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Early advice saves day

AN administration order need not be the end of the line for creditors or shareholders. Some time ago, my firm took on the administration of a retailer with 67 outlets and 400 employees.

Had the company taken no action it's likely the landlords would have distrained upon its assets, forcing it to cease trading. Creditors would have received little or no return on their claims. The company obtained the order one day before the quarter day in September, allowing it to trade on under administration during the lead up to Christmas.

During the first week of the administration, the administrators identified the profitable outlets and closed loss making ones. Leases were surrendered and freeholds sold allowing borrowing of £1.1m to be repaid. The business that remained was put up for sale, although it was ultimately not sold because of the significant employee liabilities that a potential purchaser would have to adopt.

There was a wind down of the business as steps were taken to minimise the company's contingent liabilities. The administrators proposed a company voluntary arrangement, a contract between creditors and the company, where the company can park its current debts and promise to repay creditors all or a certain amount of their debt over a period of time. The creditors approved the arrangement as more property and assets were sold to fund their dividend.

Having paid creditors and ensured that there were no contingent liabilities left, a members voluntary liquidation was proposed. After an initial dividend to shareholders, we persuaded the HMRC to agree a 'no profit/loss' position for tax purposes and shareholders received a return of just under £1m after the remaining assets were sold.

This is an unusual case, as everyone was paid in full and the owners received a significant benefit. It demonstrates that the administration process, if used properly and with planning, can turn what appears to be a hopeless position into a positive one for all stakeholders.

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