

THE ROLE OF PARTNERSHIPS AND RESTRUCTURING FOR RURAL HOSPITALS

MEET THE SPEAKERS



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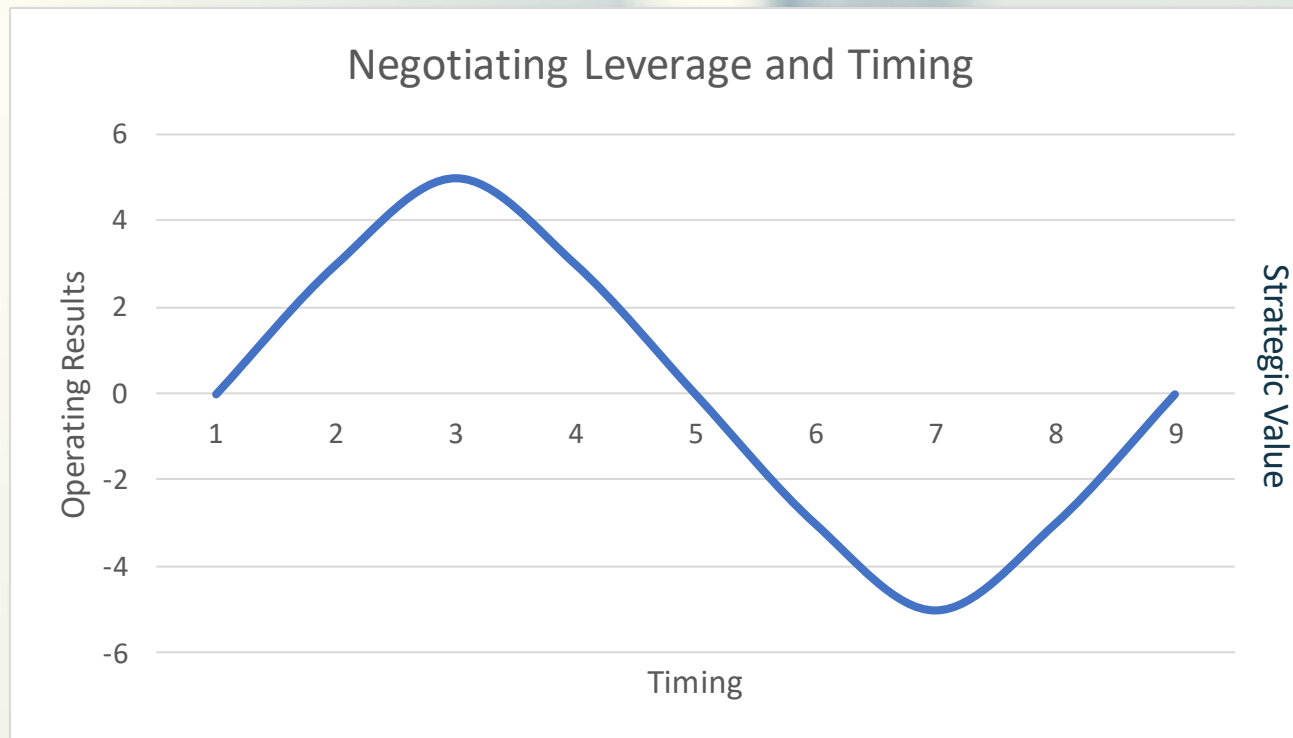




