


Enterprise Bankruptcy Law

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REPUBLIC OF LITHUANIA ENTERPRISE BANKRUPTCY LAW

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Vilnius

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CHAPTER ONE GENERAL PROVISIONS

Article 1. Purpose of the Law

1. The Law shall regulate enterprise bankruptcy process.
2. The Law shall apply to all enterprises, public agencies, banks and credit unions (hereinafter - enterprises), registered in the Republic of Lithuania in the manner laid down by law. The specific features of bankruptcy process of banks, credit unions, insurance companies, agricultural enterprises, intermediaries of public trading in securities, and other enterprises and institutions may be established by other laws regulating the activities of the said enterprises and public agencies.
3. Provisions of other laws regulating the activities of enterprises, the creditor's right to the satisfaction of claims, the creditor's right to take measures to recover debts, taxes and other mandatory payments and the administration thereof in the course of bankruptcy process shall be applied in enterprises to the extent they do not conflict with the provisions of this Law.

Article 2. Definitions

In this Law:

1. "**Bankruptcy**" means the state of an insolvent enterprise where bankruptcy proceedings have been instituted in court or the creditors are performing extrajudicial bankruptcy procedures in the enterprise.
2. "**Bankruptcy process**" means the sum total of judicial or extrajudicial enterprise bankruptcy

procedures.

3. “**Bankruptcy proceedings**” means a civil case opened in court over disputes arising from legal relations connected with bankruptcy.

4. “**Enterprise in bankruptcy**” means an enterprise against which bankruptcy proceedings have been instituted or in respect of which extrajudicial bankruptcy procedures are applied.

5. “**Bankrupt enterprise**” means an enterprise declared bankrupt by the court or, in case of extrajudicial bankruptcy proceeding, by the resolution of the creditors’ meeting and put into liquidation due to bankruptcy.

6. “**Management of assets of an enterprise in bankruptcy or a bankrupt enterprise**” means the activities of the administrator: retention of the assets of an enterprise in bankruptcy or bankrupt enterprise, recovery of assets from the debtors, sale of assets, satisfaction of the creditors’ claims, organisation of transfer of the remaining assets.

7. “**Creditor's claims secured by pledge and/or mortgage charge**” means the right acquired by the creditor/pledgee/mortgage creditor under a contract of pledge or a registered mortgage bond or pledge note to demand, in the event of the enterprise’s default to fulfil the obligation secured by pledge and/or mortgage, that the property on which he holds a mortgage charge or a lien be realised in the manner prescribed by this Law and his claims be met from the proceeds or, in the event of failure to realise the secured assets, to transfer the assets into his ownership.

8. “**Insolvency of an enterprise**” means the state of an enterprise when it fails to settle with the creditor/creditors after the lapse of three month from the deadline prescribed by laws, other legal acts as well as by the agreements between a creditor and the enterprise for the discharge of the liabilities of the enterprise, or upon expiry of the said time period after the creditor/creditors demands/demand the discharge of the liabilities where the deadline has not been set in the agreement, and the overdue liabilities/debts are in excess of over a half of the value of the assets on the enterprise’s balance.

9. “**Owner/owners**” means the owner/owners of an individual/personal enterprise, a member/members of a general partnership, a general member/general members or a limited member/limited members of a limited partnership, the founder of a state-owned or municipal enterprise, a shareholder/shareholders whose shares carry over 10% of voting rights, a holder/holders of member share, stakeholders in a public agency.

10. “**Authorised representative of the shareholders/holders of member shares/ stakeholders**” means a person elected by the meeting of shareholders/holders of member shares/stakeholders to represent their interests in bankruptcy process.

11. “**Composition with creditors**” means agreement between the creditors and the enterprise to continue the activities of the enterprise where the latter assumes certain liabilities, whereas the creditors agree to defer the satisfaction of financial claims or to reduce the amount thereof or to waive their claims.

12. “**Fraudulent bankruptcy**” means deliberate bringing of the enterprise to bankruptcy.

13. “**Simplified bankruptcy process**” means judicial enterprise bankruptcy procedures implemented if the enterprises has no assets or where its assets are insufficient to cover legal and

administration costs."

Article 3. Enterprise Creditors

Enterprise creditors (hereinafter - creditors) are legal or natural persons who have the right under law to demand from the enterprise the discharge of liabilities and obligations, including, *inter alia*:

- 1) in case of default in payment of taxes, compulsory state social insurance contributions, and compulsory health insurance contributions - state institutions responsible for the collection thereof;
- 2) in case of debts in the payment of wages and failure to pay the damages arising from employment relationship - the enterprise employees (their heirs);
- 3) in the event of transfer to the State of the obligation for the payment of damages under the Provisional Law on Damage Compensation in Accident at Work or Occupational Disease Cases - an institution authorised by the Government;
- 4) in case of outstanding loans obtained on behalf of the State or with the State guarantee - the Ministry of Finance;
- 5) legal and natural persons who have sold agricultural produce;
- 6) other creditors.

CHAPTER TWO PETITION FOR BANKRUPTCY

Article 4. Grounds for Filing a Petition for Bankruptcy

Persons specified in Article 5 of this Law may file a petition for bankruptcy with the court if at least one of the following conditions is present:

- 1) the enterprise fails to pay wages and other employment-related amounts when due;
- 2) the enterprise fails to pay, when due, for the goods received, work performed/ services provided, defaults in the repayment of credits and does not fulfil other liabilities assumed under contracts;
- 3) the enterprise fails to pay, when due, taxes, other compulsory contributions prescribed by law and/or the awarded sums;
- 4) the enterprise has made a public announcement or notified the creditor /creditors in any other manner of its inability or lack of intent to discharge its liabilities;
- 5) the enterprise has no assets or income from which debts could be recovered and therefore the bailiff has returned the writs of execution to the creditor.

Article 5. Petition Filed with Court for the Institution of the Enterprise Bankruptcy Proceedings

1. The following persons shall have the right to file a petition for the institution of the enterprise bankruptcy proceedings:

- 1) the creditor/creditors;
- 2) the owner/owners;
- 3) the head of the enterprise administration.

2. Under the condition laid down in Article 7(1) of this Law, the petition for the institution of bankruptcy proceedings must be filed with court by the liquidator of the enterprise in liquidation.

3. Petitions shall be filed in writing with the county court of the locality in which the registered office of the enterprise is situated in the manner set forth by the Code of Civil Procedure.

4. Documents proving the reasonableness of the petition shall be attached thereto.

Article 6. Petition for Bankruptcy Filed by a Creditor/Creditors

1. In the presence of at least one of the conditions specified in Article 4 (1), (2) or (3), a creditor/creditors may file a petition for bankruptcy not earlier than after the expiry of 3 months measured from the date fixed by laws, other legal acts as well as agreements between creditors and the enterprise for fulfilling the obligation of the enterprise, or upon the expiry of the same time period after a creditor/creditors requested the discharge of the enterprise's liabilities, provided that the time period has not been fixed as per agreements. The petition shall be accompanied by evidence testifying that the requirements set in paragraphs 2 and 4 of this Article have been fulfilled in the manner prescribed by the Civil Code and a copy of the notification specified in paragraph 2 of this Article.

2. The creditor/creditors must notify the enterprise in writing of his/their intention to file a petition for bankruptcy. The notification shall identify the undischarged liabilities of the enterprise and shall contain a warning that in case of failure to discharge the above liabilities within the time limit specified in the notification, the creditor/creditors will file a petition for the enterprise bankruptcy. The creditor/creditors shall set an at least 30-day period for the discharge of liabilities.

3. Where the condition specified in Article 4(5) of this Law is present and the creditor/creditors has filed a petition for bankruptcy within one month from the day the writs of execution were returned, the conditions established in paragraphs 1 and 2 of this Article shall not be applicable.

4. The creditor/creditor shall present to the enterprise copies of the petition and of the annexes accompanying the petition.

