FEDERAL COURT OF AUSTRALIA

Strawbridge, in the matter of Virgin Australia Holdings Ltd (administrators appointed) (No 4) [2020] FCA 927

|  |  |
| --- | --- |
| File number: | NSD 464 of 2020 |
|  |  |
| Judge: | **MIDDLETON J** |
|  |  |
| Date of judgment: | 2 July 2020 |
|  |  |
| Date of publication of reasons: | 3 July 2020 |
| Catchwords: | **CORPORATIONS –** application to modify administrators’ personal liability – where administrators exposed to personal liability for proposed sale or recapitalisation transaction – whether to make orders modifying administrators’ liability – application allowed  **CORPORATIONS –** application to extend time for registration of security interests in respect of collateral on the Personal Property Securities Register – where administrators appointed – where security interest arises after appointment of administrators – whether to extend time for registration – whether extension of time will prejudice creditors – application allowed |
|  |  |
| Legislation: | *Corporations Act 2001* (Cth)  *Federal Court of Australia Act 1976* (Cth) |
|  |  |
| Cases cited: | *Dickerson, in the matter of McWilliam’s Wines Group Ltd (Administrators Appointed) (No 2)* [2020] FCA 417  *Hill (Administrator) in the matter of Flow Systems Pty Ltd (Administrators Appointed)* [2019] FCA 35  *In the matter of RCR Tomlinson Ltd (administrators appointed) & Ors* [2018] NSWSC 1859  *Korda, in the mater of Ten Network Holdings Ltd (Administrators Appointed) (Receivers and Managers Appointed)* [2017] FCA 1144  *Park, in the matter of Surfstitch Group Ltd (Administrators Appointed)* [2017] FCA 1244  *Re Spyglass Management Group (admin apptd)* (2004) 51 ACSR 432  *Strawbridge, in the matter of Virgin Australia Holdings Ltd (administrators appointed) (No 2)* [2020] FCA 717 |
|  |  |
| Date of hearing: | 2 July 2020 |
|  |  |
| Registry: | Victoria |
|  |  |
| Division: | General Division |
|  |  |
| National Practice Area: | Commercial and Corporations |
|  |  |
| Sub-area: | Corporations and Corporate Insolvency |
|  |  |
| Category: | Catchwords |
|  |  |
| Number of paragraphs: | 33 |
|  |  |
| Counsel for the Plaintiffs: | Dr R C A Higgins SC with Mr D Krochmalik |
|  |  |
| Solicitor for the Plaintiffs: | Clayton Utz |
|  |  |
| Solicitor for Interested Person (Commonwealth of Australia): | Mr D Cowling of King & Wood Mallesons |
|  |  |
| Counsel for Cyrus Capital Partners, L.P: | Ms E Beechey |
|  |  |
| Solicitor for Cyrus Capital Partners, L.P: | Jones Day |

ORDERS

|  |  |  |
| --- | --- | --- |
|  | | NSD 464 of 2020 |
| IN THE MATTER OF VIRGIN AUSTRALIA HOLDINGS LTD (ADMINISTRATORS APPOINTED) ACN 100 686 226 & ORS | | |
| BETWEEN: | VAUGHAN STRAWBRIDGE, SALVATORE ALGERI, JOHN GREIG AND RICHARD HUGHES, IN THEIR CAPACITY AS JOINT AND SEVERAL VOLUNTARY ADMINISTRATORS OF EACH OF VIRGIN AUSTRALIA HOLDINGS LTD (ADMINISTRATORS APPOINTED)  First Plaintiff  VIRGIN AUSTRALIA HOLDINGS LTD (ADMINISTRATORS APPOINTED) ACN 100 686 226  Second Plaintiff  VIRGIN AUSTRALIA INTERNATIONAL OPERATIONS PTY LTD (ADMINISTRATORS APPOINTED) ACN 155 859 608 (and others named in the Schedule)  Third Plaintiff | |

|  |  |
| --- | --- |
| JUDGE: | MIDDLETON J |
| DATE OF ORDER: | 2 July 2020 |

THE COURT ORDERS THAT:

1. The Interlocutory Process filed on 1 July 2020 be made returnable at 10.20am on 2 July 2020.

2. Until further order, and until no later than 30 June 2021, pursuant to sections 37AF(1)(b)(i) and (ii) of the *Federal Court of Australia Act 1976* (Cth), on the ground stated in section 37AG(1)(a), being that the order is necessary to prevent prejudice to the proper administration of justice, the Affidavit of Vaughan Neil Strawbridge sworn on 1 July 2020 and the Exhibit VNS-5 to that affidavit and the submissions be kept confidential and be prohibited from disclosure to any person other than the Judge hearing the Interlocutory Process filed on 1 July 2020, the Judge's staff and assistants, the Plaintiffs and their legal representatives, Bain Capital Private Equity LP, Bain Capital Credit LP and their affiliates and related entities (including their legal representatives), and ASIC.

