on unpaid bills; and
- collection on existing liens is usually stopped (except for tax liens).

Once the bankruptcy court reviews the case, it decides how the debts will be paid. The amount the court decides an individual or company is required to pay must be accepted by creditors, even if the amount is less than the full amount of money owed.

### Types of bankruptcy

There are **three** main types of bankruptcy petitions (known as chapters). Each has different requirements and serves a different purpose.

#### Chapter 7 - Liquidations

Chapter 7 is for businesses of any size, as well as for individuals. It is used by

companies that want to go completely out of business or liquidate. It's usually the easiest and fastest way to settle debts. In a Chapter 7 case, state law determines which possessions a company or individual is allowed to keep. All of the rest of the assets are turned over to a trustee, who sells them to pay as many of the debts as possible. If a company starts up again after filing a Chapter 7 petition, even under another name, it will still be liable for all of its old debts.

#### Chapter 13 - Wage Earner Plans

In a Chapter 13 bankruptcy, companies and individuals do not give up their current assets and property to pay debts; instead, they use future income to pay creditors over time. This gives them a chance to continue to operate and get back on their feet. It is only available to small businesses operated by a sole proprietor or individuals with regular income who owe less than

\$350,000 in secured debt (debt for which there is collateral, like a house) and less than \$100,000 in unsecured debt.

## **Chapter 11-Reorganizations**

Chapter 11 is the alternative for individuals with debts too large for Chapter 13 or businesses that are not allowed to file under Chapter 13. It is used by companies and individuals that want to keep control of their assets while they try to reorganize or liquidate, rather than turning them over to a trustee. It is primarily used for reorganization. The company provides the court with a reorganization plan and, if the court approves the plan, the company may be discharged from all of its pre-bankruptcy debts. Often creditors are given a chance to vote on whether to accept the plan. But even if some

disagree, the court may still approve the plan if it meets certain standards.

## **Where do consumers stand?**

If you purchased an item or service from a company that has filed for bankruptcy and want to try to recover some money, you will have to find out in which U.S. bankruptcy court the company has filed its bankruptcy petition. You might start by contacting the bankruptcy court nearest to where the business has its main office. The bankruptcy court has sole jurisdiction over refunds. You **must** file a proof of claim form with the bankruptcy court in order to receive consideration for any possible payment of your claim. In order to file a proof of claim form, you will need the bankruptcy case number. You can obtain the bankruptcy

case number from the bankruptcy court for a small fee. Following are the addresses and telephone numbers for the U.S. bankruptcy courts located in Wisconsin:

### **Eastern District**

U.S. Bankruptcy Court  
517 E. Wisconsin Avenue  
Milwaukee, WI 53202  
414-297-3291

### **Western District**

U.S. Bankruptcy Court  
120 N. Henry, Room 340  
Madison, WI 53701  
608-264-5178

U.S. Bankruptcy Court  
500 Barstow Street  
Eau Claire, WI 54702-5009  
715-839-2980