5. A petition filed with the court may be waived before the court passes a decision to institute bankruptcy proceedings.

Article 7. Petition for Bankruptcy Filed by the Enterprise Liquidator

1. Should it transpire during the liquidation of the enterprise according to the procedure prescribed by other laws regulating the activities of the enterprise that it will be unable to discharge all its liabilities, the enterprise liquidator must forthwith suspend all payments and within 15 days from the day of establishment of the above condition file for instituting the enterprise bankruptcy proceedings. The petition to court shall be accompanied by the lists of enterprise creditors and debtors, including their addresses, amounts of liabilities and debts and the dates when payment thereof is due, also the financial

statement for the period from the day of making of the decision to put the enterprise into liquidation to the day of filing of the petition as well as evidence testifying that the requirements set in paragraph 3 of this Article have been fulfilled in the manner prescribed by the Civil Code.

2. Expenses relating to the administration of enterprise bankruptcy shall be covered in the manner prescribed by this Law.

3. The liquidator shall submit copies of the petition to court and copies of annexes accompanying the petition to the enterprise owner/owners.

Article 8. Petition for Bankruptcy Filed by the Manager of the enterprise Owner/Owners

1. If the enterprise is and/or will be unable to settle with the creditor/creditors, and the latter have not filed a petition for bankruptcy to court or if the condition referred to in Article 4 (4) is present, the enterprise manager, owner/owners shall file for the institution of the enterprise bankruptcy proceedings.

2. The reasons for filing by the enterprise of a petition for bankruptcy shall be indicated in the petition. The petition to court shall be accompanied by the lists of enterprise creditors and debtors, indicating their addresses, amounts of liabilities and debts and the dates when payment thereof is due as well as the financial statement for the preceding year and the period of the current year prior to the day of filing of the petition and information relating to the proceedings instituted in courts and recoveries without suit, pledged property and other liabilities as well as evidence testifying that the requirements set in paragraph 3 of this Article have been fulfilled in the manner prescribed by the Civil Code. Other documents of relevance for the bankruptcy case may also be presented to the court.

3. The enterprise manager shall present copies of the petition to court and copies of the annexes accompanying the petition to the owner. Where the petition is submitted to court by the owner/owners, he/they shall submit the documents specified herein to the enterprise.

CHAPTER THREE

INVESTIGATION OF BANKRUPTCY CASES IN COURT

Article 9. Preparation for Investigation of a Bankruptcy Case in Court

1. Having received the documents specified in Article 6 (4) and Article 8(3) of this Law, the manager of the enterprise shall within 5 days from the receipt of the above documents furnish to court lists of creditors and debtors, indicating their addresses, amounts of liabilities and debts, time limits for making settlements, the financial statement for the preceding year and the period of the current year prior to the day of filing of the petition to court by the creditors, information relating to the proceedings instituted in courts and recoveries without suit, pledged assets and other liabilities.

2. Upon the receipt of a petition for bankruptcy, the court may:

1) obligate the enterprise owner/owners, board members, manager, chief accountant/accountant, the liquidator to submit to the court all documents required for the investigation of the bankruptcy case

and to appraise the property of the enterprise;

2) summon before the court the enterprise owner/owners, board members, manager, chief accountant (accountant) and other executive officers irrespective of the grounds on which the employment contracts with them were terminated, provided that they had been dismissed from work within 12 months prior to the day of filing of the petition for bankruptcy, and demand that they give written explanations relating to the institution of bankruptcy proceedings. Appearance before the court of the above persons shall be obligatory and the guarantees established under the Code of Civil Procedure in respect of witnesses shall apply to them;

3) summon to court the creditors of the enterprise;

4) request that the manager or owner/owners of the enterprise furnish to the court data on the economic and financial position of the enterprise;

5) apply provisional measures according to the procedure laid down in the Code of Civil Procedure on the initiative of the court or the interested person until the entry into force of the decision to institute or to refuse to institute bankruptcy proceedings;

6) specify other circumstances which are of consequence for the investigation of the case.

3. After the court receives a petition for bankruptcy, provided that decisions have been made by courts and other institutions with regard to the enterprise and writs of execution have been issued based thereon, the assets (funds) of the enterprise under the writs of execution may be attached, however the sale of the assets and/or levying of execution shall be staid. If the court refuses to institute bankruptcy proceedings against the enterprise, the levying of execution and sale of assets shall be resumed, the provisional remedies provided shall be cancelled.

4. The court or the judge shall within one month from the day of receipt of the petition make a decision to institute bankruptcy proceedings or to refuse to grant the petition. For valid reasons the court shall be entitled to extend the period of preparation for the investigation of the bankruptcy case, but for not longer than one month. Where a petition for restructuring is received during the investigation of the petition for bankruptcy and the court decision to institute bankruptcy proceedings has not yet been issued, the investigation of the petition for bankruptcy shall be postponed pending the court order to initiate restructuring proceedings or to refuse to grant the petition for restructuring.

5. Bankruptcy proceedings shall be instituted if the court establishes the presence of at least one of the following conditions:

1) the enterprise is insolvent or the enterprise is three months late in paying the employees wages;

2) the enterprise has made a public announcement or in any other manner notified the creditor/creditors of its inability to effect settlement with the creditor/creditors and/or of its lack of intent to discharge its liabilities.

Article 10. Instituting Bankruptcy Proceedings in Court

1. Bankruptcy proceedings shall be instituted and bankruptcy case shall be investigated in court in contentious proceedings as prescribed by the Code of Civil Procedure, save for the exceptions provided

for by this Law.

2. Bankruptcy proceedings shall be instituted by the county court of the locality where the registered office of the enterprise is situated.

3. The court shall refuse instituting bankruptcy proceedings if:

1) before the court makes a decision to institute bankruptcy proceedings, the enterprise satisfies the claims of the creditor/creditors who filed a petition for bankruptcy;

2) restructuring proceedings have been instituted against the enterprise;

3) during the hearing of the petition for the institution of bankruptcy proceedings the court makes a sufficiently justified assumption that the enterprise possesses no assets or that its assets are not sufficient to cover legal and administration costs, save in cases provided for in paragraphs 10 and 12 of this Article.

4. Upon making a decision to institute bankruptcy proceedings, the court or the judge must:

1) appoint the administrator of the enterprise;

2) to levy an attachment against the immovable property and other fixed tangible assets of the enterprise, in force until the effective date of the court decision to institute bankruptcy proceedings;

3) to give forthwith a written notification of the instituted proceedings to the register of legal persons, the enterprise (and the creditors, if the decision is made in written proceedings), the Bank of Lithuania, if the proceedings were instituted against an enterprise which is included in the list of system participants published by the Bank of Lithuania in accordance with the Law on Settlement Finality in Payment and Securities Settlement Systems, and, within a 10-day period from the effective date of the court decision to institute bankruptcy proceedings, to: the creditors, all persons who have leased, borrowed, or are keeping in custody or using or managing the enterprise assets on any other grounds, also the Ministry of Finance if the enterprise is the recipient of a loan made on behalf of the State or guaranteed by the State, the tax administrators, compulsory social insurance and compulsory health insurance administrators, credit institutions and insurance companies servicing the enterprise, the founder of the state-owned, municipal enterprise in bankruptcy or the institution representing the enterprise, also the Securities Commission if bankruptcy proceedings are instituted against a public company;

4) notify other courts, in which action for claims, including claims arising from employment relationship, has been brought against the enterprise, of the institution of bankruptcy proceedings and take over investigation of the above cases. Notify pre-trial investigation institutions, public prosecutor's department or courts if associated civil action has been brought in criminal proceedings by the creditors of the enterprise in bankruptcy and take over all documents relating to the above actions for examination. Notify pre-trial investigation agencies, prosecutor's office or courts if in criminal proceedings attachment is levied on the assets of the enterprise in bankruptcy and take over all the documents relating to the attachment on the assets. Notify the bailiff's offices which have been presented the writs of execution regarding the levying of execution on the enterprise or regarding the levying of attachment on the assets of the enterprise;

5) set a time limit which shall be not shorter than 30 and not longer than 45 days from the

effective date of the court decision within which the creditors shall have the right to file their claims which arose prior to the day of institution of bankruptcy proceedings against the enterprise;

6) set a time limit which shall be not shorter than 15 days from the effective date of the court decision to institute enterprise bankruptcy proceedings, within which the enterprise managing bodies must transfer to the administrator the assets of the enterprise according to the financial accounts drawn up based on the data available on the day on which the decision to institute bankruptcy proceedings becomes effective, and all the documents;

7) approve the amount of enterprise funds on the basis of an estimate submitted by the administrator which the latter shall be entitled to use to cover the administration costs pending the approval of the estimate of administration costs. The administrator must submit the estimate within 5 working days from the effective date of the court decision to institute bankruptcy proceedings.

