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Sadly, for some middle-market businesses, the next chapter will be bankruptcy

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Many middle-market companies have tightened their belts, raised capital, and availed themselves of emergency government funding, but it may not be enough, and they might yet be moving toward an economic cliff. If they act fast, they may still have a few options left.

Troubled middle-market businesses are struggling to endure and adjust to the economic squeeze presented by the ongoing pandemic. Despite availing themselves of PPP funding, scaling back product lines and services, laying off or furloughing employees, while increasing efficiencies, retooling marketing strategies, and reinventing themselves, for many the light at the end of the tunnel continues to dim. Even with the possibility of more government funding, the on-again-off-again reopening process, accompanied by new COVID surges, has them headed for a crash.

As survival options dwindle, here's what to ask:

Knowing time may be the enemy, the overarching question is: Can the business survive long enough to prosper again, and is the struggle worth the effort?

Finding the answer begins with realistically assessing your projected revenues and expenses for the next 12 months. With those numbers in mind, it's time to ask the following questions:

Is there more government assistance available? And if so, will it be enough, and will you qualify?

Do you have enough capital and resources, or can you somehow obtain it to save your business?

Can you sufficiently further right-size your business, conserving cash to give you the needed time to survive?

Do you have any personal guarantees on loans or other obligations that will affect you if the business fails?

If your answers suggest you won't secure the needed survival capital, and the risk ahead looks high, here's what to consider next:

Small businesses can take advantage of the newly created SBRA, or Subchapter V of Chapter 11 of the Bankruptcy Code, which is less expensive and faster than a Chapter 11 bankruptcy. It offers one-step confirmation, and allows a debtor to spread their debt over three to five years with administrative costs paid over the life of the plan. While a trustee is appointed to facilitate the development of a consensual plan of reorganization, the debtor retains control of assets and operations.

Also, consider a traditional Chapter 11 bankruptcy. It might give you time to reorganize to save or sell your business, or to liquidate in an orderly fashion.

But if you have to act fast to get the situation out of your hands as quickly and completely as possible, a Chapter 7 liquidation may be best. Here, a trustee takes control of your assets and liquidates, or sells them.

Another option is an Assignment for the Benefit of Creditors (ABC), a state, rather than a federal, alternative. It's generally less expensive, faster, more discreet, and simpler compared with a traditional bankruptcy. Here, you get to not only choose the assignee to manage the process, but you also have a chance to play a role in that process. This helps ensure that the assignee is an expert in liquidating the assets, and also knows how to operate the business for a time to get the best return by attaining the going-concern value when possible.

Your final option may simply be shutting your doors and closing the business. It's important to note that if things are going south and you can't save the business, you may have to sell in or out of bankruptcy. Selling in bankruptcy affords certain protections from creditors, allowing an acquirer to buy the business free and clear of all, or non-assumed, liabilities.

While none of these options is easy, in this economic climate some business owners must cut their losses and sell. By asking tough questions now and consulting experts at restructuring firms, law firms and investment banking firms, you can find your way to a new beginning, as opposed to getting mired in a reputationally hazardous calamity. Talk to professionals sooner rather than later. You may still have options.

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