

3rd-Party Releases Bring Chapter 11 Venue Considerations  
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## Article

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A Chapter 11 bankruptcy is typically finalized by the confirmation of a plan of reorganization. Through the plan, debtors provide various forms of repayment to creditors, and upon confirmation of the plan, the debtor generally receives a discharge from its prepetition debt. The discharge, according to Section 524(e) of the Bankruptcy Code, is intended to protect the interests solely of the debtor and “does not affect the liability of any other entity on, or the property of any other entity for, such [preconfirmed] debt.”<sup>[1]</sup> Accordingly, the liability of any nondebtor party, such as co-debtors, guarantors, insurance carriers, lenders and directors, will not be affected by a debtor’s discharge. In some jurisdictions, however, third-party releases can be accomplished through a plan of reorganization, through which nondebtors (like guarantors and directors) effectively receive similar discharge protection, which in turn allows them to avoid their liabilities related to the bankruptcy. Put another way, it is possible for third parties, through confirmation of a Chapter 11 plan, to reap the benefits of the Bankruptcy Code without ever filing for bankruptcy protection themselves.

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