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Dealing With Financially Distressed Contract Parties: Should I Terminate My Contract Before They File for Bankruptcy?

Creditor's Rights Toolkit

CONTACTS

David M. Fournier | Evelyn J. Meltzer | Kenneth A. Listwak | Marcy J. McLaughlin Smith

Troutman Pepper is pleased to introduce our Creditor's Rights Toolkit, a series that provides practical insights to help creditors confront the challenges of commercial bankruptcy.

There are advantages and disadvantages to having a contract in effect when bankruptcy is filed. Where a default exists prebankruptcy that would justify a notice of default, unilateral termination, or both, the non-debtor party has options and can evaluate and implement an optimal course of action.

Once bankruptcy is filed, those options become more limited, as the automatic stay will prevent the non-debtor from unilaterally terminating the contract, and actions, such as court-approved assumption and/or assignment, may occur without the non-debtor's consent.

This article discusses the key issues when deciding whether to terminate a contract prebankruptcy.

To read other insights from our Creditor's Rights Toolkit, please click here.

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