

**THE REPUBLIC OF ARMENIA
LAW
ON THE BANKRUPTCY AND FINANCIAL REORGANIZATION OF
LEGAL ENTITIES, ENTERPRISES LACKING LEGAL ENTITY
STATUS, AND ENTREPRENEURS.**

SECTION 1. GENERAL PROVISIONS

Article 1. Framework of the Law

1. This Law shall establish the terms of adjudging a bankrupt (an insolvent debtor) a legal entity, an enterprise lacking legal entity status, and an entrepreneur, and the procedures of financial restructuring and liquidation of the debtor=s property, and the rights and the obligations of the participants of the procedure.

2. This Law shall not regulate the procedure of adjudging a bankrupt the bodies of the central and local governments, budgetary enterprises and institutions, the Central Bank, banks, and insurance companies registered in the Republic of Armenia.

Article 2. Bankruptcy (Insolvency) of the Debtor

1. According to this Law, bankrupt may be adjudged a debtor which does not perform his obligations in total, within 30 days since the day of fixed term coming, or does not provide any other redress accepted by the creditors, and the total amount of overdue liabilities exceeds one million drams.

2. According to this Law, only the Court may acknowledge the case of a bankruptcy.

Article 3. Jurisdiction in Bankruptcy Cases

A bankruptcy case shall be examined by the commercial court found within the residence area of the debtor.

Section 2. INSTITUTION OF BANKRUPTCY PROCEEDINGS

Article 4. Grounds for the Institution of Bankruptcy Proceedings

Bankruptcy proceedings shall be instituted from a petition filed by a creditor, or a debtor.

Article 5. Filing and Recall of a Bankruptcy Petition

1. According to Article 2 of this Law, the following persons may file a bankruptcy petition:

- a) A debtor, for recognition of his insolvency,
- b) one and more creditors.

2. The following persons may file and recall a bankruptcy petition for the recognition of insolvency:

- A person wrote by the senior management body - for a legal person,
- proprietors, or one proprietor, appointed by the unanimous decision of all the proprietors - for an enterprise which is not a legal person:
- an entrepreneur - for an entrepreneur.

State companies may file a voluntary petition, upon the decision of the founder, or the person written by the founder.

3. If more than one creditor has filed a petition, it may be recalled only at the consent of all applicants.

4. A petition shall be recalled prior to adjudging the debtor bankrupt.

Article 6. The Form and Content of a Petition

- 1. A petition shall be filed in writing.
- 2. The following shall be mentioned in the petition:
 - a) Name of the court where the petition is filed,
 - b) claimant, his address, or the place of registration, if the claimant is a legal person, and the representative and his address, if the petition is filed by a representative,
 - c) the address of a claimant=s debtor.
 - d) petition fees, if the petition is filed by a creditor,
 - e) facts, proving the claimant=s petition,
 - f) list of the documents attached to the petition.

Article 7. Documents Describing Financial Position of the Debtor

The following documents shall be attached to the petition filed by the debtor:

- a) Current account logs of the debtor, as according to the legislation,
- b) the list of property, belonging to the debtor by a proprietary right, as according to the last inventory, including his capital and financial investments, fixed and circulating assets, and nonmaterial assets, or other assets,
- c) the list of the debtor=s creditors, and description of the types of obligations, including off-balance liabilities, and the amount. The information provided as according to this Item shall include the obligations still within the fixed date of payment, and the obligations which are not possible to perform then
- d) the last financial statement of the debtor,
- e) names and addresses of the debtor=s partners, if the debtor is a company,
- f) statement of the debtor about financial reorganization or liquidation. If the debtor intends to reorganize, he shall render the program of financial reorganization, compiled as according to this Law.

Article 8. Institution of Bankruptcy Proceedings and Adjudging the Debtor a Bankrupt from the Debtor=s Petition.

1. Petition filed by the debtor shall be registered by the court at the moment of presentation.
2. If any of the documents, defined as according to Item 3 of Article 7, are missing, or do not comply with the requirements, the debtor shall, by the instruction of the judge, render them within 10 days; if during that period all the documents have been rendered, the judge shall accept the petition. Otherwise, the judge shall dismiss the petition of the debtor.

Article 9. Institution of Bankruptcy Proceedings and Adjudging the Debtor a Bankrupt from a Creditor=s (Creditors=) Petition.

1. The petition filed by a creditor (creditors) shall be registered in the court at the moment of the submission.
2. Within one day after the registration, the court shall post a notification to the debtor, with the copy of the petition enclosed.

If the debtor does not appeal against the petition, within 10 days after receiving the notification, the petition shall be considered as accepted.
3. If the debtor appeals against the notification, within 10 days after receiving the notification, the court shall examine (call a hearing) the facts presented by the parties, and take a decision either to begin proceedings, or to accept the appeal of the debtor, and

dismiss the petition of the creditor.

The court shall notify the parties about the day, hour, and place of the hearing, at least two days prior to hearing.

4. In cases, envisaged by Item 3 of this Article, the court may demand that the creditor install a security deposit in the bank, equaling 10% of the petition amount, however not more than dram 500 thousand, to indemnify court expenses, if the petition is dismissed.

If the petition is accepted, the security deposit shall be returned to the creditor, within two banking days, after taking the decision.

If the petition is dismissed, the losses incurred by the debtor, and court expenses shall be covered from the security deposit. After the court expenses are covered, the remaining part of the security deposit shall be returned to the creditor within two banking days.

If the creditor (creditors) does not install a security deposit within five days, after the court's instruction, the petition shall be dismissed.