5. If the creditor's civil action is referred, according to the procedure established by the Code of Criminal Procedure, to the court investigating the bankruptcy case, the time limits for the referral of action set in paragraph 4 (5) of this Article shall be deemed to have been observed. The above action by the creditors may be referred by the court order to the court investigating the bankruptcy case during the entire time period of the bankruptcy process until the court makes a decision to terminate the bankruptcy case or makes a decision on the winding up of the enterprise.

6. The court or the judge may direct the enterprise administrator to perform the actions specified in paragraph 4 (3) and (4) of this Article.

7. After the court decision to institute bankruptcy proceedings becomes effective:

1) the enterprise managing bodies must transfer to the administrator the assets of the enterprise according to the financial accounts drawn up on the basis of the data as of the day of institution of the enterprise bankruptcy proceedings and all pertinent documents within the time limits set by the court. In the cases where the assets of the enterprise are not separated from the assets of the enterprise owner or those of the members of the enterprise, the owner/owners must within the said time period submit to the administrator the list of all available assets, including the assets which are the object of joint ownership;

2) the enterprise managing bodies shall lose their powers, while the enterprise administrator shall upon a 15-day written advance notice terminate employment contracts with the members of the enterprise board and the manager. The said individuals shall not be entitled to severance pay or compensation, except for monetary compensation for the unused holidays. Upon the court order, the above persons and the chief accountant (accountant) must present, on the demand of the court, in the course of the bankruptcy process, all information required for the bankruptcy process;

3) discharge of liabilities not met prior to the institution of bankruptcy proceedings, including payment of interest, penalties, taxes and other mandatory payments, also recovery of debts from the enterprise through court or without suit shall be prohibited. Computation of penalties and interest on all obligations of the enterprise, including on default in payments related to employment relationship, shall be suspended. A judgement mortgage may not be imposed. The effect of the collective bargaining agreement concluded in the enterprise shall be restricted as prescribed by the meeting of creditors.

Prohibitions to discharge financial liabilities and to recover debts are not applied in the cases set out by the Law on Settlement Finality in Payment and Securities Settlement Systems and the Law on Financial Collateral Arrangements;

4) if the administrator does not notify the interested parties within 30 days from the effective date of the court decision to institute bankruptcy proceedings that he will not implement the unexpired contracts entered into by the enterprise, the said contracts (including contracts of lease, loan for use agreements), except for employment contracts and contracts from which claims of the enterprise in bankruptcy arise, shall be deemed to have expired, and claims arising by reason thereof shall be met in the manner specified by Article 35 of this Law;

5) the enterprise shall be entitled to engage in economic-commercial activities, provided it reduces creditor losses incurred by reason of bankruptcy, and shall also have the right to use the income received from the above activities to cover expenses related to the activities. Where taxable objects provided for by tax laws and laws on other mandatory payments are created by the enterprise's economic-commercial activities, the enterprise shall pay taxes and other mandatory payments in compliance with laws. Where claims relating to undischarged liabilities and commitments emerge as a result of the above economic-commercial activities, they shall be met in accordance with the procedure specified by a 35 of this Law;

6) upon a motion by the creditors the court may impose restrictions on the enterprise's economic-commercial activities and disposal of its assets, which may be sold, leased, or pledged, also used as a collateral or a guarantee for the discharge of other entities' liabilities, or may be otherwise transferred (conveyed) only by leave of the court;

7) the enterprise shall acquire the status of the enterprise in bankruptcy;

8) the court or the judge shall forthwith notify the register of legal persons in writing of the effective court decision to institute bankruptcy proceedings as well as data relating to the appointed administrator (name, surname (name), personal code number (code number of the legal person), place of residence (headquarters)). The court or the judge may entrust the administrator with the performance of the above tasks.

8. A separate appeal against the decision to institute bankruptcy proceedings or against the decision to appoint, temporarily substitute for or dismiss the administrator must be heard by the Court of Appeals of Lithuania within two weeks from the date of its lodging. Having quashed the decision whereby institution of bankruptcy proceedings is refused, the Court of Appeals of Lithuania may not make a decision to instituting bankruptcy proceedings. The decision of the Court of Appeals of Lithuania shall be final and not subject to appeal by cassation.

9. The court shall have the right to accept creditors' claims filed not within the time limits set in paragraph 4 (5) of this Article provided the court recognises the reasons for not observing the set time limit as valid. The creditors' petitions lodged after the time limit set in paragraph 4 (5) of this Article for the recognition of claims which arose prior to the institution of bankruptcy proceedings shall be accepted only until the day the court makes a decision to terminate bankruptcy proceedings or to liquidate the

enterprise due to bankruptcy.

10. When the court makes a sufficiently justified assumption that the enterprise possesses no assets or that its assets are insufficient to cover legal and administration costs, it shall recommend to the person who lodged the petition for bankruptcy with the court to pay into the deposit account of the court within five working days from the day the aforementioned recommendation is made an amount fixed by the court. The amount may not exceed LTL 10 000. If the person pays the amount fixed by the court within the time period set by the court, bankruptcy proceedings may be instituted and the case may be heard following the simplified bankruptcy process. The amount paid into the deposit account of the court shall be used upon the instruction of the judge hearing the bankruptcy case to cover legal and administration costs.

11. Having paid in the amount provided for under paragraph 10 of this Article, the creditor shall be entitled to apply to court for the award of the paid amount from the enterprise manager, owner/owners for failing to file a petition for bankruptcy after the enterprise became insolvent. The enterprise manager, owner/owners shall be held liable to the creditor jointly and severally.

12. If the creditor files an application in relation to unsatisfied claims related to employment relationship, claims for the compensation for damage caused by grievous bodily harm or other injury, occupational disease or death in accident at work, bankruptcy proceedings may be instituted and the case may be heard following the simplified bankruptcy process.

13. Unless an appeal is lodged against the decision made in written proceedings to institute or to refuse to institute bankruptcy proceedings, the aforementioned decision shall become effective within 10 days from the day of its making.

Article 11. Enterprise Administrator

1. The enterprise administrator (hereinafter - the administrator) shall be a natural or legal person appointed by the court, empowered to provide bankruptcy administration services. The head of the legal person that is empowered to provide bankruptcy administration services must be entitled to provide bankruptcy administration services.

2. When filing to court a petition for enterprise bankruptcy, a person may nominate a candidate to the post of the administrator. Persons listed in Article 5 (1) of this Law shall also have the right to nominate their candidates to the administrator's post. The court may appoint another person who meets the requirements of this Article to the administrator's post. If no candidate is nominated to the post of the administrator by the person who filed the petition for bankruptcy or by other persons listed in Article 5 (1) of this Law, the administrator must be selected by the court. The candidature of the administrator selected by the court must be approved by the institution authorised by the Government, which is referred to in paragraph 10 of this Article.