3. Pursuant to section 447A(1) of the *Corporations Act 2001* (Cth) (the ‘**Corporations Act**’), Part 5.3A of the Corporations Act is to operate in relation to the Plaintiffs as if section 443A(1) of the Corporations Act provides that, subject to order 4 below:

(a) the liabilities of the First Plaintiffs incurred with respect to any obligations arising out of, or in connection with the Administrators' Funding Agreement dated 26 June 2020 between, among others, the First Plaintiffs, the Tenth Plaintiff and BC Hart Aggregator, L.P., including monies borrowed, interest incurred in respect of monies borrowed and borrowing costs, are in the nature of debts incurred by the First Plaintiffs in the performance and exercise of their functions as joint and several administrators of the Second to Fortieth Plaintiffs; and

(b) notwithstanding that the liabilities in subparagraph (a) are debts incurred by the First Plaintiffs in the performance and exercise of their functions as joint and several administrators of the Second to Fortieth Plaintiffs, if the property and assets of the Second to Fortieth Plaintiffs (where relevant) are insufficient to satisfy these debts and liabilities, such that the indemnity that exists under section 443D of the Corporations Act is insufficient to meet any amount for which the First Plaintiffs may be liable, then the First Plaintiffs will not be personally liable to repay such debts or satisfy such liabilities to the extent of that insufficiency.

4. Pursuant to section 447A(1) of the Corporations Act, Part 5.3A of the Corporations Act is to operate in relation to the Plaintiffs as if section 443A(1) of the Corporations Act provides as follows:

(a) to the extent that the First Plaintiffs incur any liability under section 443A(1) of the Corporations Act for a debt or debts incurred to BC Hart Aggregator, L.P (or its nominee) upon the termination of the Sale and Implementation Deed dated 26 June 2020 between the Plaintiffs, BC Hart Aggregator, L.P. and BC Hart Aggregator (Australia) Pty Ltd, due to the breach by, or failure of, any of the Plaintiffs;

(b) then:

(i) those are liabilities in the nature of debts incurred by the First Plaintiffs in the performance and exercise of their functions as joint and several administrators of each of the Second to Fortieth Plaintiffs; and

(ii) notwithstanding that the liabilities in subparagraph (b)(i) are debts incurred by the First Plaintiffs in the performance and exercise of their functions as joint and several administrators of the Second to Fortieth Plaintiffs, if the property and assets of the Second to Fortieth Plaintiffs (where relevant) are insufficient to satisfy these debts and liabilities, such that the indemnity that exists under section 443D of the Corporations Act is insufficient to meet any amount for which the First Plaintiffs may be liable, then the First Plaintiffs will not be personally liable to repay such debts or satisfy such liabilities to the extent of that insufficiency.

5. Pursuant to section 588FM of the Corporations Act that, in respect of any security interests created by or in connection with:

(a) the General Security Agreement dated 26 June 2020 between the First Plaintiffs, the Second to Tenth Plaintiffs, the Thirteenth Plaintiff, the Nineteenth to Twenty-Fourth Plaintiffs, the Fortieth Plaintiff, and Global Loan Agency Services Australia Nominees Pty Ltd; and

(b) the Charge Over Shares dated 26 June 2020 between the First Plaintiffs, the Seventh Plaintiff, and Global Loan Agency Services Australia Nominees Pty Ltd,

the time for registration of the security interests in respect of the collateral is fixed to be, for the purposes of section 588FL(2)(b)(iv) of the Corporations Act, 24 July 2020 (being the time that is the end of 20 business days after the date that the documents that gives rise to the security interests came into force).

6. The First Plaintiffs take all reasonable steps to cause notice of the Court's orders to be given, within one (1) business day of the making of the orders, to:

(a) the creditors (including persons or entities claiming to be creditors) of each of the Second to the Fortieth Plaintiffs, in the following manner:

(i) where the First Plaintiffs have an email address for a creditor, by notifying each such creditor, via email, of the making of the orders and providing a link to a website where the creditor may download the orders and the Interlocutory Process;

(ii) where the First Plaintiffs do not have an email address for a creditor but have a postal address for that creditor (or have received notification of non-delivery of a notice sent by email in accordance with subparagraph (a)(i) above), by notifying each such creditor, via post, of the making of the orders and providing a link to a website where the creditor may download the orders and the Interlocutory Process; and

(iii) placing scanned, sealed copies of the Interlocutory Process and the orders on the website maintained by the First Plaintiffs at https://www2.deloitte.com/au/en/pages/finance/articles/virgin-australiaholdings-limited-subsidiaries.html; and

(b) the Australian Securities and Investments Commission.

7. Any person who can demonstrate a sufficient interest has liberty to apply, within five (5) business days of notice having been provided to that person under order 6, to vary or discharge any orders made pursuant to paragraphs 1 to 5 above, on giving written notice to the Plaintiffs and to the Associate to Justice Middleton.

8. The Plaintiffs have liberty to apply on one (1) business day's written notice to the Court in relation to any variation or discharge of the Court's orders.

9. The Plaintiffs' costs of the application be treated as costs in the administrations of each of the Second to Fortieth Plaintiffs, jointly and severally.

10. These orders be entered forthwith.

Note: Entry of orders is dealt with in Rule 39.32 of the *Federal Court Rules 2011*.