5. The judge shall dismiss the petition, if:

- a) the case is not under the jurisdiction of that court,
- b) the petition, filed by the debtor, does not comply with the provisions of Article 6 of this Law,
- c) the court is already making bankruptcy proceedings, against the debtor which is the subject of the petition,
- d) the grounds of the petition do not comply with the requirements of Article 2 of this Law,
- e) the person who filed the petition for the claimant does not have such authorities,
- f) a legally incapable person has filed the petition,
- g) the person filing the petition did not pay the fee, while the court did not free him from paying it.

6. The judge may not dismiss the petition for any other reason, except the ones envisaged by this Law. If the judge dismisses the petition, he shall have enough reasons. In

his decision he shall explain the grounds of the dismissal, suggesting relevant Articles of this Law.

The copy of the decision on dismissing the case, with the presented documents shall be passed or posted to the claimant, and in the cases, specified in Item 2 of this Article, also to the defendant debtor.

Article 10. Institution of Proceedings

1. The proceedings on the bankruptcy petition are made:

a) From the day of receiving the bankruptcy petition, filed by the debtor,

b) in seven days after receiving the notification of the court on the petition filed by the creditor, if during that period the debtor did not appeal against his insolvency,

c) From the day, the judge (court) takes a decision, in cases, as specified in Item 2, Article 9 of this Law.

2. From the day of making bankruptcy proceedings, the court shall:

a) appoint an Administrator, according to the procedure and terms, as defined in Article 12 of this Law,

b) call the first meeting of the creditors, within 28 days after receiving the petition,

c) within two days provide formal information about making proceedings, and the terms and place of the first meeting of the creditors to:

the debtor,

all the creditors known to the court by that date,

the state body which registered the debtor,

the state body which registers estates,

the tax committee where the debtor is registered as a tax payer,

d) publish this information in a newspaper with a circulation of at least 1000 issues, and post the information in the court building,

e) to call a court session, at the request of the Administrator, or any of the parties, in the cases envisaged by this Law,

f) to take necessary measures for the institution of the petition, if these actions comply with the provisions of this Law,

g) to oblige the debtor, within 10 days to submit the documents, as described in Item 3 of Article 7, if the creditor has filed the petition.

Article 11. Institution of Bankruptcy Proceedings from a Confiscation Petition.

1. If more than two confiscation petitions are filed, the judge shall institute bankruptcy proceedings from these petitions, at the request of one creditor.

Article 12. Appointment of the Administrator

1. Within two days after receiving the petition, the judge shall appoint an Administrator, and define his salary. If the person appointed Administrator waives the position within three days, the judge shall appoint another person, if the second person also waives the position within three days, then prior to the appointment of a new Administrator, but not later than in 20 days, the judge shall place the powers of the Administrator on the court executor. A creditor, or a debtor may propose the candidacy of the Administrator, if all the creditors agree.

The Administrator shall either be an auditor, certified by the Government, or have worked as a chief accountant at least five years during the last ten years, or have a University diploma of a lawyer or an economist.

The following persons may not be appointed as Administrator:

- a) Has been accused of a felony, or as a punishment has been removed from certain positions,
- b) performs as a suspect, accused or a defendant in criminal proceedings at that time,
- c) has a claim of over dram one hundred thousand against the debtor,
- d) has been found incompetent, or partly incompetent,
- e) within the last three years has been working as the principal, or chief accountant of an enterprise which is a liquidated legal person, or does not have the status of a legal person, or is an entrepreneur, adjudged bankrupt,
- f) a person who waived the position of Administrator, for three times during the last year, if the reason for the waiver was not a position of Administrator at another bankruptcy case.
- g) has been prematurely removed from the position of Administrator, during the last year, through the decision of the court,

h) a person who within one year prior to beginning the proceedings has been holding the position in the executive board of the debtor, or was the debtor's chief accountant.

3. The Administrator shall be paid at the expense of the debtor's capital, or funds raised from the sale of the debtor's property, or resources lent by the creditors for that purpose. Monthly rates of the Administrator's salary shall be established as one/12 of the annual salary of the person who held the position of the Administrator during the last year, however not exceeding ten times the average salary of the last quarter, as according to the data of the Committee of Statistics. At the request of the Administrator, and according to the procedure, as defined in Article 52 of this Law, by the agreement of the creditors which own majority of the claims against the debtor, the court may set the salary of the Administrator as in ten per cent relation to compensation paid to the creditors within the terms of the payment.

Article 13. Authorities of the Administrator

The Administrator shall have the following exclusive authorities:

- a) Put a seizure on the estate of the debtor,
- b) make an inventory of the estate, and take necessary measures for the security of the estate,
- c) at his discretion, or at the request of the creditors which own more than 20% of the claims, call creditors meetings and preside during these meetings,
- d) appeal to the court for the solution of the issues which are under the court's competence,
- e) during the administration of the estate, supervise the work of the persons hired by him,
- f) examine the claims against the debtor,
- g) if necessary, address the court claiming on restitution of the unfairly alienated property or transferred funds of the debtor,
- h) control activities of the debtor,
- I) receive, and open an account (insolvency account) in one of the three banks in Armenia which currently have the biggest assets, for all amounts transferred to the debtor,

j) transfer into money all the property of the debtor,

k) execute any other action, according to legislation,

l) with the consent of the court accept or waive claims, sign agreements with creditors, return collateral, and extend guarantees.

Article 14. Estate of the Debtor; Administration of the Estate.

1) From the day when the debtor is adjudged bankrupt, the administration of his estate shall be performed exclusively according to this Law: the estate may not be sold or otherwise alienated, rented or pledged, even for performing the obligations, without permission of the court.

