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## What a Furniture Brands Bankruptcy Could Mean for Vendors, Retailers, and Licensees

By [Jerry Cohen](#)

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The threat of bankruptcy for Furniture Brands International is an unsettling development for a storied industry. The furniture business has a generations-old tradition of craftsmanship, design, and pride. Having worked with the founders and executives of furniture businesses and others that supply and buy from them, I appreciate this tradition. I also understand why the uncertain future of Furniture Brands makes everyone in the industry anxious. A better understanding of what could happen will help you navigate the uncertainties and protect your business.

**Risks and precautions for vendors.** When a business enters bankruptcy, there are adjustments to its contractual obligations to pay for goods and services it has received. The adjustments depend on when you made an agreement to ship, and when you shipped, goods to the company, and depend on your standing as a creditor.

So, for example, if Furniture Brands enters bankruptcy, shipments made within 20 days of this filing may receive a higher priority in recovery than general unsecured creditor claims. Upon a bankruptcy filing, such vendors may have remedies, such as stopping shipments in transit.

A debtor in bankruptcy also has the right to assume (reaffirm) or reject (breach) any pre-existing contracts such as purchase orders that remain unfilled. This would leave a vendor with a general unsecured claim for the damages.

Still another issue among many is that payments Furniture Brands has made to its suppliers within 90 days prior to bankruptcy are, under certain circumstances, recoverable to the bankruptcy estate as “preference” payments.

If you sell to companies other than Furniture Brands, stay diligent on the creditworthiness of these other businesses as well. It is too early to say whether there will be a ripple effect, but with this important a development to a company of such a large size, it’s time to take precautions.

**And for retailers and licensees:** If you buy furniture from Furniture Brands, you will also want to take stock of your agreements, purchase orders, and expected shipments. Your customers count on you to have items in stock or their special orders delivered timely, and they may be confused when those items are not there without any guarantee of your restocking or receiving them in the future.

For example, Furniture Brands in bankruptcy would be permitted to “reject” any purchase orders it has not yet fulfilled. This may leave retailers without product and a mere unsecured claim for any damages suffered. For any products delivered by Furniture Brands but not paid for by retailers, Furniture Brands, as a debtor-in-possession, would have the right to enforce collection of receivables.

If you sell to customers, you know that the legal aspects of bankruptcy law are only part of the story. In addition to making sure you know where you stand on unfilled orders or damages as a result, plan how you will communicate with customers and business partners to explain what is happening.

**A long haul:** There’s a reason you hardly ever hear anyone talking about bankruptcy law at cocktail parties. It is a long, complex, drawn-out process, and this roadmap is only a sampling of the legal and business issues that could affect businesses like yours. We’re hoping that Furniture Brands avoids bankruptcy and can restructure its affairs another way. If it does spiral closer to bankruptcy, we’ll revisit how this affects suppliers, customers, and licensees.

But ultimately, this isn’t just a concern for Furniture Brands. The entire landscape has shifted, and everyone in the industry will do better by taking a fresh look at where things stand, and at the risks and opportunities to come.

*What do you think the business impact of a Furniture Brands International bankruptcy would be? I’m interested in what you think. Contact me directly at [jcohen@ctswlaw.com](mailto:jcohen@ctswlaw.com) with questions or comments. View more posts on law and the business of furniture on the [Furniture Today website](#).*

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