



JLP Business Solutions

CRITICAL ISSUE: Chapter 11 Bankruptcy and Business Liquidation

BUSINESS CHALLENGE: Business owners on the verge of losing everything.

Our client – a small pipeline construction company in West Texas was booming, or so they thought. Sales were higher than ever; however, because of an inexperienced accounting staff, revenue was not recognized correctly, nor expenses booked timely using job costing. After an assessment my team quickly realized that the books were several months behind and not accounted for according to GAAP standards and the Company was actually hemorrhaging money; in addition, we found that the owner had personally signed for all of his leases that he uses to lay pipeline. With all of the competing priorities taking place as well as an inexperienced staff, the owners of the Company needed some relief, not to mention protection from creditors regarding the millions of dollars they still own on their heavy equipment.

Focused on JLP Business Solutions consultative approach and over 20 years of business transaction and restructuring experience, the client asked our team to lead their initial restructuring effort that eventually turned into a business liquidation project.

CUSTOM SOLUTION

This was a very complex project for a number of reasons; 1) the owners were in jeopardy of losing their personal assets, 2) the Company tax professional was not accounting for the leases correctly and identified all equipment as “capital leases” which had tax implications and 3) the Company was actually in a “Net Loss” position for the year and losing more money by the Month due to bad bookkeeping and a lack of processes and procedures surrounding their bidding process.

Our focus was on providing the client with the most detailed assessment and creating an aggressive plan that would save the owners from financial ruin, decide on the future of the business as well as tax related issues going back at least 3 years. Our innovative “consultative” approach to problem solving along with our “Golden Rule” concept of treating our clients as we would want to be treated enabled us to achieve the following results:

1. Removed the owner's names from all equipment notes and lease agreements.
2. Reclassified capital leased equipment to operating leased equipment based on the “capital lease test” under ASC 842.

IMPACTFUL RESULTS

Demanding and rewarding – On time and On Budget

- Successful Chapter 11 liquidation bankruptcy – Owners walk away with money in their pocket after all debtors repaid
- Potential tax nightmare avoided: a simple “reclassification” of capital leases to operating leases give the Company a favorable tax position - \$1.5M



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3. Created a liquidation plan and worked with a very good bankruptcy attorney to avoid a Chapter 7 filing and moved to a Chapter 11 liquidation bankruptcy.
4. Created a "Cash Call" process to manage cash daily and to ensure only court appointed vendors were paid.
5. Hired a new and experienced group of tax accountants to review previous as well as current returns. Our team was able to work with the tax professionals to get a \$1.5M favorable adjustment on their taxes.
6. Helped the owners successfully liquidate all assets to use towards debt paydown. The liquidation was a success and the owners did not have to pay anything out of their own pocket to close down a business that was one step away from costing them everything they owned.