

TAKE A BREAK BULLETIN



CAPITAL GROUP

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Another Source of Business By Fred Leder

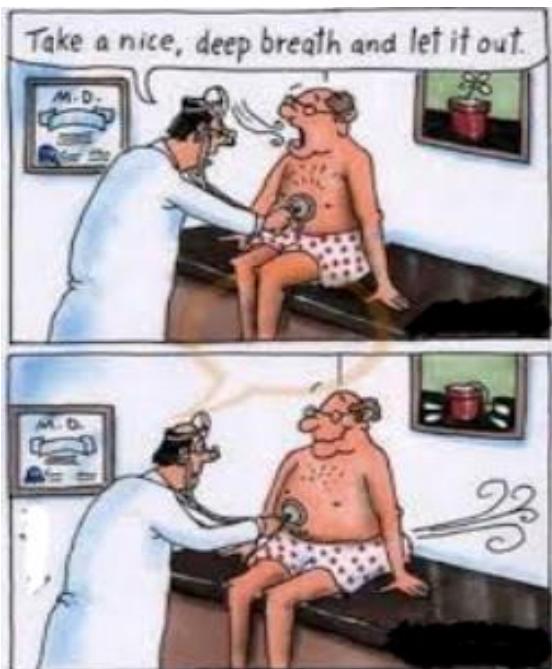
How do businesses get into trouble? Growth and reduced profits

When a business is looking for capital investments to either get started or to fuel the next stage of growth, the lender, venture capitalist or other source will want a detailed report of growth milestones and how the business will successfully absorb and accommodate them. Unfortunately, a business will sometimes fail to anticipate the magnitude of growth and ends up in trouble.

The next issue is reduced profits. If a business (or healthcare facility) is no longer maintaining their profit margin but is still profitable, it too can suffer and slip into financial distress. Medicare as we know from the news reports has cut reimbursements and plans for more in the near future.... the prognosis, trouble.

The problem at this point is a lack of capital to sustain rapid growth or to sustain existing business. So, does it close down? Probably not, the business has orders backing up, deliveries to be made and customers (or patients) to be serviced. The choice that is quite frequently made is Chapter 11 reorganization (bankruptcy). This form of bankruptcy is not designed to sell the assets of the company and pay all the debts. What it will do is to tell all of the creditors (businesses that are owed money)

"we know we owe you money, we have a good business, we have a plan to get right-side-up and we will pay you what you are owed."



The key component for this reorganization is to show a plan that will result in a) the past debts being paid off and b) current business maintaining or growing. Factoring is of tremendous use when developing a reorganization plan as the working capital grows with the ability to generate new invoices or treat patients. The courts and the trustees usually jump at the opportunity to get a factor on board to the point of forcing the creditors to take a subordinate security interest in the bankrupt business's receivables in order to protect the factoring relationship.

Your source of new business can be found in building relationships with bankruptcy lawyers,

researching bankruptcy filings and learning about how these proceedings work. Highly common are small regional hospitals that cannot close down because of the needs of the community, yet due to reduced reimbursements have cash flow stress.... so they file Chapter 11. Your ability to get to know bankruptcy attorneys can get your business to a new level.

Saint Patrick was actually born in Roman Britain at the end of the 4th century AD and taken to Ireland by slavers when he was a teenager. The exact place of his birth is debatable as some say Scotland and some say Wales but, either way, he's Irish now.