3. The administrator shall:

1) submit amendments to the documents and changes in the information relating to the enterprise in bankruptcy to the register of legal persons in the manner prescribed by legal acts;

2) transmit to the institution authorised by the Government the information relating to the enterprise in bankruptcy and data to be published in the information supplement "*Informaciniai pranešimai*" of the publication "*Valstybės žinios*" (Official Gazette);

3) manage, use the assets of the enterprise in bankruptcy in the manner prescribed by this Law and dispose thereof and also of the enterprise funds kept with the banks;

4) ensure the protection of the assets of the enterprise in bankruptcy;

5) open a separate bank account for the accumulation of funds in the course of the bankruptcy process and for effecting settlements with creditors in the manner set forth in this Law. The bank account shall be opened following the decision made by the court to institute bankruptcy proceedings or the resolution adopted by the creditors' meeting to open extrajudicial bankruptcy proceeding;

6) direct the economic-commercial activities of the enterprise in bankruptcy;

7) enter into contracts of limited duration for the lease of the enterprise assets, in which the day of expiry of the contract of lease must be the day of sale, transfer or return of the assets;

8) examine the contracts of the enterprise in bankruptcy entered into within an at least 36 months period before the institution of bankruptcy proceedings and bring actions for the invalidation of the contracts which are contrary to the objectives of the enterprise activities and/or which could have led to the disability of the enterprise to settle with creditors. In this case the administrator should be considered to have found out about the contracts from the effective date of the court decision to institute bankruptcy proceedings;

9) represent or authorise another persons to represent the enterprise in bankruptcy in the court, creditors' meeting, and in entering into contracts if the enterprise in bankruptcy continues its economic-commercial activities;

10) compile the list of all enterprise creditors and their claims on the basis of claims filed by the creditors, which have been revised according to the financial accounting documents of the enterprise, and submit the list to the court for approval, also contest unproven claims of creditors at the creditors' meeting and in the court;

11) hire and dismiss employees according to the procedure laid down in the Labour Code and this Law;

12) submit documents to the Guarantee Fund for the allocation of resources for the satisfaction of the employees' claims arising out of their employment relationship;

13) in the period until the first meeting of creditors, decide on the further fulfilment by the enterprise of the contract which has not yet expired, and on entering into new contracts necessary for the enterprise in order to continue its economic-commercial activities, provided that the enterprise continues its economic-commercial activities, and shall within 30 days from the day the decision of the court to institute bankruptcy proceedings becomes effective give notice to the interested parties of his intent or refusal to fulfil the contracts entered into by the enterprise;

14) protect the rights and interests of all creditors, also the rights and interests of the enterprise in bankruptcy and carry out the necessary work relating to bankruptcy ;

15) furnish information to the institution authorised by the Government and to the Department of Statistics under the Government of the Republic of Lithuania (according to the forms of reporting prescribed by the Department), the court, also, in accordance with the procedure established by the creditors' meeting, to the creditors, the owner/owners and the authorised representative of shareholders/holders of member shares, if one has been appointed;

16) organise and control the accounting of income received in the process of management or use of the enterprise's assets or disposal thereof, also accounting of costs;

17) convene the creditors' meetings;

18) notify the owner/owners of the enterprise, the authorised representative of the shareholders/holders of member shares, if one has been appointed, where the decisions of the above persons are required in order to conclude the composition with the creditors,;

19) where the assets of the enterprise are not separated from the enterprise owner's or partners' assets, be entitled to receive, free of charge, from the institutions registering property/securities according to the procedure established by laws information relating to the property/securities registered in the name of the said persons and from the banks, other credit institutions and insurance companies - information relating to the funds kept or receivable by the said persons;

20) fulfil other decisions of the court and/or creditors' meeting and committee;

21) submit documents relating to the discharge of the obligation of payment for damage resulting from accident at work or occupational disease and particulars of the recipients of compensation for damage to the territorial branches of the State Social Insurance Fund of their place of residence where, in the cases provided for by law, the payment of compensation for damage is assigned to the State;

22) present documents relating to the allocation of funds for meeting payment claims of natural and legal persons for the agricultural produce purchased for processing to the Ministry of Agriculture;

23) take measures to recover debts from the debtors of the enterprise.

4. A creditor (a person who is in employment relationship with the creditor or, where the creditor is a legal person, a member of the latter's managing bodies) of the enterprise against which bankruptcy proceedings have been instituted, a person who under laws or other legal acts is not eligible to be appointed head, the owner of the enterprise or of its parent or subsidiary company of the enterprise, a member, head of its managing bodies, his deputies/directors, chief accountant/accountant, a shareholder who owns or owned within 36 months immediately preceding the institution of bankruptcy proceedings over 10% of shares of the enterprise in bankruptcy or of its parent or subsidiary enterprise may not be appointed administrator. The above restrictions shall also apply to the persons referred to in this paragraph, who were employed at the enterprise in bankruptcy and dismissed within 36 months immediately preceding the institution of bankruptcy proceedings. The administrator may not have legal interest in the outcome of the proceedings. Restrictions placed in this paragraph on the administrator shall be applicable to the head, his deputy (directors), the chief accountant (accountant), members of the managing body of the legal person entitled to provide bankruptcy administration services or participants in the legal person.

5. The creditors' meeting shall authorise the chairman of the creditors' meeting to conclude a contract of agency with the administrator in the name of the enterprise.

6. The administrator must compensate, according to the procedure established by laws, all losses inflicted through his fault.

7. The decision concerning temporary substitution for the administrator in case of his temporary disability or in other cases when he is temporarily unable to discharge his functions shall be adopted by the court on the motion of the creditors' meeting and subject to the approval of the chairman of the creditors' meeting. If the administrator is unable to apply to the court due to illness, the decision concerning his temporary substitution in case of his temporary disability shall be adopted by the court on the motion of the chairman of the creditors' meeting.

8. The administrator may be removed from office by the court. The administrator shall also have the right to hand in his resignation to the court.

9. Upon accepting the administrator's resignation, the court shall appoint another person to the post of administrator and specify the time limit within which the previous administrator must transfer the assets of the enterprise according to financial accounts drawn up on the basis of the data as of the day of resignation and all the documents to the newly-appointed administrator.

10. The activities of the administrator shall be subject to control of the institution authorised by the Government of the Republic of Lithuania.

11. The administrator is bound to continually improve his professional qualification.

CHAPTER FOUR EXTRAJUDICIAL BANKRUPTCY PROCESS

Article 12. Preparation for Extrajudicial Bankruptcy Process

1. Bankruptcy procedures may be applied out of court, provided that no action has been brought in court in which claims, including claims connected with employment relationship, have been entered against the enterprise, also if no execution is levied on the enterprise under the writs of execution issued by the courts or other institutions.

2. If the enterprise is unable and will not be able to settle with a creditor/creditors, the manager of the enterprise, the owner/owners, intending to seek the creditors' consent to carry out bankruptcy procedures out of court, must notify every creditor in writing of the motion to implement extrajudicial bankruptcy procedures, at the same time indicating the date and place of the creditors' meeting.

3. The creditors' meeting shall be convened within 20 days from the day a notice of the motion specified in paragraph 2 of this Article was sent to the creditors.

4. The decision to carry out extrajudicial bankruptcy procedures may be taken by the creditors' meeting if the decision is voted in favour of by the creditors whose claims in terms of value account for at least 4/5 of the amount of the enterprise's liabilities on the day of adoption of the resolution, including those which have not yet matured.

5. If the creditors' meeting rejects the decision to carry out extrajudicial procedures, the persons listed in Article 5(1) of this Law may file to court a petition for bankruptcy. In this case the time limits for the filing of the petition set in Article 6(1) of this Law shall not be observed and the provisions of paragraph 2 of this Article shall not apply, provided that the petition to court is filed within 30 days after the creditors' meeting.

Article 13. Extrajudicial Bankruptcy Process

1. Extrajudicial bankruptcy procedures shall be carried out in compliance with this Law. The issues within the competence of the court shall be considered and decided by the creditors' meeting.

2. The administrator shall be appointed by the creditors' meeting in accordance with the provisions of Article 11 of this Law.

3. The procedure for implementing the resolutions of the creditors' meeting and for satisfying the creditors' claims shall be established in accordance with the procedure and terms and conditions of court investigation of bankruptcy cases prescribed by this Law.

4. The administrator shall within 3 working days from the day of the creditors' meeting at which the creditors passed a resolution to carry out bankruptcy procedures out of court notify the enterprise employees in writing of the intended termination of the employment contract and terminate the contract with them 15 days after the notification. The administrator shall within 3 working days from the day of the creditors' meeting referred to in this paragraph notify the territorial labour exchange, the municipality institution and representatives of the enterprise employees of the intended dismissal. A dismissed employee shall be paid severance pay in the amount specified in Article 19(2) of this Law and settlement with him shall be effected according to the procedure laid down in Article 35 of this Law.

5. Where bankruptcy procedures are applied out of court, the consequences specified in Article 10 (7), Article 16 and Article 27(2) and (3) of this Law ensue.