Estate of the debtor shall include:

a) All movable and immovable property, including claims to third persons, which may be confiscated by the decision of the court,

b) Inheritance received within six months after accepting the bankruptcy petition, insurance and other unforeseen funds,

c) income and interest gained from the estate

d) contractual rights.

2) Estate of the debtor who is a physical person shall not include the property, which may not be confiscated, as according to legislation.

Article 15. Creditors= Meeting and Council.

1) The Administrator shall preside during creditors= meetings. A meeting shall be called by the initiative of the Administrator, or creditors owing more than 5% of the claims against the debtor. A meeting may be called by the initiative of a creditor, if the latter agree to cover all organizational expenses, the calculation of which shall be submitted by the Administrator. The expenses on the meetings called by the Administrator shall be covered at the expense of the estate.

2) The debtor shall be obliged to attend creditors= meetings, unless the Administrator=s written permit certifies his absence. All the creditors may participate at the meeting.

3) During the meeting, the debtor shall be obliged to answer any questions of the Administrator and creditors concerning his financial and economic activities, except the questions relating to commercial secrets.

4) During the first creditors= meeting the Administrator shall appoint the council of the creditors. The council shall include three or five non-secured or partly secured creditors, depending on the size of claims. The council shall be considered appointed if the necessary number of non-secured or partly secured creditors agree to become the members of the council. The council shall not be considered appointed if the number of non-secured or partly secured member is less than three.

Article 16. Restriction of the Administrators Activities Relating to the Estate.

The Administrator shall not be allowed to sell or otherwise alienate the debtor=s property, if:

a) the debtor insists on his intend to reorganize, as according to Clause f, Item 3, Article 7,

b) according to Article 53, a financial reorganization program has been adopted, which does not envisage alienation of the estate.

Article 17. Appeals Against the Administrator 's Actions.

1) The debtor and the creditors may appeal to the court against the actions of the

Administrator. Appeals shall be presented within three days after the action has been done. Within five days after receiving the appeal, the court shall take a decision and notify the creditors and the debtor. An appeal shall not suspend the functions of the Administrator.

2) If the Administrator failed to perform his obligations, as according to this Law, the court may dismiss the Administrator, at its initiate, or at the initiative of the debtor, or the unsecured or the creditors, which own at least 10 per cent of total unsecured claims notifying the debtor and the creditors.

Article 18. Suspension of Creditors= Activities.

1) After a decision has been taken on adjudging the debtor bankrupt, all the activities, proceedings, or any other actions of the creditors, aimed at meeting the claims against the debtor, shall be suspended, including:

- a) all claims on goods, services and payments,
- b) activities associated with the change of the person that has the proprietary right on the estate,
- c) activities related with the proceedings, or influencing it,
- d) activities affecting maintenance, seizure, or pledging of the estate,
- e) other agreements of the debtor, if the debtor violated his contractual obligations, due to insolvency,
- f) coverage of the debtor=s debt, including state taxes, duties and other compulsory payments, with the interest and penalties accrued, if the debt had occurred prior to filing a petition against the debtor.

2) The court may delay the suspension, as described in Item b, Article 1, until the Administrator, or the debtor provide adequate protection of the interests of these creditors. The following shall be considered adequate protection:

- a) adequate reimbursement of the losses in the amounts of the secured claims incurred due to inflation, through regular cash payments,
- b) exchange, seizure, pledging of the property,
- c) protection of interests of the creditors secured by pledged property or in any other way, if the pledged property would gain income at the moment of filing the petition.

3) The Administrator shall render the proceeds on sale, use, alienation of the collateral to the relevant secured creditor, adequately to the claim of the letter.

Article 19. Cooperation of the Debtor.

During financial reorganization or liquidation, the debtor shall be obliged to cooperate with the Administrator, and render to the Administrator all necessary information concerning his activities or capital, including:

1) Payments and transfers exceeding dram 50 thousand made during 90 days prior to filing the petition,

2) payments and transfers to officials, managers, debtor=s close relatives, the enterprises and other organizations, where the close relatives of the officials, managers, or debtor=s family members= close relatives are working, with which the debtor shares financial interests.

Article 20. Control and Termination of the Debtor=s Activities.

1) If the debtor does not present a proposal on financial recovery within the period, as defined in this Law, or the court does not accept it, or took a decision on the liquidation of the debtor, all the rights of the debtor on managing or alienating the estate shall be seized, by the decision of the judge.

2) Before the terms of proposing a program on financial reorganization are completed, the Administrator, debtor, creditors, or council of creditors may apply to the court to revoke the debtor from administering his estate. The court calls hearing, to hear the claims. The court may redress the appeal, if the continuation of the debtor=s activities leads, or may lead to constant deterioration in the quality of the debtor=s estate, or, if the debtor is apparently not able to present a program of financial reorganization, acceptable for the creditors.

3) If the debtor=s activities are canceled, as in conformity with Item 1 of this Article, based on the decision of the court, and under the control of the Administrator, the debtor may fully, or partly commence his activities for a period not exceeding one year, if the Administrator proves to the Court that it would increase the possibility of meeting creditors' claims.

Creditors and the debtor may appeal against the decision of the court to commence the debtor's activities. The appeals shall be discussed in the Court within ten days, after rendering. All the interested parties may participate in the discussion.

4) If the debtor presents a proposal on reorganization, as according to this Law, the

court shall impose all the restrictions and provisions on the creditor. During the financial reorganization the debtor may administer his estate, and perform his activities under the control of the Administrator, till the court takes the decision.

Article 21. Seizure and Pledging of the Estate.