REASONS FOR JUDGMENT

MIDDLETON J:

# INTRODUCTION

1 The Plaintiffs, including the First Plaintiffs, Vaughan Strawbridge, Salvatore Algeri, John Greig and Richard Hughes of Deloitte (together, the ‘**Administrators**’) in their capacity as administrators of each of the Second to Fortieth Plaintiffs (collectively the ‘**Virgin Companies**’ or each a ‘**Virgin Company**’), and the Virgin Companies make an application to the Court by Interlocutory Process filed on 1 July 2020.

2 On 26 June 2020, the Administrators executed a binding Implementation and Sale Deed (‘**Sale Deed**’), in which the business and assets of the Virgin Companies were sold to BC Hart Aggregator, L.P. and BC Hart Aggregator (Australia) Pty Ltd (the ‘**Purchasers**’), which are subsidiaries of Bain Capital Private Equity LP, Bain Capital Credit LP and their related entities (‘**Bain Capital**’).

3 As part of the Sale Deed and other transaction documents in connection with the sale:

(1) Bain Capital provided a facility of up to a certain sum to the Administrators to assist the ongoing funding of the administrations and the business of the Virgin Companies (the ‘**Business**’);

(2) security was granted by some of the Virgin Companies (the ‘**Grantors**’) over certain assets and collateral;

(3) pursuant to the terms of the Sale Deed, and as a condition precedent to any drawing down of the funding, orders are required to be made by the Court to the effect that:

(a) the Administrators will not be personally liable in respect of amounts borrowed or guaranteed to the extent that the assets of the particular Virgin Company are insufficient to satisfy the Administrators’ right of indemnity under s 443D of the *Corporations Act 2001* (Cth) (the ‘**Corporations Act**’); and

(b) the registration time of the security interests granted by the Grantors be fixed as the time that is the end of 20 business days after the transaction documents come into force (which is 24 July 2020), so that these security interests are effective.

4 The application primarily seeks orders:

(1) pursuant to s 447A(1) of the Corporations Act, that Pt 5.3A of the Corporations Act is to operate in relation to the Administrators as if s 443A(1) of the Corporations Act provides that:

(a) the liability of the Administrators incurred under the Sale Deed as to the funding (in the event, and to the extent that they are a liability for which the Administrators would otherwise have person liability under s 443A) are in the nature of debts incurred by the Administrators in the performance and exercise of their functions as joint and several administrators of the Virgin Companies; and

(b) notwithstanding that the liabilities are debts incurred by the Administrators in the performance and exercise of their functions as joint and several administrators of the Virgin Companies, if the property and assets of the Virgin Companies (where relevant) are insufficient to satisfy these debts and liabilities, such that the indemnity that exists under s 443D of the Corporations Act is insufficient to meet any amount for which the Administrators may be liable, then the Administrators will not be personally liable to repay such debts or satisfy such liabilities to the extent of that insufficiency; and

(2) pursuant to s 588FM of the Corporations Act, that in respect of any security interests in the Grantors’ collateral created, granted by or in connection with the Sale Deed, the time for registration of the security interests in respect of the collateral is fixed to be, for the purposes of s 588FL(2)(b)(iv) of the Corporations Act, 24 July 2020 (being the time that is the end of 20 business days after the date of the Sale Deed that gives rise to the security interests that come into force).

5 In substance, the only parties affected by the orders sought in the application are the Purchasers and their associated entities and they have been given notice of the application. Notice has also been provided to the Australian Securities and Investments Commission (‘**ASIC**’), although without details of the application so I would not expect (as is the case) ASIC could make any meaningful response.

6 The members of the Committee of Inspection for the Virgin Companies have been made aware of the application (but have not been served with the relevant documentation). The general body of unsecured creditors has not been given notice of the application. Nevertheless, I do not consider the unsecured creditors can be disadvantaged by the Court making orders of the type now sought.

7 In a number of cases where an application of the current type has been brought, the Court has been prepared to proceed without notice being given to unsecured creditors or all unsecured creditors: *Korda, in the mater of Ten Network Holdings Ltd (Administrators Appointed) (Receivers and Managers Appointed)* [2017] FCA 1144 at [32]-[35], [47] and [68] (Markovic J); *In the matter of RCR Tomlinson Ltd (administrators appointed) & Ors* [2018] NSWSC 1859 at [13] (Black J); and *Hill (Administrator) in the matter of Flow Systems Pty Ltd (Administrators Appointed)* [2019] FCA 35 (‘***Hill***’) at [58]-[59] (where Greenwood J noted that he could not conceive of any identifiable prejudice to the unsecured creditors).

8 The Administrators also seek orders that notice of the orders be provided to all creditors and ASIC within one business day and that any person who claims to be affected by the orders has liberty to apply to the Court to discharge or set aside the orders (but ought to do so within five business days of receiving notice of the orders).