CHAPTER FOUR¹

SIMPLIFIED BANKRUPTCY PROCESS

Article 13¹. Simplified Bankruptcy Process

1. In the cases provided for in Article 10(10,12) of this Law and/or when the administrator establishes during the hearing of the enterprise bankruptcy case that the enterprise possesses no assets or that its assets are insufficient to cover legal and administration costs, the court may issue an order to apply to the enterprise a simplified bankruptcy process. The process may not last longer than one year from the effective date of the order to apply the simplified bankruptcy process. During the simplified bankruptcy process bankruptcy procedure of liquidation shall be applied. The issues relating to the sale of assets, assigned under this Law to the competence of the creditors' meeting, shall be resolved by court.

2. Having issued the order to apply the simplified bankruptcy process to the enterprise, the court must:

1) forthwith submit the information relating to the court order to apply to the enterprise simplified bankruptcy process to the register of legal persons, the enterprise, creditors and the institution authorised by the Government for publication thereof in the information supplement "*Informaciniai pranešimai*" of the publication "*Valstybės žinios*" (Official Gazette);

2) appoint the administrator where such has not been appointed;

3) approve the estimate of administration costs to be submitted by the administrator within 5 working days from the effective date of the court order to apply simplified bankruptcy process with respect to the enterprise;

4) approve the duration of simplified bankruptcy process;

5) allow the creditors' claims (if they have not been allowed) according to the list presented by the administrator, drawn up based on the data of the enterprise's financial statements.

3. The court or the judge may entrust the performance of the actions specified in this Article, paragraph 2, subparagraph 1, to the enterprise administrator.

4. The estimate of the administration costs and the procedure for using the funds allocated for administration costs shall be approved and revised by the court.

5. Funds received from the sale of assets and rights of claim shall be allocated for covering legal and administration costs. Should it be established after the commencement of the simplified bankruptcy process, that receipts from the sale of the enterprise assets and rights of claim will be twice as much as it is required for covering legal and administration costs, the court shall issue an order to terminate the conduct of the simplified bankruptcy process and an order to perform enterprise bankruptcy procedures in accordance with the general procedure laid down in this Law for the conduct of bankruptcy proceedings in court.

6. Where the receipts from the sale of the enterprise assets that are free from any encumbrances and of the rights of claim exceed the amount that is required for covering legal and administration costs, but do not exceed the amount specified in paragraph 5 above, the difference shall be allocated to satisfy the claims of the creditors - enterprise employees connected by employment relationship.

7. The balance left after the satisfaction of claims specified in paragraph 6 of this Article may be used to satisfy the claims of the creditor referred to in Article 10(11) of this Law. If the said creditor is awarded a certain amount from the persons specified in Article 10(11) of this Law, the amount payable in satisfaction of claims should be reduced by the awarded amount.

8. In case there is any balance of funds after full satisfaction of the employees'-creditors' claims and after effecting settlement with the creditor indicated in paragraph 7 of this Article, the funds shall be transferred into the account of the Guarantee Fund.

9. A separate appeal may be filed against the court order to apply simplified bankruptcy process.

10. In the course of application of simplified bankruptcy process the meeting of creditors shall not be convened.

CHAPTER FIVE

PROTECTION OF THE INTERESTS OF THE DEBTOR, CREDITORS AND THIRD PARTIES WHERE BANKRUPTCY PROCEEDINGS HAVE BEEN INSTITUTED

Article 14. Disposal of the Assets of the Enterprise in Bankruptcy

1. From the day the decision to institute of bankruptcy proceedings becomes effective:

1) the right to manage, use and dispose of the assets/funds of the enterprise in bankruptcy shall be granted only to the administrator. No creditor of the enterprise shall have the right to take over the property and funds owned by the enterprise otherwise than prescribed by this Law, except the cases set out by the Law on Settlement Finality in Payment and Securities Settlement Systems and the Law on Financial Collateral Arrangements;

2) persons who have leased, borrowed, are keeping in custody, or using or managing on any other grounds the assets of the enterprise in bankruptcy shall be prohibited from concluding with third parties contracts relating to the above assets.

2. All contracts entered into in breach of provisions of paragraph 1 of this Article shall be invalid as of their conclusion.

3. Claims for the invalidation of contracts, also other claims of the administrator against the debtors of the enterprise in bankruptcy and bankrupt enterprise shall be examined in the court which investigates the enterprise bankruptcy case.

Article 15. Satisfaction of Claims Filed with the Court prior to the Institution of Bankruptcy Proceedings

1. The manager of the enterprise must within 5 days from the day of receipt of the documents referred to in Article 6(4) notify the court of the instituted proceedings in which property claims, including financial claims arising from employment relationship, have been filed against the enterprise as well as of the criminal proceedings in which property claims have been filed against the enterprise and/or an attachment has been levied on the assets of the enterprise.

2. All civil cases in which claims, including claims relating to employment relationship, have been filed against the enterprise shall be referred to the court which instituted bankruptcy proceedings.

3. The administrator or the person authorised by him shall represent the enterprise in the proceedings for the recovery of property from other persons for the benefit of the enterprise in bankruptcy, instituted prior to the opening of bankruptcy proceedings from the effective date of the decision to institute bankruptcy proceedings.

Article 16. Schedule of Payments

All debts of the enterprise in bankruptcy shall be considered overdue as from the day of the institution of bankruptcy proceedings. The provision shall become invalid when the court decision to terminate bankruptcy proceedings becomes effective.

Article 17. Discharge of Liabilities of and to an Enterprise in Bankruptcy

1. The administrator may continue, according to the procedure and in the cases specified by this Law, the contracts entered into by the enterprise in bankruptcy prior to the institution of bankruptcy proceedings.

2. The administrator must notify the interested parties within the time limit set in Article 10 (7) (4) of this Law of the taken decision to continue the contract entered into by the enterprise before the effective date of the decision to institute bankruptcy proceedings.

Article 18. Delivery of Writs of Attachment and of Writs of Execution

1. The bailiff shall, within 15 days after the effective date of the court decision to institute bankruptcy proceedings deliver to the court investigating the bankruptcy case writs of attachment to be levied on the enterprise's property which has been attached prior to the institution of bankruptcy proceedings in order to enforce the decisions made by the courts and other institutions but not yet sold as well as writs of execution to be levied on the enterprise and shall notify the property trustee and the claimant thereof. The creditors' claims against the enterprise which have not been met by the bailiffs' office shall be met according to the procedure laid down by this Law.

2. If the property of the enterprise against which bankruptcy proceedings have been instituted is attached in criminal proceedings, all documents relating to the attachment of the property shall be transmitted to the court investigating the bankruptcy case within one month from the effective date of the court decision to institute bankruptcy proceedings and the property trustee shall be notified thereof.

3. The issues relating to attachment of property as specified in paragraphs 1 and 2 of this Article shall be resolved by the court investigating the bankruptcy case. Pending the lifting of attachment, the property trustee shall have all the rights and duties related to the protection of the property.

Article 19. Regulation of Employment Relationship

1. The administrator shall within 3 working days from the effective date of the court decision to institute bankruptcy proceedings against the enterprise notify the enterprise employees in writing of the intended termination of the employment contract and discontinue the employment contract with them after 15 working days from such notification. Notice of the intended dismissal of employees shall be given by the administrator to the territorial labour exchange, municipality institution and representatives of the enterprise employees within 3 working days from the effective date of the court decision to institute bankruptcy proceedings against the enterprise.

2. Upon termination of the employment contract the employee shall be paid severance pay in the amount of his two average monthly wages.

3. Settlement with the employee who is dismissed shall be effected following the procedure laid down in Article 35 of this Law.

4. The creditors' meeting shall determine the number of employees according to positions, who are to be recruited under fixed-term agreements for work during the enterprises bankruptcy process. The

list of such employees shall be drawn up by the administrator.

Article 20. Fraudulent Bankruptcy

If the court investigating the enterprise bankruptcy case establishes a fraudulent bankruptcy, the administrator must review all contracts of the enterprise in bankruptcy concluded within the 5-year period prior to the institution of bankruptcy proceedings and bring an action before the court investigating the enterprise bankruptcy case for the invalidation of the contracts which are contrary to the interests of the enterprise and/or which could have contributed to its loss of ability to settle with the creditors. In this case the administrator shall be deemed to have learnt of the contracts from the order to institute bankruptcy proceedings became effective.