1) After adjudging the debtor bankrupt, the seizure and pledging of the estate shall not be registered in the log, nor any change of the debtor=s proprietary rights on the estate, or the size of the claims against the debtor, or the priority rights shall be altered, unless the court decides otherwise.

2) Seizure, pledging, or any other change in the property of the debtor, which is not registered in a state registration agency, shall be considered void at the demand of the administrator.

Article 22. Utilities

1) The companies which provide utility services to the debtor (electricity, natural gas, water, telephones, etc.) shall not cease providing these services to the debtor, because he is adjudged bankrupt by the decision of the court, if the debtor continues to make regular payments for the services provided by such companies, and renders guarantees on future payments, as according to Item 2 of this Article.

2) At the request of utility providing company, the court shall oblige the debtor or the Administrator to open a deposit account in a commercial bank, from which they shall pay the companies for the services. The amount on this account shall not exceed the amount which they have paid to the utility company for one month service.

Article 23. Registration and Accounting the Claims

1) All claims against the debtor, including the amount of the secured claims, and competitiveness, shall be registered and accounted by the administrator.

Article 24 . Secured and Partly Secured Claims.

1) Claims which are pledged by a property belonging to the debtor shall be considered secured. Secured creditors, which have collateral against the property of the debtor, may ask that their claims shall be met from the realization of the collateral, if the debtor does not provide an adequate protection to such claims, as according to Item 2, Article 18 of this Law.

If the proceeds from the realization of the collateral are not enough to cover fully the

secured claims, the creditor may file a non-secured claim for the outstanding amount.

This claim shall not include the accrued interest and penalties.

2) A secured creditor may have his share in the funds raised prior the sale of collateral.

The amount thus received by the creditor, shall be deducted from his proceeds on sale of the collateral.

Article 25. Amount of a Non-Secured Claim

After the debtor is adjudged bankrupt, no interest or other amount shall be accrued on non-secured claims.

Article 26. Claims in Progress

After adjudging the debtor bankrupt, all the obligations of the debtor which are not overdue at the moment of filing bankruptcy claims, shall be considered overdue, and subject to redemption, as according to this law.

Article 27. Evaluation of Claims.

1) A secured claim, with the value of the collateral exceeding its value, at the moment of filing the claim (despite terms of execution) may be included into the list of claims, within the amount of secured claim.

2) Non-overdue secured claims, or non-secured part of the secured claims may be registered in the list of claims within their total amount.

Article 28. Relief of Claims Prior to Filing a Petition.

If the court reliefs any part of the claims before the petition has been filed, only the outstanding claims may be included in the list of claims.

Article 29. Debtor=s Agreements.

1) For increasing the debtor=s capital, and based on the proposal of the Administrator, the court may execute or keep effective any of the debtor=s agreements, including credit, leasing, or any other long-term agreements, if the terms of the agreement have not been fully or totally executed by the parties. The Administrator shall be obliged to respond to the claim of the counterpart within five days, notifying him about the execution of the agreement.

2) If the owner of the property preserves his proprietary right until full coverage of the sale amount, the sale is considered effective after full coverage of the amount, and provisions of Item 1 of this Article shall not apply.

3) Employment contracts shall be executed according to the legislation.

4) Employment contracts, or agreements on the lease of property shall be executed only after the notification has been sent, within the periods, as defined by this Law.

5) Counterparts of the agreement may file claims to the court seeking reimbursement of the losses incurred through the waiver of the agreement.

6) If the agreement envisages regular payments of the debtor, the Administrator may not redeem the overdue amounts, until the decision on bankruptcy has been taken.

Article 30. Property in the Stage of Transfer.

If the property sold to the debtor is in the stage of transfer at the moment of filing the claim to the court, and the debtor does not have proprietary rights, the creditor may recall the property. Here the creditor shall bear all the expenses, and he shall return the amount paid by the debtor. If the creditor delivers the property, he may recover the amount, by including his claim into the list of claims. The Administrator may demand the delivery of the property, if the debtor pays the total agreed amount for the transaction, at his written instruction.

Article 31. Agreements on Transfer of Securities, and Other Goods.

If the debtor signs an agreement on the transfer of any goods or securities, which are registered in stock exchanges, or other markets on fixed terms expiring after the claim is filed, the difference between the buying price and the market, or stock exchange price shall be compensated to the debtor, if the transaction is of an asset nature, or shall be included in the list of claims, if it is of a liability nature.

Article 32. Agents.

If a claim is filed against an agent, who is written to receive debts, and realize goods, the company which authorizes the agent, may withdraw his license, or require that the agent meet the creditor=s claim.

Article 33. Realization of a Third Party Property.

1) If the debtor realizes a third party property, the latter may require back his property, at the moment of filing a claim, if it is envisaged by the agreement.

2) If at the moment of filing the claim, the property to be realized in not under the possession of the debtor, and the latter is unable to return it, the owner includes his claim into the list of claims, within the total value at the moment of filing the claim. If, at the moment of filing claim, the debtor manages the property, however it is in unsatisfactory condition, the owner shall include the total value in the list of claims.

Article 34. Agreements on Personal Services.

1. The Administrator shall execute the agreements, according to which the debtor has taken an obligation of providing professional, services, if the counterpart agrees to accept these services from the Administrator or his authorized representative, the latter having appropriate qualification or permission to execute such agreements.

2. If the Administrator fails to perform the obligations, as defined in Item1 of this Article, the claims of creditors, arising from the obligations shall be executed, as according to this Law.

Article 35. Third Parties= Transfers and Alienation of Property.