# CONFIDENTIALITY

9 The Plaintiffs seek orders under s 37AF(1)(b)(i) and (ii) of the *Federal Court of Australia Act 1976* (Cth) that, until further order but otherwise no later than 30 June 2021, the Sixth Strawbridge Affidavit filed on 1 July 2020, Exhibit VNS-5, and the confidential submissions in support of the application be kept confidential and be prohibited from disclosure to any person other than the judicial officer hearing the application, his or her staff, the Plaintiffs and their legal representatives, and Bain Capital and its legal representatives.

10 The terms of the Sale Deed and other transaction documents in connection with the sale are subject to confidentiality provisions and undertakings and contain commercially and market sensitive information pertaining both to the Virgin Companies, the Purchasers and Bain Capital, which is not presently in the public domain and is not otherwise publicly available.

11 I accept that public disclosure of that material could result in harm being suffered by those persons, or the relevant transactions being prejudiced. That includes a risk that, due to the complexity of the transaction and the significant number of steps and conditions precedent that must be satisfied, unauthorised disclosure of some or all of the terms of the transaction may lead to misapprehension or confusion on the part of creditors or other stakeholders as to the implications of the transaction. These matters will be later addressed in the Administrators’ statutory report to creditors.

12 In my view, the commercial sensitivity of this character supports the making of such confidentiality orders as sought, especially where the commercial sensitivities concern the future operation of the activities of the Virgin Companies.

13 In the end, I have not had to refer to the confidential material for the purposes of explaining the reasons for the orders of the Court. The reference in the Interlocutory Process and in the orders made to the Administrators’ Funding Agreement dated 26 June 2020 refer to an agreement the contents of which are confidential. For the purposes of these reasons, I need not otherwise comment or describe the Administrators’ Funding Agreement.

# THE SALE DEED

14 The Administrators have undertaken an extensive process for the sale or recapitalisation of the Business and assets of the Virgin Companies.

15 In summary, this has involved the following steps:

(1) retaining investment banking and insolvency advisers;

(2) establishing a secure data room containing documents regarding the Business and the financial position of the Virgin Companies;

(3) preparing and distributing an information memorandum;

(4) calling for and reviewing several non-binding and binding indicative offers and, thereafter, forming a shortlist of interested parties;

(5) arranging virtual meetings, presentation and “Q&A” opportunities, and “roadshows” between the interested parties and management personnel of the Virgin Companies;

(6) sharing more detailed financial and operational information, including provision of vendor due diligence prepared by the Administrators’ legal advisors, Clayton Utz;

(7) facilitating meetings between the interested parties and as many aircraft financiers, aircraft lessors, real property landlords, suppliers, unions and other key stakeholders of the Business as could be managed in the available time;

(8) calling for and reviewing five final non-binding indicative offers and, thereafter, selecting a shortlist of two preferred bidders, Bain Capital and Cyrus Capital Partners, L.P (‘**Cyrus Capital**’);

(9) conducting extensive negotiations with Bain Capital and Cyrus Capital in relation to all aspects of a proposed transaction, including the form of the documents to give effect to a transaction;

(10) calling for and reviewing final binding offers from Bain Capital and Cyrus Capital;

(11) considering a back-up recapitalisation proposal from two holders of the unsecured notes issued by the Second Plaintiff, Virgin Australia Holdings Ltd; and

(12) ultimately, on 26 June 2020, following a detailed consideration and assessment of the competing proposals, and the subsequent withdrawal by Cyrus Capital of its offer, accepting the offer submitted by Bain Capital.

16 On 26 June 2020, the Sale Deed and other transaction documents were signed by the Purchasers.

17 Importantly, the Purchasers and other entities associated with Bain Capital have agreed, in the transaction documents, that the Administrators’ liability or potential liability with respect to the Virgin Companies’ obligations is limited to the assets of the Virgin Companies.

# LIMITATION OF ADMINISTRATORS’ PERSONAL LIABILITY

## Principles

18 In my earlier reasons concerning the administration of the Virgin Companies, *Strawbridge, in the matter of Virgin Australia Holdings Ltd (administrators appointed) (No 2)* [2020] FCA 717 (‘***Virgin (No 2)***’), I at [87]-[91] and [134] set out the principles that apply, pursuant to ss 443A and 447A of the Corporations Act, with respect to an application to limit the personal liability of administrators for post-administration liabilities:

*[87] The effect of s 443A of the Corporations Act is to impose on administrators personal liability for liabilities incurred by a company after their appointment as administrators.*

*[88] Section 447A can be utilised to limit this personal liability of administrators.*

*[89] The principles that apply in an application of this type were very usefully summarised by Sloss J in* In the matter of Unlockd Limited (administrators appointed) *[2018] VSC 345 at [60]-[64]:*

*[60]* In the leading case of *Secatore, in the matter of Fletcher Jones and Staff Pty Ltd (admins apptd)* [2011] FCA 1493 *(Secatore),* Gordon J stated (at [23]*):*

*Section 447A(1) of the Act empowers the Court, in an appropriate case, to modify the operation of s 443A to exclude personal liability on the part of a voluntary administrator, and to provide that a loan taken by the company via the voluntary administrator is repayable on a limited recourse basis. Orders in similar terms have frequently been made in circumstances where the Court is satisfied that an administrator has entered into a loan agreement or other arrangement to enable the company’s business to continue to trade for the benefit of the company’s creditors: see, for example,* Re Ansett Australia Ltd (No 1) at [49]; Re Spyglass Management Group Pty Ltd (admin apptd) (2004) 51 ACSR 432 at [6]; Sims; Re Huon Corporation Pty Ltd (admins apptd) (2006) 58 ACSR 620 at [12]; Re Malanos [2007] NSWSC 865 at [13].

