

HEALTHCARE BANKRUPTCIES

A Financial Risk to Suppliers

In 2023, there were 1051 healthcare bankruptcy filings, which was a 135% increase over 2022.

2023 logged the highest number of healthcare bankruptcy filings in the last 10 years, preceded by 2018 with 933 filings and 2020 with 748 filings.

IT'S ALL IN THE NUMBERS

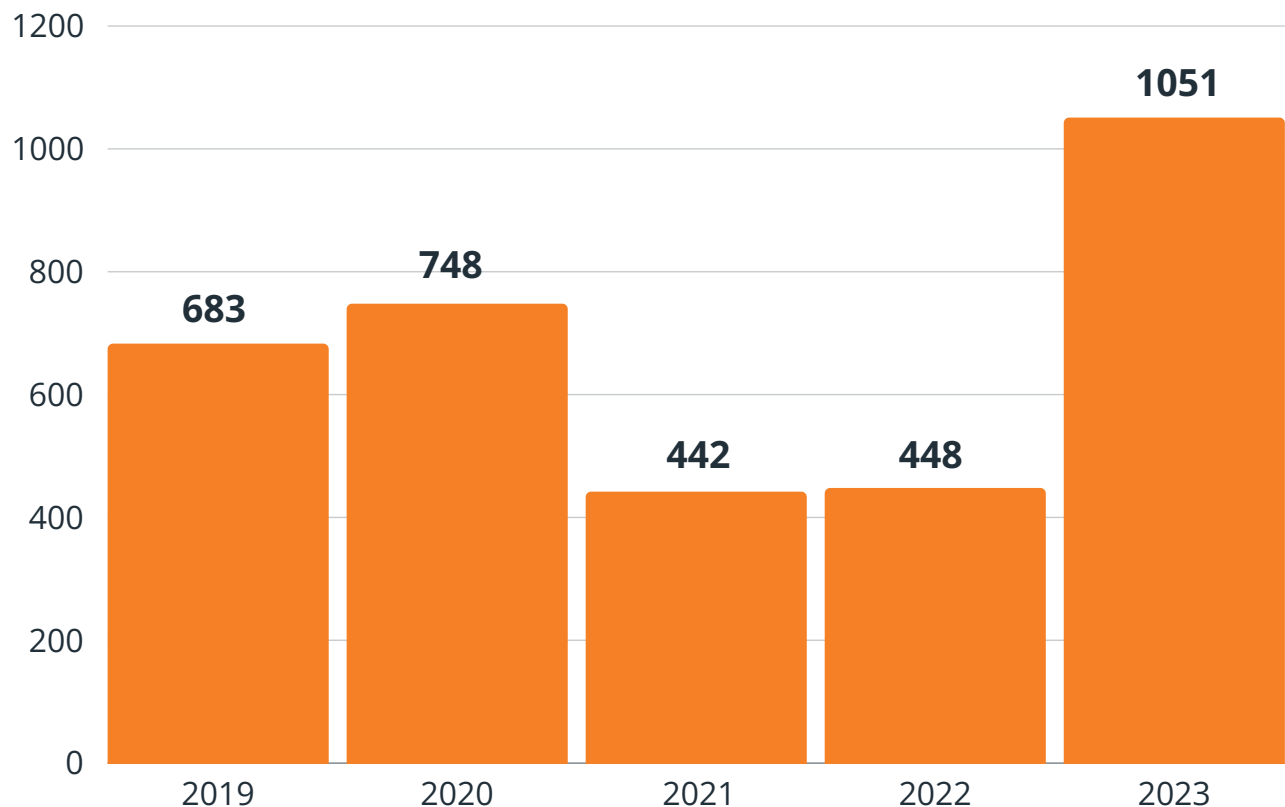
Lower patient volumes, declining reimbursements, Medicare/Medicaid funding cuts, growing healthcare costs, political uncertainties and industry lawsuits are just a handful of reasons cited for healthcare bankruptcies.

"Too big to fail" no longer applies to the medical/healthcare industry. Suppliers must take proactive steps to secure their receivables, inventory and equipment, or risk receiving pennies on the dollar in a bankruptcy.

The **healthcare industry** includes pharmaceuticals, hospitals, nursing homes, various private practice and specialty services.

There have been **over 3500 healthcare industry bankruptcies** in the last 5 years.

Of the healthcare bankruptcies filed in 2023, **38%** have reported liabilities of \$1M - \$10M, **14%** reported liabilities of \$10M - \$50M and **6%** reported liabilities of \$50M - \$1B+.



If an entity has **assets up to \$10M**, but their **liabilities are between \$100M and \$500M**, how will the entity pay its creditors? The simple math doesn't work; there isn't enough money within their assets to pay off the debts, which leads to: **bankruptcy**.

WHY FILE UCCS?

In bankruptcy, **secured creditors are paid first**, followed by administrative claims and then unsecured creditors. A secured creditor is a creditor who establishes a security interest in their customer's real or personal property (i.e., the customer's property is collateral for the loan or extension of credit). How can you become a secured creditor? **File UCCs!**

What Is a UCC Filing?

Article 9 of the Uniform Commercial Code (UCC) governs secured transactions in personal property and **provides an opportunity for trade creditors, like you, to secure accounts receivable, inventory or equipment** by leveraging the personal property assets of your customer.