1. Within one year after adjudging the debtor bankrupt, the Administrator, or the council of creditors may apply to the court to declare void or indemnify the following transfers and property alienation made by the third parties:

a) Free of charge transfers and donations to third parties, which occurred within the previous three years,

b) free of charge transfers and donations to the management, and their nearest relatives, or, which occurred within the previous five years,

c) indemnity for such transfers and alienation of property, in the result of which the value returned by the debtor exceeds the value received against it, which occurred within

the previous three years,

d) transactions, when all the parties aimed at concealing capital from the debtor, or otherwise violating the rights of the debtor, which occurred within the previous three years,

2) Transfers to the parties cooperating with the debtor, which occurred within one year prior to filing the claim and caused losses to the creditors, may be declared void by the court, of indemnified by the cooperating parties.

The following parties are considered cooperating:

- a) persons owing not least than 20 per cent of the debtor=s statutory capital,
- b) manager or any other governing body of the debtor enterprise,
- c) any other person or body which supervises the debtor, or his activity.

Article 36. Due Transfers or Property Alienation.

The court may not invalidate due transfers or property alienation of the debtor, if they are made in a regular way, or if they represent an equal exchange of values, or, if after the transfer, the receiver provides a new unsecured loan to the debtor, which is not covered at the moment of adjudging the debtor bankrupt.

Article 37. Recall of Property Obtained Through Invalidated Transactions.

1) According to Article 35 of this Law, the receiver of the transfer shall return the property, and in the absence of the latter, shall compensate by money equivalent of the property at the moment of the transfer.

2) The party which returned the transfer shall file a claim equal to the returned amount, if the property returned is in its original state and not damaged, or if the money equivalent has been paid.

Article 38. Return of the Second Order Transfer.

The court may recall the property transferred by the debtor, or its equivalent from the receiver of the second order transfer, if the latter does not return the property or money equivalent.

A second order shall be considered a transfer of the received property to the next

receiver.

Article 39. Notification and Legal Consequences of Invalidating a Transfer or Property Alienation.

1) The notification about the decision of the court on invalidating a transfer of the property made by the debtor shall be posted to the property registration office.

2) The person, which has collateral or other rights on these fixed assets, after being notified as according to Item1 of this Article, shall apply to the Administrator for the return of the property, or indemnification of its monetary value.

Article 40. Registration, Sealing and Seizure of the Debtor=s Property.

1) Within seven days after the court takes a decision on adjudging the debtor bankrupt, the Administrator shall register, and seal the property of the debtor, and put a seizure on the property belonging to the debtor by proprietary right, except the property immune from seizure, as according to Law.

2) If the debtor possesses property in other countries, the Administrator shall notify the courts of that country to register, seal and seize that property, according to the decision taken by the corresponding court of Armenia. Registration and sealing of the debtor=s property in other countries shall be carried out according to the legislation of that country.

Article 41. Maintenance and Realization of the Debtor=s Property.

1) When sealing the property the Administrator shall take all necessary measures for protection.

2) At the consent of the court, the Administrator shall be allowed to sell the property which is subject to unavoidable losses, or devaluation. At the consent of the court, the Administrator may sell the property with huge maintenance costs.

3) Proceeds received on transactions, as defined in Item2 of this Article, shall be transferred to the special insolvency account of the debtor.

Article 42. Inventory of the Estate.

1)The Administrator shall make the inventory of the estate, within 20 days. At the request of the Administrator, the debtor, employees (manager and chief accountant) shall

attend and help the inventory.

2) The inventory shall involve all the property of the debtor, including the non-sealed property, with the indication of the balance value at the moment of inventory. The Administrator may hire an expert, at the expense of the debtor, to help in inventory.

3) The report on inventory shall be signed by the Administrator, the expert hired by the Administrator, and the debtor. The signature of the latter shall confirm his presence at the inventory, and guarantee that they inventory all the property. If the representative of the debtor disagrees with the results of the inventory, he shall sign the report, attaching his objections.

Article 43. Administrator=s Analysis of the Debtor=s Performance.

Within 20 days after the appointment, the Administrator shall present to the court a report on the grounds of the debtor=s insolvency, clarify the reasons for the failure to perform obligations, presents other related factors and information on the debtor=s management, employees, supervisors, main partners, other cooperating persons, obligations of the creditors.

Article 44. Affirmation of Claims.

1) Within 60 days after receiving the first notification from the court or the Administrator, the creditors shall file to the court all the claims against the debtor. The claims shall be registered in the court, and relevant entries made in the log.

2) Within one day after logging the claims, the judge shall notify the manager, debtor, creditors, and creditors= council, or, in the absence of the council, the ten creditors with the biggest claims.

3) The claims filed to the court or to the Administrator shall be considered valid, if the Administrator, creditors, or debtors do not object, within ten days after receiving the notification. If they object, the court shall determine, in conformity with this law, the legality, amount, competitiveness and security of the claim.

Article 45. Preliminary List of Claims.

After hearing the claims, within the terms defined in Item 3 of Article 44, the Administrator shall compile and render to the court, in a shortest possible time, a preliminary list of all the claims, classified as secured, non-secured, contingent, primary, and any objections he might have.

Article 46. Objections Against Claims.

If the Administrator, any of the creditors, or the debtor, objects against any creditor=s claims, the court shall notify the objecting party on the day of hearing his objection, by 20 days in advance.

The Administrator, debtor, or any of the creditors may object against any claim, or its competitiveness, within terms and procedure, as defined by this Law.

Article 47. Final List of Claims.

After scrutinizing the objections, the Administrator shall compile, in a shortest possible time, the final list of all claims, classified as secured, non-secured, size, competitiveness, and submit to the court.

Article 48. Report of the Administrator on Resumption of Debtors Activities.

