

Can a Director of a Commercial Company, be Held Personally Liable During its Liquidation?

The liquidation of a company is a procedure that brings to an end the functioning of a corporation as a business.

At times, liquidation enforces the collection of the outstanding debts of the corporation to its creditors. This can be accomplished, among other methods, by suing the director of the company as part of the liquidation proceedings. Articles 373-374 of the Company Act are applicable here. While this is indeed one of the strategies that may result in the collection of the debt, we should keep in mind that holding the company director personally liable is indeed an exceptional measure, and one the Court does not approve of easily.

The Company Act declares that a director of a company that deliberately conducted its business with an intention to deceit its creditors can be held personally responsible to the company's debt, and sets no limits. Furthermore, if said director personally acted illegally or misused the company's funds, he can be held personally liable to the company's debt.

Our firm has recently represented a defendant in such a case. This was a personal suit made against a senior director of a company that was liquidated at the demand of its creditors. The Haifa District Court heard the ILS 640,000 case. The plaintiff, the company's liquidator, claimed that the director acted deceitfully and in bad faith, covered-up the company's financials, illegally embezzled its funds, illegally distributed a dividend, etc.

Our firm conducted the defense. The parties (the liquidator and our firm) presented the court with opinions pertaining to the company's accounting

status. The accountant working for the liquidator was even questioned in court on the opinion they've presented.

Our firm proved wrong the data presented by the liquidator. We also proved that the liquidator failed to properly examine the company's books and financial reports. During the questioning of the liquidators' accountant, it became apparent that the accountant failed to examine all of the company's financial data and ignored some accounting materials that contradicted the liquidator's case.

The District Court ruled in our favor and rejected the petition. And thus, once more our firm was victorious.