SIGNS OF DISTRESS AND RESULTING STRATEGIC OPTIONS

TIME IS NEVER A NEUTRAL FACTOR

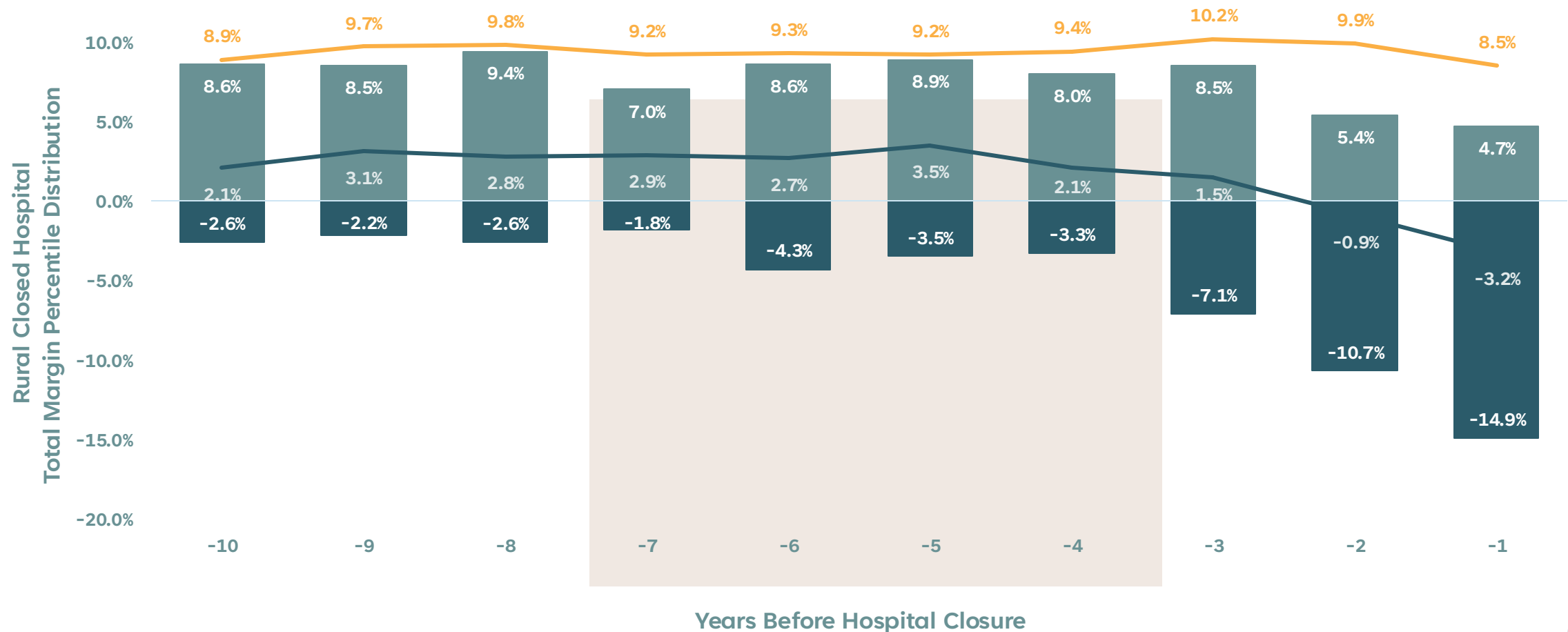
- A struggling rural hospital must weigh the pros and cons of the following timing factors:
 - Time to demonstrate results from a performance improvement plan
 - Time for major developments
 - Time for adverse market developments to take effect (state and federal budgets, competitor responses, etc.)



