

BANKRUPTCY UPDATE

Expert Analysis

Chapter 11 Filings of Nursing Home And Senior Care Facilities

This issue of the Bankruptcy Update focuses on recent restructurings of assisted living facility operators Gulf Coast Health Care and Eagle Senior Living.

'Gulf Coast Health Care'

On Oct. 14, 2021, Gulf Coast Health Care and certain affiliates filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. *Gulf Coast Health Care* (Bankr. D. Del. Case No. 21-11336).

The company, a nursing home chain with 28 facilities across Georgia, Florida and Mississippi, attributed its financial difficulties to rising pandemic-driven operating costs, falling occupancy, staffing pressures and a roughly \$217

By
Edward E.
Neiger



million rent acceleration by its largest landlord, Omega Healthcare Investors.

The objective of the Chapter 11 cases was to transfer the operations of the debtors' facilities to new operators and subsequently wind down operations, pursuant to the terms of a restructuring support agreement entered into with certain direct and indirect equity holders, certain service providers, Omega and prepetition secured creditor New Ark Capital.

To facilitate operations in bankruptcy, the debtors obtained approval to enter into a \$25 million DIP financing facility provided by certain Omega affiliates and continue using New Ark's cash collateral.

Consistent with the terms of the restructuring support agreement, Gulf Coast sought authority to transfer the operations of 24 of its 28 nursing homes to Omega, positing that the transfer would relieve operating costs and provide breathing space to reach a resolution for its remaining facilities while preserving patient care standards. The motion generated opposition from the official committee of unsecured creditors, holders of certain promissory notes and the Office of the United States Trustee all of whom argued that the debtors presented no evidence of efforts to locate a better offer via a robust marketing process.

Nevertheless, on November 24, the court approved the transition motion and on December 1, the debtors transitioned management of their skilled nursing facilities in Florida and Mississippi leased from certain Omega affiliates to NSPRMC II. Subsequently, on January 27, the debtors filed a notice

EDWARD E. NEIGER is a co-managing partner at ASK LLP, a national law firm focusing on bankruptcy law. He can be reached at eneiger@askllp.com. MARIANNA UDEM, a partner at ASK LLP, assisted in drafting this column.

informing parties of the proposed new operators for 22 of the 24 facilities governed by the above transition order. In addition, on February 25, the debtors obtained approval for the transition of their Cobblestone Rehabilitation and Healthcare Center to a new operator.

In the interim, following a number of informal mediation sessions, the debtors, the official committee of unsecured creditors and the parties to the RSA engaged in formal mediation with former S.D.N.Y. Bankruptcy Judge James M. Peck acting as mediator. Those discussions eventually led to an agreement in principle on key plan terms on February 9. Key settlement terms included: a \$13,250,000 plan contribution comprising \$11,250,000 to be allocated to holders of allowed general unsecured claims and litigation claims, and \$2,000,000 professional fee settlement contribution.

On March 4, the court approved the disclosure statement accompanying the debtors' plan of reorganization, as amended to encompass above settlement. A hearing to consider confirmation of the plan is scheduled for April 19.

'American Eagle Delaware Holding Company'

On Jan. 14, 2022, American Eagle Delaware Holding Company and certain affiliates filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware.

American Eagle Delaware Holding Company LLC (Bankr. D. Del. Case No. 22-10028).

The debtors, better known as Eagle Senior Living, operate senior care facilities across Colorado, Minnesota, Wisconsin, Ohio, Alabama, Tennessee and Florida. The facilities were purchased in 2018 from Brookdale Senior Living with the proceeds of approximately \$219 million in bonds. The debtors attributed their financial distress to the pandemic, noting that their costs increased from pandemic-

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related protective measures and protocols while the number of new residents in the facilities declined.

The debtors commenced their Chapter 11 cases to implement the terms of a restructuring support agreement entered into with UMB Bank and a majority of the holders of their Series 2018A secured bonds. The RSA established a framework for a plan whereby the company would reduce its prepetition secured debt obligations by \$40 million through a mandatory exchange of certain existing Series 2018 bonds for certain new Series 2022 bonds. In addition, certain existing Series 2018A bondholders

committed to purchase new series 2022A bonds, which will be senior in priority to other restructured bonds and the proceeds of which will be loaned to the debtors to fund working capital needs and capital expenditures for a four-year period following emergence from Chapter 11.

The debtors also sought and obtained approval of bidding procedures in connection with the sale of their assisted living and memory care facility located in Leesburg, Florida known as the Vista Lake facility. 11722 N 17th LLC will serve as the stalking horse bidder with a \$4 million cash bid. The deadline to submit additional bids is March 28 and an auction, if necessary, is scheduled to take place on March 31.

On March 3, the court approved the disclosure statement accompanying the debtors plan of reorganization and scheduled a hearing on confirmation of the plan for April 27.