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Business Bankruptcies Fell 18% in May But Trend Might Not Hold

By [ERIC MORATH](#)

The number of businesses filing for bankruptcy continues to plunge from the peaks reached during the financial crisis, down 18% in May compared with the same month last year, according to recently released figures from data provider [Epiq Systems Inc.](#)

The numbers suggest the economy has found a more stable footing this year but don't necessarily indicate filings will continue to slide as the year progresses, said Larry Perkins, a senior managing director at restructuring advisers Conway Mackenzie Inc.

Last month, 6,569 businesses sought court protection from their creditors, compared to 8,016 in May 2010, when bankruptcy filings were just beginning to step down from the record high reached in March of that year. On a month-to-month basis, bankruptcies were down 4% in May from April.

While bankruptcies and business restructurings are down compared to 2009 and 2010, they remain elevated from where they stood prior to the financial crisis, Mr. Perkins said. He anticipates filings holding in the range where they have been since late 2010, between 6,000 and 7,000 per month, and then potentially increasing later in the year.

"Bankruptcies are down, but restructuring is not dead," Mr. Perkins said. "It's still pretty busy."

So far in 2011, 32,996 companies have filed for some form of bankruptcy, putting the U.S. on pace for just under 80,000 business filings this year. That would be a marked decline from each of the past two years, when bankruptcies topped 90,000, but still much more than the 46,199 filing seen in 2007, for example.

Mr. Perkins said new filings could come from the transportation and distribution sector, where high gas prices will drive up cost. He is also closely watching the chain-restaurant segment as those businesses are caught between franchisers that are trying to pass along renovation and food costs, and consumers who are still cutting back on eating out.

Another area of concern remains commercial real estate, said Nancy B. Rapoport, a bankruptcy-law professor at the University of Nevada, Las Vegas.

That sector is already struggling with increasing vacancies and falling rents, and if commercial mortgage rates move up, it could force more filings among landlords, she said.

Part of the problem could be attributed to the mass store closures by retailers such as [Blockbuster Inc.](#) and [Borders Group Inc.](#) Finding replacement tenants for those larger spaces could be difficult if

a landlord can't pay for remodeling.

"There won't be a resurgence of video rental or book chains," she said. "Those spaces may have to be subdivided for businesses that can't be ordered online, like a spa, but few landlords can afford that upfront cost."

Chapter 11, the form of bankruptcy filed by businesses intending to reorganize, also fell last month, declining 17% from May of last year.

Overall bankruptcy filings didn't dip as sharply as business filings, according to the Epiq data. Total filings, which are dominated by individuals seeking bankruptcy protection, fell 8% in May when compared to the same month last year, to 122,737.

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