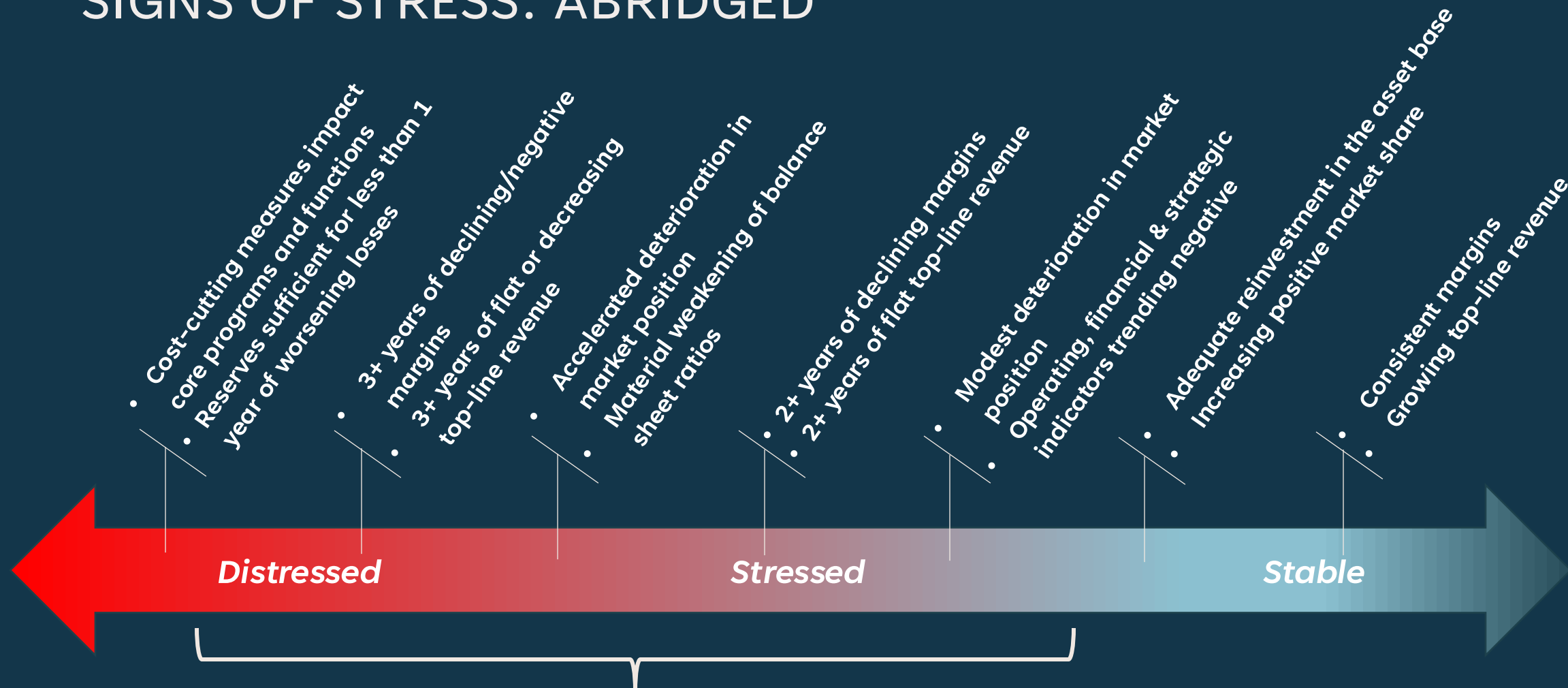
RURAL HOSPITAL TOTAL CASH FLOW MARGIN - CRITICAL ACTION ZONE

CLOSED VS. OPEN HOSPITALS

- The years between -8 and -4 years before rural hospital closure become a critical action zone
- The realities of data lag availability require best served organizations to actively manage multi-year trends, including cash flow
- Waiting to act on declining trends reduces latitude to maneuver and increases the magnitude of required turnaround



SIGNS OF STRESS: ABRIDGED



POLLING QUESTION 1



STRATEGIC OPTIONS FOR DISTRESSED HEALTHCARE ORGANIZATIONS

- **ACT EARLY:** Financial distress requires timely action to preserve viability

Operational Improvements

- Increase revenue and reduce costs
- Improve position regardless of what strategic option is chosen

Partnership Opportunities

- Align with larger healthcare systems for cost efficiencies and improved reimbursement
- Distress can limit negotiating leverage; stabilization may be required first

Bankruptcy as a Restructuring Tool

- Restructure debt and obligations
- Reject burdensome contracts and leases
- Enable asset sales free and clear of liens
- May enhance attractiveness to potential partners

- **Board Responsibility**

- Identify distress, evaluate risk, and understand fiduciary duties
- Support leadership in exploring all viable strategic options





BANKRUPTCY & DISTRESSED RURAL HOSPITALS

POLLING QUESTION 2



HOW BANKRUPTCY CAN HELP A DISTRESSED RURAL HOSPITAL

- Bankruptcy can address long-standing, accumulated financial problems by acting as a financial reset. Additionally, it can serve as a vehicle for finding strategic partners.

Key benefits of restructuring include:

- Providing debtors with mechanisms to restructure payments to creditors, re-amortize or refinance debts, and, in some instances, discharge liabilities
 - Automatic stay (“breathing spell”) from litigation and collection
 - Rejection of burdensome contracts and leases
 - Sale of assets free and clear of liens
-
- Bankruptcy is by no means a remedy for all financial problems; however, it can provide a hospital with the opportunity to correct a struggling course and address accumulated liabilities.



