Mid-Size Company

Turnaround of the Year

Gilbert Hospital, LLC and Florence Hospital at Anthem, LLC

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Gilbert Hospital ("GH") is a privately-owned, suburban hospital that opened in 2006 and was successful for several years. It was to be the first in a chain of similar suburban and rural hospitals. GH's founder separately syndicated other hospital projects, but much of the capital was loaned or invested by GH. One of the hospitals, Florence Hospital at Anthem ("FHA") opened in 2012 in a rural area near Phoenix. FHA was undercapitalized and underutilized, and filed a Chapter 11 petition in March 2013. An investor suit was settled in 2013, resulting in changes to GH's management. Nonetheless, GH lasted less than a year before filing its own Chapter 11 petition.

By its petition date, GH was out of cash, its lease had been terminated, and it was in default to its senior secured lender, Bank SNB, which had foreclosed on adjacent land and swept cash. GH owed $600,000 in employee health reimbursements and had a severely underfunded deferred comp plan. It was in arrears to vendors. It was on its third CEO and CFO in the prior two years, and new management started within two weeks of filing. FHA owed GH over $13 million and GH had guaranteed FHA's $10 million bank debt. In the meantime, FHA had been in Chapter 11 for almost a year and was trying to secure an asset buyer. The case was administratively insolvent. An asset sale was projected to leave Bank SNB underpaid and GH exposed on its guaranty and unlikely to collect any of its debt.

GH's new management and professionals began to turn things around. The lease was reinstated. Vendors and professionals were paid. Cash reserves began to accumulate. Many operational issues were resolved. An idea began to take hold that re-joining the two hospitals might further improve operational and financial efficiency.

Initially regarded as a hostile takeover bid, GH and Bank SNB co-proposed the joint reorganization of the two hospitals in their separate Chapter 11 cases. After months of negotiation, the creditor committees in both cases capitulated. By this time, GH had accumulated significant reserves. The hospitals' founder retook control of FHA, resulting in new bankruptcy counsel and an interim management relationship with GH.

The joint plan was confirmed in late 2015 through a temporary joint administration, and became effective on February 19, 2016. The plan restructured both hospitals' bank debt. It recovered funds swept by the bank and provided an option to reacquire the foreclosed land. It provided payment in full with interest to creditors of both hospitals. FHA's equity was cancelled, and GH's owners became
the owners of a new holding company for both hospitals, creating significant additional enterprise value.