Under UCC Article 9, a security interest is an interest in personal property or fixtures and secures payment or performance of an obligation. Before extending credit, many creditors require their customers to enter into a Security Agreement. The customer pledges specific personal property as collateral to grant a security interest to the creditor. Then, in the event of customer default, the creditor can use the collateral to recover payment.

A UCC filing, also known as a UCC Financing Statement or UCC-1, is a document filed with the Secretary of the State which serves as public notice of a creditor's security interest in certain collateral owned by their customer.

Who Should File UCCs?

Any business (i.e., creditor) extending credit to its customers should file UCCs, including financial institutions, factoring companies, leasing companies, suppliers and distributors.

In the **healthcare industry**, creditors providing everything from basic office supplies to extensive operating room equipment have an opportunity to **file a UCC to recover funds and repossess equipment**.

Why File UCCs?

Protection and recovery. Whether your customer defaults on payment terms or files for bankruptcy protection, your properly perfected UCC provides you with the security and leverage you need to get paid for the work you do.

"Recently, we were able to take back an instrument valued at \$100,000 that we sold to a hospital in New York that filed bankruptcy. We had filed a UCC-1 last year and with NCS's help (regarding preparation and filing of the UCC-1), **we ended up with secured creditor status and we were able to repossess our equipment.**"

UCCS WORK: CASES IN POINT

Medical Equipment Provider Filed Chapter 11

In the recent bankruptcy of a medical equipment provider, under the approved bankruptcy plan, **secured creditors recovered 100%** of their claims and **unsecured creditors only recovered 4.3%**. On its claim of \$175,000.00, one unsecured creditor recovered \$7,524.99. Another unsecured creditor recovered \$2,150.00 on its claim of \$50,000.00.

Can you afford to **lose 95.7%** of the receivable, inventory or equipment you provide to your customer?

The Bankruptcy Case of Hooper Holmes, Inc.

According to BankruptcyData (bankruptcydata.com), the healthcare company Hooper Holmes, Inc. provided health & well-being programs nationwide.

"These services included on-site biometric screening services and flu shots, laboratory testing, health risk assessment, and sample collection services to, among others, corporate and government employers, health plans, well-being companies and third-party administrators."

In August 2018, Hooper Holmes, Inc. filed for Chapter 11. Events leading to the bankruptcy included mergers and acquisitions: transactions that typically lead to increased sales. Unfortunately, with mergers and acquisitions come the debt of said acquired businesses. Heading into 2018, Hooper Holmes, Inc. had a significant shortfall of working capital.

What was the capital deficit? **\$31.5 million.**

*"The most significant factor leading to the commencement of these chapter 11 cases was the amount of debt on the Hooper Holmes' balance sheet. **The Company incurred year-over-year losses from operations with negative cash flows.** To fund the Company's operations, the Company incurred debt in the ordinary course. Further, mergers and acquisitions by the Company added significant debt to its balance sheet, resulting in unsustainable leverage."*

In December 2018, the court approved the Amended Joint Plan of Liquidation (i.e. the bankruptcy plan). **According to the bankruptcy plan, secured creditors were to receive 100% of their claims and unsecured creditors were to receive approximately 3.5% of their claims.**

BANKRUPTCY & YOUR UCC

In bankruptcy, all creditors are split into two classes: secured and unsecured. Secured creditors are paid first followed by administrative expenses. Once secured creditors and administrative expenses are paid, the unsecured creditors split what is left over on a pro-rata basis.

Example of Payout in Chapter 7 Bankruptcy

Here's an example of a medical facility whose creditors filed UCCs, and the fate of its secured and unsecured creditors in a Chapter 7 bankruptcy.

The medical facility has a revolving line of credit with the bank for \$500,000 and the bank filed a UCC. The medical facility also has various vendors providing different supplies and services needed to operate. Some of the vendors opted to sell to the medical facility on open terms. Of the numerous creditors / vendors that sold to the medical facility on open terms, four of them have taken a security interest and filed a UCC.

Unfortunately, the medical facility succumbs to bankruptcy with assets totaling \$1,000,000.

The bankruptcy trustee is going to liquidate the medical facility's \$1,000,000 in assets and begin paying the creditors. The bank was the first party to extend credit and file a UCC, so they will be paid first, then the other vendors who filed UCCs will be paid in the order in which they secured their interest.

Total Assets	\$1,000,000
• Bank is paid	(\$500,000)
• Secured Creditor 1 is paid	(\$150,000)
• Secured Creditor 2 is paid	(\$75,000)
• Secured Creditor 3 is paid	(\$100,000)
• Secured Creditor 4 is paid	(\$50,000)
Total available for unsecured creditors:	\$125,000

Once the secured creditors have been paid, there is \$125,000 remaining and it will be distributed on a pro-rata basis to all general unsecured creditors. If the medical facility has 100 unsecured creditors that are each owed \$10,000, they will receive \$1,250 or **about 12 cents on the dollar**.

UCCs are a simple part of business in a credit-based economy. Smart, savvy credit heroes reduce their financial risk by filing UCCs to secure their receivables, inventory and equipment. **Be a credit hero, file UCCs.**

NCS IS YOUR CREDIT ALLY

NCS Credit is the industry's only full-service provider. From UCC filings and mechanic's liens to commercial collections, we have it all under one roof.

Powered by our knowledgeable staff and fueled by technology, NCS will simplify your current process and deliver a best-in-class client experience.

With unparalleled industry expertise, we understand the complexities of commercial credit. We believe everyone should get paid for the work they do!



To learn more: 800.826.5256 or NCSsales@NCScredit.com