Article 21. Rights of Creditors in Bankruptcy Proceedings

1. Upon the institution of bankruptcy proceedings the creditors shall have the right to:

1) refer their claims to the administrator within the time limit fixed by the court, attaching thereto proof of claim verified by documents, also specify the guarantees for the satisfaction of the above claims provided by the enterprise;

2) apply to the court for the establishment of a fraudulent bankruptcy and question the resolutions adopted by the creditors' meeting;

3) attend the creditors' meeting and assert their claims;

4) receive from the administrator information about the course of the bankruptcy proceedings according to the procedure laid down by the creditors' meeting

2. The institutions specified in Article 3 (1), (3) and (4) of this Law shall be represented in bankruptcy proceedings and at the creditors' meetings by the persons authorised by them.

Article 22. Convening the Creditors' Meeting

1. The first meeting of the creditors shall be convened not later than within 15 days after the effective date of the court order to allow the claims of the creditors.

2. Upon the institution of bankruptcy proceedings the first meeting of the creditors shall be convened by the court or, on its direction, by the administrator.

3. Subsequent meetings of the creditors shall be convened by the court, the administrator or the chairman of the creditors' meeting. A creditor/creditors, the sum total of whose claims in terms of value accounts for at least 10% of the sum total of all creditors' claims allowed by the court in the manner prescribed by this Law shall be entitled to request convening the creditors' meeting.

4. The procedure for convening the creditors' meeting shall be established by the creditors' meeting.

5. The administrator shall present to the creditors' meeting the court order to allow each creditor's claim.

6. The owner/owners of the enterprise in bankruptcy or his representative, the administrator, the

representative of the founder of the state-owned or municipal enterprise, the authorised representative of shareholders/holders of member shares as well as shall the authorised representative of the municipality where the immovable property of the enterprise in bankruptcy is located shall have the right to attend the creditors' meetings. Only creditors shall be entitled to vote.

Article 23. The Rights of the Creditors' Meeting

The creditors' meeting shall have the following rights:

- 1) to elect the chairman of the creditors' meeting;
- 2) to decide on the formation of the creditors' committee, elect the committee, change its composition, delegate to the committee all or part of the rights of the creditors' meeting;
- 3) to investigate the creditors' complaints about the actions of the administrator;
- 4) to request that the administrator present reports about his activities and to approve said reports. If the administrator's report is not approved by the creditors' meeting, it may be approved by the court;
- 5) to approve the estimate of administration costs, also change the estimate, establish the priority and procedure of covering the expenses;
- 6) to decide on the continuity, restriction or termination of economic-commercial activities of the enterprise, submit motions to the court on the restriction or termination of commercial-economic activities as well as on the imposition of restrictions on the disposal of the enterprise property;
- 7) to fix the number of employees to be employed in various jobs in the course of bankruptcy process;
- 8) to decide the issue relating to limitation of collective agreement;
- 9) to fix the administrator's remuneration;
- 10) to authorise the chairman of the creditors' meeting to conclude a contract of agency with the administrator within 10 working days from the day of the creditors' meeting and apply to the court for the replacement of the administrator during his temporary disability if the administrator is prevented to do so himself by sickness;
- 11) to establish the manner whereby the creditors, enterprise owner/owners, the authorised representative of the shareholders/holders of member shares receive from the administrator information about the course of the enterprise bankruptcy proceedings;
- 12) to make decisions on concluding the composition with the creditors;
- 13) to apply to the court requesting the replacement of the administrator;
- 14) elect a person to chair the creditors' meeting if the chairman of the creditors' meeting is not present at the meeting;
- 15) to propose to the court that the liquidation procedure be applied to the enterprise;
- 16) in case extrajudicial enterprise bankruptcy procedures are applied, to adopt resolutions which would be adopted by the court in judicial investigation of bankruptcy;
- 17) to settle other issues assigned to the competence of the creditors' meeting. by this Law

Article 24. Procedure for Adopting Resolutions of the Creditors' Meeting

1. A resolution of the creditors' meeting shall be deemed adopted if voted in favour of by open ballot by the creditors whose amount of claims allowed by the court (in case of extra-judicial bankruptcy process - by the creditors' meeting) accounts for over one half of the amount of the allowed claims of all creditors, save for the exceptions prescribed by this Law. The creditors' claims allowed by the court (in case of extra-judicial bankruptcy process- by the creditors' meeting) and the sum thereof must be reduced by the amount of sums paid out prior to the meeting. A creditor shall have the right to notify the creditors' meeting in writing of his opinion -whether "for" or "against" - regarding each resolution. The opinions shall be included in the voting results of the creditors' meeting, the repeat meeting including, and must be announced at the creditors' meeting.

2. If the number of votes at the meeting proves insufficient for adopting a resolution, the administrator shall within 15 days convene a repeat meeting of the creditors. The repeat meeting shall have the right to adopt resolutions only subject to the agenda of the preceding meeting, except for the resolutions regarding the extrajudicial enterprise bankruptcy process and the composition with the creditors.

3. A resolution shall be deemed adopted at the repeat meeting of creditors if voted in favour of by open ballot by creditors whose amount of claims allowed by the court accounts for over one half of the amount of the allowed claims of the creditors attending the meeting.

4. The resolutions of the creditors' meeting shall be binding on all the creditors. Where bankruptcy proceedings have been instituted in the court, the chairman of the creditors' meeting must within 5 working days after the adoption of the resolution submit a copy of the minutes of the creditors' meeting to the court investigating the bankruptcy case.

5. The resolution of the creditors' meeting may be appealed against to court within 14 days from the day when the creditor learnt or should have learnt of the adoption of the resolution.

Article 25. The Creditors' Committee

1. The creditors' committee may be elected by the first or by the subsequent meetings of the creditors. The chairman of the creditors' meeting shall also be the chairman of the creditors' committee. Among its members the creditors' committee must have at least one person authorised to defend the claims arising from employment relationship if the enterprise is to satisfy the claims arising from employment relationship, claims for the compensation for damage caused by grievous bodily harm or other injury, occupational disease or death in accident at work. The creditors' committee must have at least 5 members.

2. The creditors' committee shall monitor the course of bankruptcy, the administrator's activities, shall protect the creditors' interests in the periods between the creditors' meetings.

3. The rights of the creditors' committee shall be specified by the creditors' meeting.

4. The resolutions of the creditors' committee shall be valid if the committee meeting is attended by over one half of the committee members. One member of the creditors' committee shall have one

vote. The creditors' committee shall adopt resolutions by simple majority vote and in the case of a tie the chairman's vote shall be casting. The creditors' committee must notify all creditors of the adopted resolutions in the manner laid down by the creditors' meeting. If bankruptcy proceedings are instituted in court, the chairman of the creditors' meeting must within 5 working days after the adoption of the resolution submit a copy of the minutes of the meeting of the creditors' committee to the court.

Article 26. Allowing the Creditors' Claims

1. The creditors' claims shall be allowed by the court. Modifications of the list of the creditors and their claims made in connection with the bankruptcy process - unpaid taxes or other compulsory payments, also sums due to the employees made redundant- shall be confirmed by the court order, until the court issues an order to terminate bankruptcy proceedings or adopts a decision on the winding up of the enterprise.

2. The creditors shall be entitled to the general or limited waiver of their claims. A creditor shall notify the court of his waiver of claims in writing. The court shall accept the waiver of claims by issuing an order, reduce the amount of the creditors' claims accordingly and, in case of a creditor's general waiver, strike him off the list of creditors.

3. In the course of bankruptcy the creditor's claims may be assigned to another creditor or person. The sequence of the claims laid down according to the provisions of Article 35 of this Law shall not change.

4. Decisions regarding allowance of creditors' claims shall be made by the court in written proceedings. Upon the request of the interested persons, verbal proceedings may be ordered. The issue relating to the allowance of the creditors' claims contested by the administrator shall be resolved by the court at the court sitting upon notifying thereof the administrator and persons whose claims are contested.

5. A separate appeal against the court orders to allow or refuse to allow creditors' claims may be filed only by the administrator and creditors, with respect to whom the orders have been issued. Other creditors may appeal against the orders only provided that the total amount of the financial claims allowed by the said orders exceeds LTL 250 and the amount of the allowed financial claims of the creditor who is filing the appeal exceeds LTL 250. .

