

A business may file for bankruptcy under either Chapter 7 or Chapter 11. In a Chapter 7 bankruptcy, a trustee liquidates the debtor's assets and distributes those assets to the creditors. In a Chapter 11 bankruptcy, the debtor and creditors try to negotiate a plan that permits the company to operate as a going concern. If a confirmable plan cannot be reached, a court may convert the case to a Chapter 7 proceeding or dismiss the Chapter 11 petition.

The dismissal of a Chapter 11 petition typically aims to return the parties to the prepetition status quo. But a bankruptcy court may, "for cause," alter the ordinary restorative consequences of a Chapter 11 dismissal. Invoking this power, bankruptcy courts will sometimes approve so-called "structured dismissals," which provide agreed-upon distributions and releases.

Today, the Supreme Court held that, in approving a structured dismissal, a bankruptcy court may not approve distributions to lower-priority claimants without the consent of the affected, higher-priority creditors. In a majority opinion for six Justices, Justice Breyer cited the fundamental nature of the Bankruptcy Code's priority system—and the lack of evidence that Congress intended to authorize priority-violating distributions of estate value through Chapter 11 dismissals.

Justice Thomas, joined by Justice Alito, dissented. Without taking a position on the merits of the case, he contended that the petition should have been dismissed as improvidently granted, as he viewed the question answered by the Court to differ from the question posed by the petition for a writ of certiorari.