*[61]* In such circumstances, courts have held that it is not to be expected that the voluntary administrators should expose themselves to substantial personal liabilities: see e.g. *Re Renex Holdings (Dandenong) 1 Pty Ltd* [2015] NSWSC 2003, [13] (Black J); *Preston, in the matter of Hughes Drilling Limited* [2016] FCA 1175 (*Hughes Drilling*), [18] (Yates J). See also *Korda, in the matter of Ten Network Holdings Ltd* [2017] FCA 1144, [43]-[44] (Markovic J).

*[62]* In *Secatore*, Gordon J also observed (at [29]) that if orders are made relieving administrators from personal liability in respect of borrowings, it will permit them to make commercial decisions about the ongoing operations by focussing on what is in the best interests of the creditors ‘uninfluenced by concerns of personal liability.’

*[63]* In *Re Great Southern Infrastructure Pty Ltd* [2009] WASC 161 (*Great Southern*)at [13], Sanderson M observed that:

*The material consideration on such an application is whether the proposed arrangements are in the interests of the company’s creditors and consistent with the objectives of Pt 5.3A of the Act. To put that proposition positively — the question is whether the court is satisfied the proposed arrangements are for the benefit of the company’s creditors. To put it negatively — the question is whether the court is satisfied the company’s creditors are not disadvantaged or prejudiced by the proposed arrangement. These principles have been confirmed in a large number of cases.*

*[64]* In *Re Mentha (in their capacities as joint and several administrators of the Griffin Coal Mining Company Pty Ltd (admins apptd)* (2010) 82 ACSR 142; [2010] FCA 1469, Gilmour J summarized the principles governing the granting of an application for orders under s 447A to vary the liability of administrators under s 443A as follows (at [30]):

*(a) the proposed arrangements are in the interests of the company’s creditors and consistent with the objectives of Part 5.3A of the Corporations Act:* Re Great Southern *at [13].*

*(b) typically the arrangements proposed are to enable the company's business to continue to trade for the benefit of the company's creditors:* Re Malanos *at [9] and* Re View *at [17].*

*(c) the creditors of the company are not prejudiced or disadvantaged by the types of orders sought and stand to benefit from the administrators entering into the arrangement:* Re View *at [18], and also* Re Application of Fincorp Group Holdings Pty Ltd *[2007] NSWSC 628 at [17].*

*(d) notice has been given to those who may be affected by the order:* Re Great Southern *at [12].*

*[90] Orders are commonly sought limiting an administrator’s personal liability where a company borrows funds from an external financier to fund the ongoing trading of the business during the administration:* Korda, in the matter of Ten Network Holdings Ltd (Administrators Appointed) (Receivers and Managers Appointed) *[2017] FCA 1144 at [42] (‘***Ten Network***’) (Markovic J).*

*[91] There can be no doubt that in the appropriate circumstances, personal liability can be excluded with respect to any arrangement where that enables the company’s business to continue to trade for the benefit of the company’s creditors. Further, s 447A can also be used to avoid liability before it is imposed:* Silvia v FEA Carbon Pty Ltd *(2010) 185 FCR 301 at [14] (Finkelstein J).*

*…*

*[134] As is apparent, s 443A imposes personal liability on administrators of a company for certain debts incurred by the company during the period in which the company is under administration in the exercise of their functions and powers as administrators. The section applies to debts incurred by an administrator where he or she is taken to be acting as the company’s agent under s 437B:* Australian Liquor, Hospitality & Miscellaneous Workers’ Union v Terranora Lakes Country Club Ltd *(1996) 19 ACSR 687 at 688 (Davies J);* Energy & Resource Conservation Co Ltd (In Liq) v Abigroup Contractors Pty Ltd *(1997) 41 NSWLR 169 at 171 (McLelland CJ).*

## The Administrators’ personal liability should be excluded

19 The first aspect of this part of the application for limitation of the Administrators’ personal liability concerns the Administrators’ obligations to repay monies advanced.

20 As noted in *Virgin (No 2)* at [90], orders are commonly sought limiting an administrator’s personal liability where a company borrows funds from an external financier to fund the ongoing trading of the business during the administration. Such orders may also be made where companies in administration agree to guarantee the repayment of debts by others as part of a funding arrangement: *Park, in the matter of Surfstitch Group Ltd (Administrators Appointed)* [2017] FCA 1244 at [8], [14]-[16].

21 The second aspect of this part of the application concerns a limitation of the Administrators’ personal liability for any obligations if the Sale Deed does not complete.

22 The Administrators’ personal liability is sought to be limited to their right of indemnity from the assets of the Virgin Companies and the statutory lien that secures that right of indemnity.

