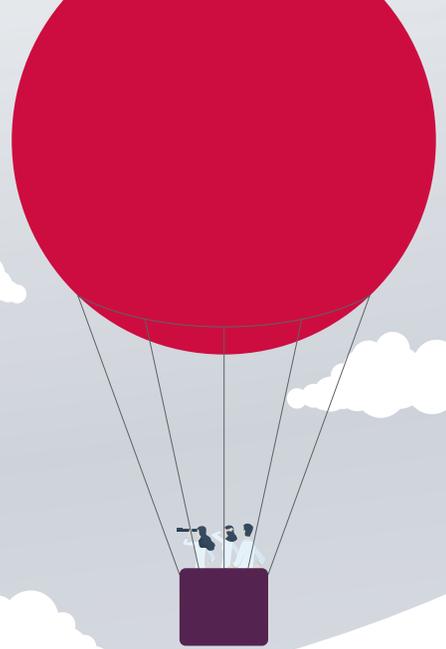


A liquidation can provide a fresh start



About the client

The directors of a small software support company employed ten people, including four directors who each held shares in the company, which operated from rented offices. The company had traded for over 12 years, had built a good reputation and grown its workforce. However, the margins were small and the fees earned covered salaries and overheads with no significant surplus. Unfortunately, the company's largest customer went into liquidation which left the company with two major problems, a significant bad debt and the loss of future income.

The directors spent the following months trying to replace the lost work; however, without the cash otherwise due from the bad debt, they found that money was leaving the company more quickly than it was coming in. This resulted in the company struggling to pay its creditors, including HMRC for PAYE and National Insurance deductions, VAT, the landlord and suppliers. The directors and employees had taken salary cuts, but this was not enough to cover the negative cash flow.

First steps

We discussed with the directors the company's business model, its financial state of affairs and its cash flow forecast. It was clear that there were insufficient realisable assets in the company to meet all of the company's liabilities. The shareholders injecting cash was a possibility, but the company now had more staff than was needed and there was insufficient cash to settle the redundancies required.



Maintaining Services



Created new jobs for most employees



A fresh start



A better outcome for creditors

Continued over page

The shareholder directors could not financially bridge the gap and concluded that because of the significant bad debt, the company should be placed into liquidation. All of the employees, including the directors, were made redundant and received their statutory redundancy pay from the Government's redundancy support scheme.

Preserving the future

However not all was lost. We asked our professional advisers to value the company's assets, including its goodwill, customer and other databases, its order book and intellectual property. The directors formed a new company that offered the best price and bought certain of the old company's assets. The directors approached the old company's customers and entered into support contracts with the new company, which provided jobs for most of the employees who had been made redundant by the old company. There was some working capital required initially to fund the new company's activities; however, with the support of its customers and employees, the new company was soon on track.

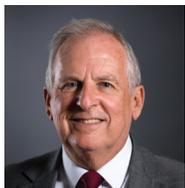
Although it had appeared that all was lost, the liquidation of the old company provided the opportunity for a fresh start.

How we helped

Once the directors had concluded that the company should be placed into liquidation, our role was to ensure that the proper legal processes were followed.

We prepared the statutory notices to creditors and shareholders and assisted the directors with the preparation of an estimated Statement of Affairs to be delivered to the company's creditors and shareholders prior to the company being placed into liquidation. Once in liquidation we, the company's liquidators, took over the directors' responsibility for dealing with the company's affairs. We organised the statutory redundancy process, assisted the employees with making their redundancy claims to the Insolvency Service and wrote to the company's creditors advising them to contact us. We realised the company's assets and then distributed the monies realised to creditors in line with the statutory priorities. We achieved a better result for the company's creditors than might have otherwise been the case. After we let the creditors and shareholders know what we had done and filed our report at Companies House, the company's liquidation was concluded.

If you are unsure of which future strategy works for your business the Mercer & Hole Corporate Restructuring team are here to help. Please contact one of our partners below.



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