CHAPTER 7 VS. CHAPTER 11

CHAPTER 7 (LIQUIDATION)



Hospital ceases
operations

Assets liquidated by
trustee

CHAPTER 11 (REORGANIZATION)



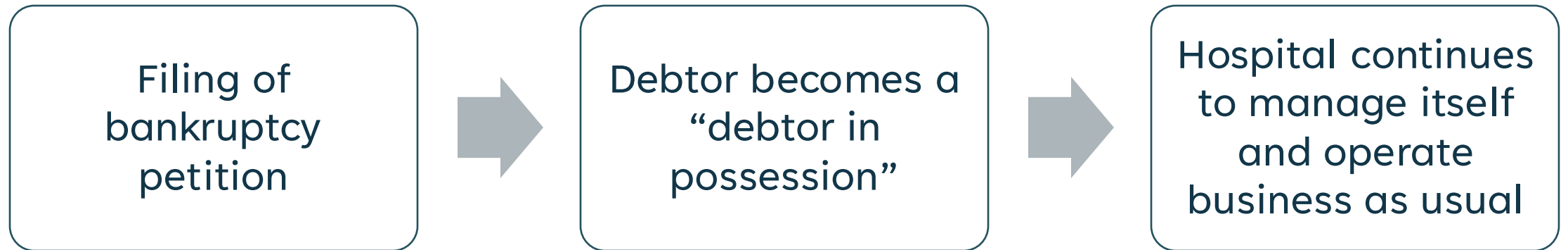
Hospital continues to operate

No debt limits

Court-approved plan governs
repayment over time



THE CHAPTER 11 PROCESS



Duties of a Debtor in Possession

- Accounting for property
- Examining and objecting to the claims of creditors
- Filing monthly operating reports as required by the court and the bankruptcy administrator or U.S. trustee



TYPICAL FINANCIAL PROBLEMS ADDRESSED BY CHAPTER 11

| Problem | Solution |
|--|--|
| Cash flow needs improvement | <ul style="list-style-type: none">• Enhance revenue cycle and collection efforts• Operational performance improvement• Restructure payments to secured creditors• Discharge debt owed to unsecured creditors• Use Chapter 11 to facilitate partnership discussions |
| Demand is down/market conditions are poor | <ul style="list-style-type: none">• Discharge debt owed to unsecured creditors• Restructure payments to secured creditors• Write down loans to the value of collateral |
| Needs financing | <ul style="list-style-type: none">• Obtain post-petition financing• Use cash collateral for post-petition expenses |
| Lawsuits are expensive and distracting; secured lender started foreclosure | <ul style="list-style-type: none">• Automatic stay gives a breathing spell• Remove lawsuits to bankruptcy court |
| Burdensome/unwanted contracts or leases | <ul style="list-style-type: none">• Assume or reject executory contracts and leases• Assume and assign below-market contracts |



PLAN FOR REORGANIZATION

- The Bankruptcy Code gives the debtor a 120-day period during which it has the exclusive right to file a plan of reorganization
- The plan must designate classes of claims and interests for treatment
 - Classes are divided based on the type of debt owed
- In addition to the plan, the debtor must file a disclosure statement
 - Explains the plan and gives the creditors and the bankruptcy court an outline of the financial affairs of the debtor and the proposed treatment of creditors



REQUIREMENTS FOR CONFIRMING A PLAN OF REORGANIZATION

- The Bankruptcy Code provides 16 requirements for confirming a plan of reorganization
- The plan must:

Be feasible

Be filed in
good faith

Meet the “best
interest of the
creditors” test

Meet the
absolute
priority rule

- The confirmed plan serves as a new binding contract between the debtor and its creditors, creating new contractual rights in place of pre-bankruptcy contracts and debts





KEY TAKEAWAYS

POLLING QUESTION 3



KEY TAKEAWAYS



Know your organization's risk profile



Good management alone may not save a distressed hospital



Educate your organization on available strategic options, including bankruptcy

Bankruptcy may allow a distressed hospital to shed enough debt to secure a partner



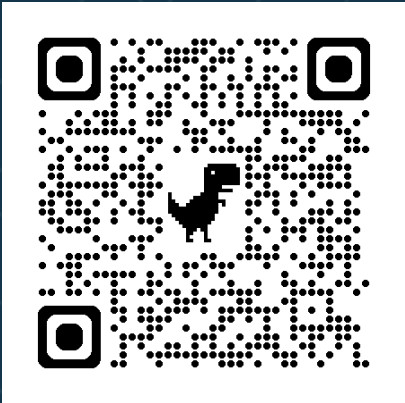
Bankruptcy is not necessarily a liquidation, but can be a mechanism to facilitate a fresh start





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THANK YOU



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