23 In my view, orders should be made limiting the personal liability of the Administrators under the terms of the Sale Deed because entering into the sale transaction with the Purchasers was in the best interests of the Virgin Companies and its creditors and was consistent with the objectives of Pt 5.3A of the Corporations Act as —

(1) the transaction reflected the culmination of the sale process;

(2) in the Administrators’ view, the transaction provided the most favourable terms available for a sale or recapitalisation for the benefit of creditors of the Virgin Companies as a whole (insofar as it provided the greatest prospect of the Business remaining intact and otherwise provided the likely greatest return to creditors);

(3) the transaction was necessary to ensure the ongoing trading of the Business by providing the funding to enable the Administrators to continue to trade the Virgin Companies and to meet ongoing liabilities to progress the external administration of the Virgin Companies;

(4) the Virgin Companies would not be able to continue to trade the Business up to the date of the Second Meeting without receipt of the funding;

(5) the repayment of the funding will not alter the outcome for the Virgin Companies’ unsecured creditors or employees given that the trading liabilities which will be met by the funding would in any event be the subject of the Administrators’ lien, and thus rank ahead of unsecured creditors in the priority waterfall under s 556(1) of the Corporations Act in all instances; and

(6) the Purchasers have themselves agreed that the obligations of the Administrators under the Sale Deed are essentially limited recourse to the assets available in the administrations of each of the Virgin Companies (so that the Purchasers would therefore have no recourse to the Administrators personally).

24 The unsecured creditors cannot be prejudiced or disadvantaged because the terms have already been agreed by the Virgin Companies and the proposed orders only relieve the Administrators from personal liability. As Finkelstein J said in *Re Spyglass Management Group (admin apptd)* (2004) 51 ACSR 432 at [6], in remarks entirely apposite to the present case:

*As the lenders have agreed to a loan of this kind, there is no reason why the order should not be made. Practically speaking the creditors have no interest … because they cannot be disadvantaged by it.*

# FIXING THE REGISTRATION TIME FOR THE SECURITY INTERESTS

## Principles

25 As the Virgin Companies are in external administration, the effect of s 588FL of the Corporations Act is that, absent an order from the Court, the security interests (which were granted after the administrations commenced) would automatically vest in the Administrators (and would thereby be unenforceable).

26 The position was explained by Greenwood J in *Hill* at [60]-[65]:

*[60] It is now necessary to say some things in relation to that part of the application relating to s 588FM of the Act. That section provides that a company, or any person interested, may apply to the Court for an order fixing a “time” (for registration of the relevant “collateral”) which, by order of the Court is the time later than that provided for by s 588FL(2)(b)(i), (ii) and (iii). The relevant time is that contemplated by s 588FL(2)(b)(iv). Section 588FL applies, relevantly, if administrators are appointed to a company under s 436A of the Act and a “PPSA security interest granted by the company in collateral is covered by subsection (2)”. A PPSA security is a security interest for the purposes of the Personal Property Securities Act 2009 (Cth) (“PPSA”). Section 588FL(2) uses the phrase “critical time” which, by reason of s 588FL(7), is, in this case, the date of appointment of the administrators, namely, 20 December 2018. Section 588FL(2) “covers” a PPSA security interest if, when the security interest arises (in this case after the critical time of 20 December 2018), the security interest is enforceable against third parties and it is “perfected” by registration. The “registration time” for the collateral is after the latest of the following times:*

*(i) 6 months before the critical time;*

*(ii) the time that is the end of 20 business days after the security agreement that gave rise to the security interest came into force, or the time that is the critical time, whichever time is earlier;*

*(iii) if the security agreement giving rise to the security interest came into force under the law of a foreign jurisdiction, the security interest first became enforceable against third parties under the law of Australia after the time that is 6 months before the critical time – the time that is the end of 56 days after the security interest became so enforceable, or the time that is the critical time, whichever time is earlier;*

*(iv) a later time ordered by the Court under section 588FM.*

*[61] Perfecting the security interest by operation of s 588FL(2) having regard to s 588FL(2)(b)(iv) displaces the operation of s 588FL(4).*

*…*

*[65] As already mentioned, in the present case, the “critical time” for the purposes of s 588FL, is 20 December 2018 being the date the administrators were appointed to each of the Flow Systems Group companies. The administrators observe that a question arises as to whether s 588FL of the Act applies to post, external administration dealings, including security interests granted when the company is under the control of an external administrator. In* KJ Renfrey Nominees Pty Ltd (Trustee)*,* in the matter of OneSteel Manufacturing Pty Ltd v OneSteel Manufacturing Pty Ltd *(2017) 120 ACSR 117, Davies J held that s 588FL does apply in such circumstances. The reasoning of Davies J at 126‑127 [22], [24] was accepted by Markovic J in* Re Korda*,* 10 Network Holdings Ltd (Administrators Appointed) (Receivers and Managers Appointed) *[2017] FCA 1144 at [60]‑[64]. Having regard to the reasoning in those two authorities (which I accept), I accept that s 588FL(2)(b)(iv) is engaged and that s 588FM is also engaged. Importantly, s 588FM(2)(a)(ii) provides that on an application under s 588FM, the Court may make the orders sought if the Court is satisfied that “the failure to register the collateral earlier is not of such a nature as to prejudice the position of creditors or shareholders”. Section 588FM(2)(b) provides that on application under the section, the Court may make the orders sought if it is satisfied that “it is just and equitable to grant relief”. I accept the submissions of the administrators that on the question of prejudice, relevant prejudice in the context of s 588FM of the Act has been understood in these terms having regard to the observations of Brereton J in* Re Appleyard Capital Pty Ltd *(2014) 101 ACSR 629 at [30]:*