The Administrator shall twice a month submit to the court a report on the results of the commencement of the debtor=s activities. The reports shall be discussed at creditors meetings, quarterly.

SECTION 3. THE PROGRAM OF FINANCIAL REORGANIZATION.

ARTICLE 49. The Program of Financial Reorganization; Persons Competent on Presenting a Financial Reorganization Program.

1) Any reorganization of the debtor, to meet the claims of creditors, or the sale of the estate in whole, which does not lead to bankruptcy, shall be considered as a financial reorganization program.

2) The debtor, Administrator, creditors owing 1/3 of the secured claims, and creditors owing 1/3 of the non-secured claims, may present a financial reorganization program. A financial reorganization program may be presented also by a person owing 1/3 of the debtor=s statutory capital.

3) The program of financial reorganization shall be presented within 60 days after receiving the petition, if the court does not prolong the terms up to 90 days.

4) Expenses of the creditor, or persons owing 1/3 of the debtor=s statutory capital, for presenting a financial reorganization program, and expenses on the proceedings for accepting the financial reorganization program shall be covered by the initiator. Expenses of the financial reorganization program, proposed by the Administrator, or debtor, shall be covered at the expense of the debtor=s estate.

Article 50. Contents of the Financial Reorganization Program.

1) The program of financial reorganization shall contain:

a) Procedure of payments to secured, non-secured, or other creditors, terms and magnitudes, procedure of indemnifying the claims, including indemnity by fixed assets of the debtor, registration of new indebtedness, the size of indemnity, and guarantees for each group of creditors,

b) procedure and size of exemption, prolongation, or reorganization of the debtor=s obligations,

c) measures planned to restore solvency and profitability of the debtor (organizational, structural, legal, financial, technical, and working), which prove financial efficiency of the financial reorganization program.

e) procedure for the sale of the debtor=s estate, and expected yield, possibilities of better redemption of creditors= claims, in the case of the debtor=s activities resumption, and financial efficiency of the program.

f) Salary of the Administrator, hired experts, and other administrative expenses shall be covered after the affirmation of the financial reorganization program. The program of financial reorganization shall also envisage procedure for indemnifying the expenses and salary payment.

g) the procedure of indemnifying different groups of creditors, if the financial reorganization program is not accepted, and the debtor is liquidated.

Article 51. Hearing of the Financial Reorganization Program.

1) The court shall hear the financial reorganization program, in conformity with this law, and if all the necessary information is available. Prior to hearing the financial reorganization program, the court may demand the conclusion of the expert on the efficiency and advisability of the financial reorganization program. Before rejecting the financial reorganization program, the court shall hear the opinions of the person (persons) introducing the program, the Administrator, the debtor, and creditor=s council.

2) The program of financial reorganization shall be rendered to the court, and distributed by the court among all the known creditors, the Administrator, the debtor, and other persons participating in proceedings.

3) The decision of the court on hearing the financial reorganization program shall be issued in an official newspaper, with at least 1000 issues, where they shall show the name

of the person introducing the program, the day and procedure of voting. If the voting is in an absentia, the voters which are legal persons shall submit to the court the voting list, sealed by their seal, and the physical persons, and enterprises which are not legal persons, voting lists, certified by notary.

Article 52. Voting on Financial Reorganization Program.

1) Not later than in 40 days after distributing the program of financial reorganization, the court shall arrange a meeting of secured, non-secured and primary creditors. The debtor and the Administrator shall be formally invited to the meeting.

2) If more than one program of financial reorganization is proposed, the voting of all the financial reorganization programs shall occur during the same meeting.

3) Only the creditors whose claims the court has accepted may participate in the voting, except if the court writes other creditors to participate in the voting.

4) The following groups of creditors shall be formed and vote separately:

a) Debtors, with a secured claim exceeding 10% of all claims,

b) secured creditors,

c) priority creditors, as according to Article 61 (d) and (e),

d) main non-secured creditors, except the obligations to the state budget, and community budgets.

5) At the beginning of the voting, the court shall notify all the creditors about the number of their voices.

6) The program of financial reorganization shall be considered accepted by a group, if the simple majority of members of that group voted in support of the program.

Article 53. Accepting the Program of Financial Reorganization.

1) The court shall accept the program of financial reorganization, if at least two groups of creditors, listed in Article 52(4) accept the program of financial reorganization, of which at least one is an aggrieved party.

Aggrieved is the group, the claims of which shall be diminished within the framework of the program of financial reorganization.

Otherwise the court shall take a decision to dismiss the financial reorganization

program, and to adjudge the debtor bankrupt.

2) If more than one draft program of financial reorganization is accepted, as in conformity with Item 1 of this Article, the court shall accept the debtor=s draft program of financial reorganization. If the debtor=s draft program of financial reorganization is not accepted, the court shall accept the draft program of the most aggrieved group of creditors.

3) Voting on a financial reorganization program shall be considered effective, if at least 2/3 of the voters participate in it.

A simple majority of voices shall pass the program of financial reorganization.

Article 54. Consequences of Accepting Financial Reorganization Program.

1) After the program of financial reorganization comes into force, the activities of the debtor shall be adequately changed, while the claims and the rights of the creditors and other interested parties shall be set up in conformity with the draft. Based on the accepted program, the creditors may file claims, which shall be considered final, and be subject to indemnity in conformity with the procedure, as defined by this Law.

2) The debtor shall fulfill all the measures envisaged by the program. Based on the decision of the court, the Administrator shall supervise the debtor=s activities, but not longer, than during a period of one year.

SECTION 4. LIQUIDATION PROGRAM.

