

PUBLICATION

503(b)(9) Claims in Bankruptcy: Understanding the "Golden Ticket" Administrative Claim

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When a debtor files for bankruptcy, its creditors line up to receive payment in order of priority, with claims of vendors and suppliers typically at or toward the back of the line, often receiving pennies on the dollar.

Despite this typical structure of bankruptcy priority, § 503 of the United States Bankruptcy Code establishes nine types of expenses that are considered administrative expenses and therefore are entitled to priority under § 507(a)(2). Administrative priority claims are required to be paid before general unsecured creditor claims are paid, meaning, instead of being paid pennies on the dollar, qualifying supplier claims could be paid in full.

Section 503(b)(9) provides administrative expense status for "the value of any goods received by the debtor within 20 days before the date of commencement of a case under this title in which the goods have been sold to the debtor in the ordinary course of business." This "golden ticket" administrative claim gives suppliers who may have otherwise been "out of the money" the chance to be paid in full for the qualifying portion of their claim, moving part of a supplier's claim from the back of the line to the front of the line.

To receive an administrative expense claim under § 503(b)(9), a supplier must demonstrate that: (1) the goods in question were received by the debtor within 20 days before the filing of the bankruptcy, (2) the goods were sold to the debtor, and (3) the goods were sold in the ordinary course of business.¹

While 503(b)(9) claims are often challenged by debtors, these administrative priority claims can add significant value for suppliers. If your company receives a bankruptcy notice from a customer, review your books and records to determine whether any outstanding invoices are tied to goods sold to and received by the debtor in the 20 days preceding the bankruptcy filing and if so, know that you may be holding a "golden ticket."

For more information, please contact [Jill C. Walters](#).

¹ Litigation around what is and is not a § 503(b)(9) claim is common and typically hinges on what the Bankruptcy Code means by the word "received" (i.e. does it require physical possession or does having put the goods in the mail count?) and whether what was sold to the debtor is, in fact, a "good" because notably, services are not provided a similar priority status. These are case and fact-specific inquiries and are beyond the scope of this alert.