Article 27. Discontinuance of a Bankruptcy Case

1. A bankruptcy case shall be discontinued when:

- 1) all creditors waive their claims and the court issues an order to accept the waivers;
- 2) the enterprise in bankruptcy effects settlement with all the creditors/creditor and the administrator files documents in proof thereof with the court;
- 3) the composition with the creditors is concluded and approved by the court.

2. Where a bankruptcy case is discontinued pursuant to the provisions of paragraph 1 (1) and (3) of this Article, the requirements laid down in the Law on Monitoring of State Aid Granted to Undertakings must be complied with.

3. Upon the discontinuance of the enterprise bankruptcy case all taxes and compulsory payments as well as interest and penalties shall be payable as from the effective date of the court order to discontinue the case and the validity of the limited collective agreement shall be restored.

CHAPTER SIX

COMPOSITION WITH THE CREDITORS

Article 28. Concluding a Composition with the Creditors

1. The motion to conclude a composition with the creditors may be filed by the creditors, the administrator, the enterprise owner/owners.

2. The composition with the creditors shall be signed by all the creditors whose claims have not been met in the course of bankruptcy before the day the composition with the creditors is signed, or by their authorised representative and the administrator, after the latter has received the written consent of the enterprise owner/owners, the managing body which has the right to take a decision to liquidate or reorganise the enterprise.

3. The composition with the creditors may be concluded at any stage of bankruptcy process until the court order to liquidate the enterprise by reason of bankruptcy becomes effective.

Article 29. Contents of the Composition with the creditors and the Procedure of Approval thereof

1. The composition with the creditors shall specify the following:

- 1) concessions made for the enterprise and the creditors' claims;
- 2) liabilities of the enterprise;
- 3) ways and schedule of satisfaction of claims;
- 4) liability of the enterprise in case of failure to carry out the composition with the creditors.

2. The composition with the creditors shall be subject to approval by the court. If bankruptcy proceedings are instituted against a public or a private company, the court shall name the person whom it charges to convene the creditors' meeting in its order to approve the composition with the creditors.

3. The court shall refuse to approve the composition with the creditors if actions provided for therein contradict the laws or infringe somebody's rights and interests protected under law.

4. The composition with the creditors shall come into force on the effective date of the court order to approve the arrangement.

5. After the effective date of the court order to approve the composition with the creditors the bankruptcy case against the enterprise shall be discontinued.

6. In case of extrajudicial bankruptcy process, the composition with the creditors shall be subject to notarial verification.

7. Repealed.

8. After the court order to approve the composition with the creditors has become effective, the administrator shall within 5 working days give a written notice thereof to the credit institutions servicing the enterprise, to tax, compulsory social insurance and compulsory health insurance administrators, the founder of a state-owned or municipal enterprise, the register of legal persons, the Ministry of Finance if the enterprise has been given a loan on behalf of the State or with the State guarantee, also the Securities Commission if the composition with the creditors has been concluded with a public company, and shall also communicate the data relating to the bankrupt enterprise to the institution authorised by the Government as well as to the editor's office of "*Valstybės žinios*" (Official Gazette) for publication in the information supplement "*Informaciniai pranešimai*".

CHAPTER SEVEN

LIQUIDATION OF A BANKRUPT ENTERPRISE

Article 30. Declaring an Enterprise Bankrupt

1. Having investigated the bankruptcy case and declared the enterprise bankrupt, the court shall issue an order to put the enterprise into liquidation as a result of bankruptcy.

2. The court shall declare the enterprise bankrupt and issue an order to put the enterprise into liquidation if an order to conclude the composition with the creditors is not issued within 3 months from the effective date of the order to allow the creditors claims and the court has not granted any extension of the deadline. The court may grant the extension of the deadline only if so requested by the creditors' meeting.

3. Having declared the enterprise bankrupt and issued an order to put the enterprise into liquidation, the court shall approve the amount of each creditor's claims, the procedure of liquidation, other orders and directions necessary for carrying out the liquidation.

4. The functions of the enterprise liquidator shall be performed by the administrator pursuant to this Law.

Article 31. The Rights and Duties of the Administrator in Enterprise Liquidation

When carrying out the enterprise liquidation, administrator shall:

- 1) dispose of the enterprise assets and resources and ensure safety thereof;
- 2) organise the sale of the assets according to the procedure prescribed by this Law and sell or transfer the assets to the creditors;
- 3) satisfy the creditors' claims allowed according to the procedure established by this Law;
- 4) submit documents relating to the discharge of the obligation of payment for damage resulting from accident at work or occupational disease as well as information relating to the recipients of the compensation for damage to the territorial branches of the State Social Insurance Board of their place of residence where, in the cases provided for by law, the payment of compensation for damage is transferred

to the State;

5) manage and dispose of the waste hazardous to the population and the environment in the manner prescribed by law;

6) return the assets remaining after effecting settlement with the creditors to the owner/owners of the bankrupt enterprise, the founder of a state-owned or municipal enterprise or its managing body entitled to decide on the reorganisation or liquidation of the enterprise;

7) hand over to the archive, in the manner prescribed by law, the documents of the enterprise which are subject to keeping;

8) file with the court the liquidation balance sheet and the statements of return, writing off or transfer of the remaining assets;

9) communicate the data relating to the liquidated enterprise to the institution authorised by the Government.

Article 32. Liquidation of a Bankrupt Enterprise

1. An enterprise shall acquire the status of the enterprise in liquidation from the effective date of the court order to liquidate the enterprise due to bankruptcy.

2. The administrator must no later than within 5 days after the effective date of the court order to liquidate the enterprise due to bankruptcy communicate the information relating to the bankrupt enterprise to the institution authorised by the Government and publish the information in the information supplement "*Informaciniai pranešimai*" of the publication "*Valstybės žinios*" (Official Gazette), present the documents to the register of legal persons, give notice of the issued order to the owner/owners of the bankrupt enterprise, the founder state-owned or municipal enterprise, the authorised representative of the shareholders/holders of member shares, if one has been appointed, the credit institutions which service the enterprise, tax, compulsory social insurance and compulsory health insurance administrators, the Ministry of Finance if the enterprise is the recipient of a loan made on behalf of the State or with the State guarantee, the labour exchange as well as the Securities Commission if a public company is in liquidation.

3. Repealed.

4. Upon filing by the administrator of the documents specified in Article 31(8) of this Law and the certificate issued by the Regional Department of the Ministry of Environment as well as the certificate confirming completion of payment to the employees of the bankrupt enterprise of the amounts from the Guarantee Fund, the court investigating the enterprise bankruptcy case shall hand down a decision on the winding up of the enterprise.

5. The administrator shall within 5 days after the effective date of the court decision regarding the winding up of the enterprise or from the date of the adoption by the creditors' meeting of the resolution on the winding up of the enterprise file a petition with the register of legal persons for the removal from the register of the enterprise liquidated due to bankruptcy. The administrator shall attach to the petition the court decision regarding the winding up of the enterprise or the resolution of the creditors' meeting on

the winding up of the enterprise, the certificate of the enterprise registration and the original copy of the Articles and Memorandum of Association of the enterprise, the statement that the documents have been transferred to the archive for further preservation and shall indicate the addresses of the banks and other credit institutions which provide services to the enterprise.

6. The register of legal persons shall remove the enterprise from the register within 5 days from the receipt of the court decision regarding the winding up of the enterprise and shall notify thereof the tax, compulsory social insurance and compulsory health insurance administrators as well as banks and other credit institutions which provided services to the enterprise.

CHAPTER EIGHT

THE PROCEDURE OF SALE OF THE ENTERPRISE ASSETS AND SATISFACTION OF CREDITORS' CLAIMS IN THE COURSE OF BANKRUPTCY

Article 33. Sale of Assets

1. The assets of an enterprise in bankruptcy or a bankrupt enterprise, and the rights of claim under the debtors' liabilities to the enterprise in bankruptcy or bankrupt enterprise shall be appraised and sold in the manner specified by this Law. Immovable property shall be sold by auction according to the procedure established by the Government. The procedure of sale of other assets, except the pledged assets, shall be decided by the creditors. Unsold assets may be transferred to the creditors. The contract of sale of assets or the statement for the transfer of assets shall be deemed equivalent to a contract verified by a notary and, registering the contract of sale in the established manner, shall be considered as documents proving the right of ownership to the assets.