Article 56. Sale of the Debtor=s Estate.

1) The Administrator shall execute sale of the debtor=s estate.

2) Within 20 days, the Administrator shall notify all the creditors with claims exceeding 5 per cent of the total claims filed against the debtor, about his intend to sale that part of the estate, the value of which exceeds 10% of the total value of claims filed against the debtor. The notification shall show the type of sale, whether it=s an auction or a direct sale, starting price, and conditions of payment, and, information about the future buyer, if available.

3) The estate shall be sold through an auction, or through a direct transaction, at the

proposal of the Administrator, or decision of the court. The Administrator shall notify the creditors, the debtor, those entitled with collateral or other rights, and any other person defined by this Law, about his intend of the direct sale of the estate. If any of the creditors, or the debtor object to direct sale of the estate, the court shall begin hearings, within 20 days, notifying the debtor and creditors in advance.

4) The Administrator shall notify the court, all creditors, all those entitled with collateral or other rights, on his intend to sell the estate through an auction, 30 days in advance. The notification shall show the place of the estate, its detailed description, date of registration in the registration agency, starting price of the auction. If any of the creditors, or the debtor object against conditions of the auction, the court shall arrange examination, notifying creditors, or the debtor, 20 days in advance.

5) The Administrator shall, at least twice, publish an announcement about the auction, in an official newspaper with at least 1000 issues, and post the newspaper in the court premises.

Article 56. Terms of Selling the Estate.

Sale of the property shall take place within 20 days after the last announcement in the official newspaper, in conformity with the legislation.

Article 57. Proceeds from the Use of the Estate.

Proceeds raised from administration and use of the estate shall be transferred to the debtor=s account, and later allocated among the creditors, with proceeds from the sale of the estate.

Article 58. Transfer of the Auction Proceeds.

The auction proceeds shall be transferred to the debtor=s account, and the receipts shall be rendered to the Administrator.

Article 59. Distribution of Funds after the Liquidation.

The Administrator shall submit to the court a report on the program of distribution of funds raised from the sale of the estate, meeting creditors claims, and liquidation, once every three months, after the institution of proceedings. The court may prolong the date of submitting the report and distribution program, but not more than for one month. The distribution program shall be compiled by the court, and delivered by the Administrator to creditors, in a sealed letter. Any of the creditors may protest against the Administrator

report, within 10 days after receiving the report. The court shall call a court session to hear the protest, within 20 days after receiving the creditor=s protest in writing.

Article 60. Extraordinary Distribution of Proceeds from Sale of the Estate.

1. Proceeds from sale of the property not pledged against the debtor=s obligations shall be extraordinarily distributed to cover the expenses on sale. The remaining funds shall be distributed as according to Article 61 of this Law.

2. Proceeds from sale of the pledged property shall be extraordinarily distributed to cover the expenses on sale, after which the claims of the creditor to which the collateral belongs shall be covered. The remaining funds shall be distributed as according to Article 61 of this Law

Article 61. Priority in Allocation of Funds.

A liquidation program shall define the following order of indemnity of claims:

- a) Secured claims,
- b) court expenses, and salary of the Administrator,
- c) administrative expenses, of which,
 - expenses on maintenance and management of the estate,
 - all payments and expenses of the administrative apparatus,
- d) non-secured claims, arising after adjudging the debtor bankrupt, because of activities carried out according to the procedure, defined in this Law, including resumption of activities, or, if the debtor is an entrepreneur, expenses on his children under legal age.
- e) claims, arising from working contracts, preceding the adjudging of the debtor bankrupt (for six months), which shall not exceed 15 times the minimum salary per month.
- f) Debtor=s alimony,
- g) Claims of non-secured creditors, including the claims on the state and community budgets of Armenia, except the claims of subordinated non-secured creditors,
- h) Claims of subordinated non-secured creditors, as in conformity with Article 62.
- I) Founders of the debtor, claims of members (shareholders, stockholders), or partners.

Article 62. Subordinated Non-Secured Claims.

Subordinated non-secured claims shall be subject to indemnity during the liquidation, or according to the program of financial reorganization, after main subordinated claims are fully covered:

- a) Interest, or other income on outstanding contractual liabilities, accrued after the non-secured claim is filed,
- b) claims on credits, or other transfers to a creditor which is a legal person, provided by his proprietors,
- c) claims on promissory notes with a maturity of ten, or over years, allocated by the creditor, or claims on preference securities,
- d) donations, claims on hereditary property,

Article 63. Indemnity of Claims.

Claims of creditors of the same priority group shall be subject to indemnity in proportion to the amount of the claim. Indemnity of claims of any group shall be paid, after claims of the preceding group are indemnified.

Article 64. Claims, Arising from Commencement of the Debtor=s Activity.

Claims, arising from the commencement of the debtor=s activity, shall be treated as administrative expenses and paid according to Article 61 of this Law.

Article 65. Indemnity of Claims not Filed in Due Time.

Indemnity of the claims, which are not filed in due time, shall be paid after the indemnity of all the claims of that group. If it is proved that the delay is not the claimant=s fault, the claims shall be indemnified, as according to Article 61.

Article 66. Reserve Funds

The following funds shall be kept separate, as a reserve, during the allocation of funds:

- a) funds to be paid to debatable creditors, which the court has not yet approved,
- b) funds, to cover future property maintenance expenses.

Section 5

CLOSING BANKRUPTCY PROCEEDINGS

Article 67. Final Report of the Administrator.

