

Why Did Richmond, VA, Become a Dream Destination for Bankrupt Companies By Luisa Scarpelli Costa, LL.M. Candidate 2018 | November 28, 2017

In recent years, big companies have been turning to a new place when filing for bankruptcy: Richmond, Virginia. The U.S Bankruptcy Court in Richmond has become a [destination wedding spot](#) for failed companies, as debt-ridden large out-of-town corporations plant their bankruptcies in this town, using the court and judges here known to handle complicated bankruptcy cases in a way that's perceived by many as favorable to debtors.

One of these companies was the San Francisco-based, children's clothing store chain, [Gymboree](#), who filed for Chapter 11 in Richmond federal court with more than \$1 billion in debt. Even though they were based in California, according to Virginia bankruptcy law since Gymboree controlled an LLC that was incorporated in Virginia, it was allowed to file in the commonwealth, benefiting from the loophole in bankruptcy law, which allows for companies to file for bankruptcy in any court district where they have an affiliate.

Likewise, Toys "R" Us also chose Richmond as the place to file for bankruptcy, as a consequence of the company's recent troubles with heavy debt load that has weighed on the company for years, after the private equity firms Kohlberg Kravis Roberts and Bain Capital purchased the company in a leveraged buyout for about \$6 billion in 2005. The famous toy store also faced hardships in competing against warehouse and online sellers, which resulted in the accumulation of a long-term debt totaling more than [\\$5 billion](#).

But why are these well-known companies choosing Richmond for their bankruptcy filing? First, bankruptcy procedures tend to be extremely arduous and can drag on for years. The Richmond court offers a so-called "rocket docket" that moves cases along much quicker, as exemplified by the Gymboree bankruptcy, which was completed in less than four months. Second, the legal history in that court district contains precedents favorable to companies, such as facilitating the process for companies to walk away from union contracts.

Moreover, and perhaps one of the biggest appeals of Richmond to bankruptcy filing, is the stratospheric rates bankruptcy lawyers are able to charge there. In some cases, the attorneys were making 25 percent more than the highest average rate in 10 of the largest bankruptcies this year. Such was the case for Kirkland & Ellis, the firm that represented Toys "R" Us.

Last, but not less important, in the list of Richmond's draws for bankruptcy filings, is the fact that the two Judges in that circuit are well known for their expertise in large corporate bankruptcies, and according to local bankruptcy lawyers, can handle cases expeditiously, which makes the strenuous process of bankruptcy slightly easier to execute.