2. The shares and other securities of companies held by the enterprise in bankruptcy or bankrupt enterprise shall be sold in accordance with the procedure laid down by legal acts regulating trading in securities, except for shares of private companies, which shall be sold in the manner established by the creditors' meeting. The shareholders of a private company the shares of which are offered for sale shall have the right of pre-emption. The shares shall be sold to the highest bidder.

3. Pledged assets shall be sold by auction according to the procedure established by the Government, upon notifying the pledgee, the mortgage creditor thereof. When the administrator transfers the unsold pledged assets to the pledgee, the mortgage creditor, the said persons shall within 30 days from the day of transfer of the assets defray the expenses of asset administration incurred by the administrator, which have been provided for in the estimate of administration costs approved by the creditors' meeting.

4. The creditors whose claims have not been satisfied due to the insufficiency of funds shall decide on the use of the unsold assets. If not all property of the bankrupt enterprise has been sold or transferred to the creditors and not all claims of the creditors have been satisfied within 24 months from the effective date of the court order to declare the enterprise bankrupt, the liquidation procedure shall be considered completed. The remaining unsold property which has

not been taken over by the creditors shall be written off as unsaleable assets upon the decision of the creditors whose claims have not been satisfied due to insufficiency of funds. The property which has been written off - except for the immovable property - shall be used or destroyed in the manner established by the creditors' meeting. The immovable property which has been written off shall be transferred without payment to the municipality in whose territory the immovable property is located within 30 days from the date of its having been written off.

5. Radioactive substances, equipment using radioactive substances and generators of ionising radiation may be sold or transferred only in accordance with the procedure established by the laws on radiation protection and other legal acts regulating radioactive protection of the population and the environment.

Article 34. Satisfying the Creditor's Claims Secured by Pledge and/or Mortgage

The creditor's claims secured by pledge and/or mortgage shall be paid first of all from the proceeds obtained from the sale of the pledged assets of the enterprise or by transferring the pledged assets. Where the pledged assets are sold at a price higher than the amount of claims secured by the pledge and/or mortgage, the remaining balance of the funds shall be allotted for meeting the claims of other creditors pursuant to Article 35 of this Law.

Article 35. Sequence and Procedure of Satisfying the Creditors' Claims

1. The creditors' claims shall be satisfied in two stages. During the first stage the creditors' claims shall be satisfied in the sequence established under this Article, not including the computed interest and penalties, while in the second stage the remaining part of the creditors' claims (interest, penalties) shall be paid in the same sequence.

2. First in line for satisfaction shall stand claims of the employees arising from employment relationship; claims for compensation for damage caused by grievous bodily harm or some other injury, an occupational disease or death due to an accident at work; claims of natural or legal persons for payment for agricultural produce purchased for processing.

3. Second in line for satisfaction shall stand claims for payment of taxes and other payments into the budget, also for compulsory state social insurance contributions and compulsory health insurance contributions; claims relating to loans obtained on behalf of the State or guaranteed by the State;

4.. Third in line for satisfaction shall be all claims other than those specified above.

5. The computed income tax payable on the wages of natural persons may not be considered as ranking equal with the claims standing first in line for satisfaction.

6. Claims of the creditors of each successive sequence shall be met after full payment of the claims of the creditors of the preceding sequence. If assets are insufficient to satisfy all of claims of one sequence in full, the said claims shall be paid in proportion to the amount due to each creditor.

7. Claims relating to employment relationship which have been put forward by employees of an

enterprise in bankruptcy or a bankrupt enterprise, referred to in paragraph 2 of this Article, may be met from the resources of the Guarantee Fund, whereas claims of natural and legal persons for payment for agricultural produce purchased for processing by enterprises in bankruptcy or bankrupt enterprises may met according to the procedure laid down by the Government. The allowed claims of an employee or a natural or legal person shall be reduced by the amount of the sum paid from the above Funds.

Article 36. Administration costs

1. Administration costs shall be paid with all types of funds (proceeds from the sale of assets of the enterprise, including pledged assets, debts repaid to the enterprise, earnings from economic activities, rent for leased assets and other funds received in the course of bankruptcy).

2. The estimate of administration costs shall be drawn up, approved and changed by the creditors' meeting which shall also establish the procedure of disposal of the administration costs.

3. Administration costs shall comprise remuneration for the work of the administrator, other employees of the enterprise whose participation in the bankruptcy process is necessary, except for those participating in the economic-commercial activities of the enterprise, amounts paid in connection with employment relationship, auditing expenses, approved expenses related to property appraisal and sale, also to surveillance, management and disposal of hazardous waste as well as other expenses approved by the creditors' meeting. Expenses related to economic-commercial activities may not be included in the administration costs.

4. The first meeting of the creditors must fix the amount of remuneration to be paid to the administrator for the administration of the enterprise during the bankruptcy process, including the period from the effective date of the court decision to institute enterprise bankruptcy proceedings until the day the contract of agency is concluded with him or the day of the first meeting of the creditors.

5. The sum of the remuneration payable to the administrator (depending on whether or not the enterprise in bankruptcy continues its business, the type and amount of the enterprise assets being sold, also the complexity and number of proceedings instituted and civil actions brought against the enterprise) and the procedure of payment of the remuneration (the remuneration may be paid in a lump sum after the completion of the bankruptcy process or by instalments in the course of the proceedings) shall be established in the contract of agency.

CHAPTER NINE FINAL PROVISIONS

Article 37. Entry into Force and Application of the Law

1. The Law shall enter into force as of 1 July 2001.

2. The Law of the Republic of Lithuania on Enterprise Bankruptcy (Valstybės žinios, 1997, No. 64-1500; 1998, No. 109-2996; No. 114-3189; 2000, No. 32-889) shall be in force and regulate bankruptcy procedures only in respect of those enterprise against which bankruptcy proceedings have

been instituted or extrajudicial bankruptcy process has been initiated prior to the entry into force of this Law.

3. The procedure set forth in this Law shall also apply to the investigation of bankruptcy cases against the enterprises, which, prior to the entry into force of this Law, were subject to extrajudicial bankruptcy process, but the cases relating to which shall, on the decision of the creditors' meeting, be referred to the court for investigation after 1 July 2001.

4. Administration costs of enterprises, bankruptcy proceedings against which were instituted prior to 1 July 2001, may be revised pursuant to the provisions of Article 36 of this Law.

5. The provisions of Article 33(4) of this Law shall apply to enterprises which acquired the status of the enterprise in bankruptcy prior to 1 July 2001. The 24-month period fixed in Article 33(4) for liquidation procedure shall start from 1 July 2001. The above enterprise shall be removed from the register in accordance with the provisions of Article 32(6) of this Law.

6. The Government or the institution authorised by it shall establish:

1) the procedure for furnishing and announcing information relative to the enterprise bankruptcy procedures;

2) the procedure of representation in bankruptcy proceedings by persons authorised by public authorities;

3) the procedure for selling by auction the assets of the enterprise in bankruptcy or bankrupt enterprise;

4) the procedure for granting the right natural and legal persons to provide bankruptcy administration services, the procedure for controlling the activities of bankruptcy administrators and the procedure for remunerating the bankruptcy administrator.

7. The provisions of this Law, Article 10(4,7), Article 13¹(2), Article 29(8), Article 32 (2, 5, 6), relating to the register of legal -persons shall be applied from the commencement of operation of the register of legal persons.

8. Prior to the commencement of operation of the register of legal persons:

1) changes in and amendments to the data and documents prescribed by legal acts shall be submitted to the administrator of the Register of Enterprises;

2) the administrator shall file the petition provided for in Article 32(5) to the administrator of the Register of Enterprises;

3) actions provided for in Article 32(6) shall be performed by the administrator of the Register of Enterprises.

I promulgate this Law passed by the Seimas of the Republic of Lithuania.

PRESIDENT OF THE REPUBLIC

VALDAS ADAMKUS

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