1) After the estate is sold and all debatable claims are settled, the Administrator shall present the final report to the court, with the balance sheet, with the copy delivered to all creditors and the debtor in a certified mail. Any creditor, or the debtor may object to the final report, within 10 days after its presentation. Within 20 days after receiving written notifications from all creditors and the debtor, the court shall call hearings of the final report, to accept it, or to consider the objections.

- 2) The claims which are not fixed in the final report shall not be subject to indemnity.

Article 68. Approval of the Report.

After the court approves the final report of the Administrator, the latter shall arrange the final allocation of the estate. The Administrator shall transfer all the assets, which have not been distributed within 90 days to the court administration.

Within 1 month after receiving the assets, the court transfers them to the debtor, through a certification.

Article 69. Closing Bankruptcy Proceedings.

1) A bankruptcy case shall be considered closed, if the court approves the Administrator's final report. The court shall take a decision on closing the case, at the proposal of the Administrator. Copies of the decision shall be given to all creditors and the debtor.

2) The program on financial reorganization shall be considered closed, after the program is executed, and the person who proposed the program applies for its closing. If the case starts with the program of financial reorganization, and ends with liquidation, it shall be closed according to Item 1 of this Article.

Article 70. Closing Bankruptcy Proceedings by the Proposal of the Administrator.

At any stage of the proceedings, the court shall take a decision on closing the case, at the proposal of the Administrator, if it appears, that the funds of the debtor are not enough to cover court expenses.

Article 71. Closing Bankruptcy Proceedings After the Sale of Debtor=s Estate.

At the proposal of the Administrator, the court may take a decision on closing the case, after all claims have been covered through the sale of the estate.

Article 72. Closing Bankruptcy Proceedings for Absence of Claims.

The case shall be closed by the court, if the creditors do not file any claims, within the periods defined by this law.

Article 73. Appeals Against Closing Bankruptcy Proceedings.

Any creditor may appeal to the court with the proposal of closing the case. The court shall call hearings, to consider the application of the creditor, within 20 days after notifying the debtor and the creditors.

Article 74. Consequences of Closing Bankruptcy Proceedings.

1. A legal person debtor shall be considered bankrupt, and an enterprise, or entrepreneur without a legal status shall be considered as terminating the activities, after closing bankruptcy proceedings, and registration in the registration office, as according to Item 1, Article 69, and Article 70.
2. If the proceedings are closed according to Item 2 of Article 69, and Articles 71 and 72, the debtor shall be considered financially recovered and may continue his activities.
3. After closing bankruptcy proceedings, the rights and duties of the Administrator, experts hired, and creditors shall be terminated.
4. From the moment of closing the case, the court shall free the debtor from the obligations to pay all the debts, and any prosecution of the court in relation to the debtor shall be terminated, unless defined in Items 5 and 6 of this Article.
5. If the debtor is an entrepreneur, or an enterprise without a legal status, the owners shall not be set free from:

- a) paying alimony,
- b) claims of the creditors on the property illegally obtained by the debtor,
- c) claims of the creditors not rendered by the debtor, as according to this Law,
- d) taxes and other payments due, which the creditor failed to pay, within one year prior to bankruptcy.

SECTION 4. SPECIFIC POINTS OF ADJUDGING THE DEBTOR BANKRUPT.

Article 75. Institution of Bankruptcy Proceedings Against Enterprises Included in the Privatization Program.

1. Bankruptcy proceedings against the enterprises which are included in the annual programs of the Republic of Armenia AOn privatization and denationalization of state enterprises and incomplete construction sites,@ may be made as according to the legislation of the republic of Armenia, in one month after privatization.

SECTION 7. Final Provisions.

Article 76. Courts Authorized to Institute Bankruptcy Proceedings, and Appointment of the Administrator.

The following public courts shall examine bankruptcy cases, until the economic courts, as defined by the Constitution of Armenia, are established:

- a) The public court of Yerevan Erebuni community:

if the debtor is found or registered in that community, or in any of Megri, Kapan, Goris, Sisian, Waik, Yeghegnadsor, Ararat, Artashat or Masis communities

- b) The public court of Yerevan Miasnikian community:

if the debtor is found or registered in that community, or in Khorurdain, Arabkir, Kentron, Shahumian, Shengavit communities of Yerevan, or in any of Armavir, Echmiadsin or Baghramian communities,

- c) The public court of Yerevan Mashtots community:

if the debtor is found or registered in that community, or in any of Ashtarak, Aparan, Talin, Kotaik, Rasdan or Nairi communities,

d) The public court of Gumry Moskovian community:

if the debtor is found or registered in any of Gumry, Akhurian, Artik, Ani, Amasia or Ahsotsk communities

e) The public court of Sevan:

if the debtor is found or registered in that community, or in any of Dilijan, Gavar, Martuni, Vardenis, Krasnoselsk, Tavush, Ijevan or Nojemberian communities.

Article 77.Going into Effect

1. This Law shall go into effect from March 1, 1997.

2. The Law AOn Bankruptcy of Enterprises and Entrepreneurs@ shall be declared void, since this Law goes into effect, except the cases defined in Article 4.

3. After this Law is published, the enterprises included in the privatization and denationalization programs, but not privatized or denationalized yet, shall be freed from all the lawsuits filed against them according to the Law AOn Bankruptcy of Enterprises and Entrepreneurs,@ until this Law goes into effect. The courts shall not accept new bankruptcy claims against the enterprises included in the privatization and denationalization programs, but not privatized or denationalized yet, until this law goes into effect.

4. Before this Law goes into effect, all the previous lawsuits shall be conducted according to the Law AOn bankruptcy of Enterprises and Entrepreneurs,@ unless envisaged otherwise in Item 3 of this Article.

President of Armenia

L. Ter-Petrosian