

INFORMAL WORKOUTS

INTRODUCTION

Informal workouts allow a company to renegotiate the terms of trade with their creditors and using them is a great way to avoid liquidation.

Sometimes called a moratorium, a standstill arrangement or a deed of forbearance, an informal workout is a privately negotiated agreement between an insolvent person and a select group of its creditors.

The inherent weakness of any informal workout is that it is impossible to compel a creditor to accept or honour the deal. The success of an informal workout depends on the attitude and conduct of its creditors.

The problem is that when a company is in financial distress, it generally loses the trust and confidence of its creditors, who don't generally want to talk to an insolvent company that has previously failed to honour its obligations and undertakings.

By using an independent expert to negotiate an informal workout, the emotion and lack of trust are quickly removed from the situation, making it possible to then develop a good working relationship.

The reputation, honesty and integrity of our staff at Bankruptcy Solutions are the keys to our success at negotiating informal workouts.

Aggrieved creditors' want to minimise their economic loss arising from the insolvent person's circumstances.

According to ASIC, about 93 per cent of the 9000 insolvent companies that go into liquidation each year don't pay any dividend, so avoiding liquidation is generally in the best interests of all stakeholders.

INFORMAL WORKOUT OPTIONS

Informal workouts may include the following options:

- Moratorium on creditor payments, pending completion of work, debt or capital injection or sale of business or assets
- More time to pay creditors
- Repayment of old debts, including reduction or waiver
- Payment of old debts in instalments
- Debts are compromised
- Debt for equity swaps
- Changing the terms of funding to ensure that the company continues to trade.

INFORMAL WORKOUT COST ADVANTAGE

Informal workouts are considerably less expensive and faster to implement than formal restructuring alternatives such as Personal Insolvency Agreements (Part X) of voluntary administration.

INFORMAL WORKOUT PROBLEMS

Organising an informal workout can be like herding cats. Creditors can, at any time, change their minds, abandon the agreed deal and attempt to bankrupt an individual.

When this happens, all the costs incurred are wasted.

One of the important factors that stops a creditor from walking away from a deal is the knowledge that if the company goes into liquidation after an informal workout, payments received by creditors under the informal workout may be clawed back or recovered by the liquidator as preference payments.

DO YOU NEED HELP?

We invite you to give us a call, all initial discussions are free of cost or obligation. Talk to our in-house liquidators, bankruptcy trustees, lawyers or accountants about your circumstances and options.

We have offices in Sydney, Melbourne and Byron Bay together with affiliated offices in each capital city. Our nationwide network lets us service our clients' needs throughout Australia.