The type of prejudice that is of particular relevance is prejudice attributable to the delay in registration, rather than prejudice from making the order (which is inevitable). This is the type of prejudice contemplated [by] the legislation (see s 588FM(2)(a)(ii), which refers to prejudice from the failure to register earlier, not from making the order), and referred to by Buckley J in Cardiff Workmen’s Cottage Co; by Long Innes J in *Limited Company* (see also *Flinders Trading Co* at ACLR 225 per Bray CJ; at ACLR 234 per Mitchell J); and by McLelland J in *Guardian Securities* (at 98). The period of delay in effecting registration is relevant, because the shorter the delay the less likely that the failure to register within time will have had any impact. The significance of the passage of time is mainly related to the possibility of competing interests having arisen, in particular through others having dealt with the company on the footing that the collateral was unencumbered.

27 Similarly, as Gleeson J noted in *Dickerson, in the matter of McWilliam’s Wines Group Ltd (Administrators Appointed) (No 2)* [2020] FCA 417:

*[35] It is now well established that s 588FL applies to the grant of security interests when a company is under external administration, such that the relevant security interests will vest in the company unless an order is made stipulating a later time pursuant to s 588FM:* K.J. Renfrey Nominees Pty Ltd (Trustee), in the matter of OneSteel Manufacturing Pty Ltd v OneSteel Manufacturing Pty Ltd *[2017] FCA 325; (2017) 120 ACSR 117 at [22] and [24];* Ten Network *at [60]-[64];* Flow Systems *at [65].*

*[36] By s 588FM(2), the Court may make an order fixing a later time for the purposes of s 588FL(2)(b)(iv) if it is satisfied that, relevantly:*

*(a) the failure to register the collateral earlier:*

*…*

*(ii) is not of such a nature as to prejudice the position of creditors or shareholders; or*

*(2) on other grounds, it is just and equitable to grant relief.*

*[37] The type of prejudice that is of particular relevance is prejudice attributable to the delay in registration:* Re Appleyard Capital Pty Ltd; 123 Sweden AB v Appleyard Capital Pty Ltd *[2014] NSWSC 782; (2014) 101 ACSR 629 at [30].*

## The time for registration should be fixed to be 24 July 2020

28 Stipulating a later time so as to ensure that the security interests are effective causes no relevant prejudice to creditors and, in any event, it is just and equitable that such order be made.

29 The creation of a security interest by the Grantors was part of the transaction with Bain Capital that was in the interests of creditors generally.

30 Then the ability of the Administrators to draw down on the funding is necessary to fund the remaining administration period.

31 It is also important to observe that there is no displacement of the priority of other secured creditors with security interests registered on the Personal Property Securities Register because those creditors retain their priority over the relevant collateral by reason of the registration of their security interests earlier in time.

32 Accordingly, it is appropriate to make orders fixing the time for registration of the security interest in the collateral to be 24 July 2020 (being 20 business days after the date of the transaction on 26 June 2020). That will ensure that the security interests are effective and do not vest (given that the registrations have already occurred) and will permit the Administrators to draw on the funding and, in due course, complete the sale.

# CONCLUSION

33 For the foregoing reasons, I made the orders sought by the Plaintiffs.

|  |
| --- |
| I certify that the preceding thirty-three (33) numbered paragraphs are a true copy of the Reasons for Judgment herein of the Honourable Justice Middleton. |

Associate:

Dated: 3 July 2020

SCHEDULE OF PARTIES

|  |  |
| --- | --- |
|  | NSD 464 of 2020 |
| Plaintiffs |  |
| Fourth Plaintiff: | VIRGIN AUSTRALIA INTERNATIONAL HOLDINGS PTY LTD (ADMINISTRATORS APPOINTED) ACN 155 860 021 |
| Fifth Plaintiff: | VIRGIN AUSTRALIA INTERNATIONAL AIRLINES PTY LTD (ADMINISTRATORS APPOINTED) ACN 125 580 823 |
| Sixth Plaintiff: | VIRGIN AUSTRALIA AIRLINES (SE ASIA) PTY LTD (ADMINISTRATORS APPOINTED) ACN 097 892 389 |
| Seventh Plaintiff: | VIRGIN AUSTRALIA AIRLINES HOLDINGS PTY LTD (ADMINISTRATORS APPOINTED) ACN 093 924 675 |
| Eighth Plaintiff: | VAH NEWCO NO.1 PTY LTD (ADMINISTRATORS APPOINTED) ACN 160 881 345 |
| Ninth Plaintiff: | TIGER AIRWAYS AUSTRALIA PTY LIMITED (ADMINISTRATORS APPOINTED) ACN 124 369 008 |
| Tenth Plaintiff: | VIRGIN AUSTRALIA AIRLINES PTY LTD (ADMINISTRATORS APPOINTED) ACN 090 670 965 |
| Eleventh Plaintiff: | VA BORROWER 2019 NO. 1 PTY LTD (ADMINISTRATORS APPOINTED) ACN 633 241 059 |
| Twelfth Plaintiff: | VA BORROWER 2019 NO. 2 PTY LTD (ADMINISTRATORS APPOINTED) ACN 637 371 343 |
| Thirteenth Plaintiff: | VIRGIN TECH PTY LTD (ADMINISTRATORS APPOINTED) ACN 101 808 879 |
| Fourteenth Plaintiff: | SHORT HAUL 2018 NO. 1 PTY LTD (ADMINISTRATORS APPOINTED) ACN 622 014 831 |
| Fifteenth Plaintiff: | SHORT HAUL 2017 NO. 1 PTY LTD (ADMINISTRATORS APPOINTED) ACN 617 644 390 |
| Sixteenth Plaintiff: | SHORT HAUL 2017 NO. 2 PTY LTD (ADMINISTRATORS APPOINTED) ACN 617 644 443 |
| Seventeenth Plaintiff: | SHORT HAUL 2017 NO. 3 PTY LTD (ADMINISTRATORS APPOINTED) ACN 622 014 813 |
| Eighteenth Plaintiff: | VBNC5 PTY LTD (ADMINISTRATORS APPOINTED) ACN 119 691 502 |
| Nineteenth Plaintiff: | A.C.N. 098 904 262 PTY LTD (ADMINISTRATORS APPOINTED) ACN 098 904 262 |
| Twentieth Plaintiff: | VIRGIN AUSTRALIA REGIONAL AIRLINES PTY LTD (ADMINISTRATORS APPOINTED) ACN 008 997 662 |
| Twenty-first Plaintiff: | VIRGIN AUSTRALIA HOLIDAYS PTY LTD (ADMINISTRATORS APPOINTED) ACN 118 552 159 |
| Twenty-second Plaintiff: | VB VENTURES PTY LTD (ADMINISTRATORS APPOINTED) ACN 125 139 004 |
| Twenty-third Plaintiff: | VIRGIN AUSTRALIA CARGO PTY LTD (ADMINISTRATORS APPOINTED) ACN 600 667 838 |
| Twenty-fourth Plaintiff: | VB LEASECO PTY LTD (ADMINISTRATORS APPOINTED) ACN 134 268 741 |
| Twenty-fifth Plaintiff: | VA HOLD CO PTY LTD (ADMINISTRATORS APPOINTED) ACN 165 507 157 |
| Twenty-sixth Plaintiff: | VA LEASE CO PTY LTD (ADMINISTRATORS APPOINTED) ACN 165 507 291 |
| Twenty-seventh Plaintiff: | VIRGIN AUSTRALIA 2013-1 ISSUER CO PTY LTD (ADMINISTRATORS APPOINTED) ACN 165 507 326 |
| Twenty-eighth Plaintiff: | 737 2012 NO.1 PTY. LTD (ADMINISTRATORS APPOINTED) ACN 154 201 859 |
| Twenty-ninth Plaintiff: | 737 2012 NO. 2 PTY LTD (ADMINISTRATORS APPOINTED) ACN 154 225 064 |
| Thirtieth Plaintiff: | SHORT HAUL 2016 NO. 1 PTY LTD (ADMINISTRATORS APPOINTED) ACN 612 766 328 |
| Thirty-first Plaintiff: | SHORT HAUL 2016 NO. 2 PTY LTD (ADMINISTRATORS APPOINTED) ACN 612 796 077 |
| Thirty-second Plaintiff: | SHORT HAUL 2014 NO. 1 PTY LTD (ADMINISTRATORS APPOINTED) ACN 600 809 612 |
| Thirty-third Plaintiff: | SHORT HAUL 2014 NO. 2 PTY LTD (ADMINISTRATORS APPOINTED) ACN 600 878 199 |
| Thirty-fourth Plaintiff: | VA REGIONAL LEASECO PTY LTD (ADMINISTRATORS APPOINTED) ACN 127 491 605 |
| Thirty-fifth Plaintiff: | VB 800 2009 PTY LTD (ADMINISTRATORS APPOINTED) ACN 135 488 934 |
| Thirty-sixth Plaintiff: | VB LEASECO NO 2 PTY LTD (ADMINISTRATORS APPOINTED) ACN 142 533 319 |
| Thirty-seventh Plaintiff: | VB LH 2008 NO. 1 PTY LTD (ADMINISTRATORS APPOINTED) ACN 134 280 354 |
| Thirty-eighth Plaintiff: | VB LH 2008 NO. 2 PTY LTD (ADMINISTRATORS APPOINTED) ACN 134 288 805 |
| Thirty-ninth Plaintiff: | VB PDP 2010-11 PTY LTD (ADMINISTRATORS APPOINTED) ACN 140 818 266 |