

Find Solutions For

- + [Debt/Bankruptcy](#)
- + [Energy/Commodities](#)
- + [Global Trade](#)
- + [Private Equity](#)
- + [Risk & Compliance](#)
- + [Venture Capital](#)
- + [Events](#)

Upcoming Dow Jones Events

Venture Capital
Private Equity

 **Bankruptcy Beat**

[The Daily Docket: Big Frowns for Small Smiles Slavery Museum Files Bankruptcy-Exit Plan](#)
[The Daily Docket: No MF Global Customer Money Found at J.P. Morgan](#)
[The Broke and the Beautiful: Busey Redux Edition](#)
[The Daily Docket: Lehman Seeks to Subpoena Geithner](#)
[Guggenheim, Other Funds Divulge Stakes in Global Aviation Debt](#)
[Dodgers Bidders Prepare to Round Second Base](#)
[The Daily Docket: Kodak Can Keep Borrowing On Loan](#)

Daily Bankruptcy Review

Free sample article courtesy of Dow Jones Daily Bankruptcy Review

[Print](#) | [Email](#)

Operator Of Small Smiles Chain Files For Chapter 11 Protection
By Katy Stech 21 February 2012

The financially struggling operator of Small Smiles Dental Centers, whose 67 clinics have treated more than 1 million underprivileged children but have also been the target of a government investigation and a television news expose, filed for Chapter 11 bankruptcy protection to begin the process of selling its operations to repay its debts.

Running low on cash, the chain's Tennessee-based owner, Church Street Health Management LLC, sought Chapter 11 bankruptcy protection in U.S. Bankruptcy Court in Nashville, Tenn., on Monday, citing the strain from a \$24 million settlement with the U.S. Department of Justice and a television investigation that questioned whether dentists at its locations were too harsh on their young patients.

The company said its network of centers, which are spread across 22 states, will continue operating normally throughout the bankruptcy, but it warned in court papers that it risks collapse if its executives can't pull off a sale quickly.

"If the [company and its affiliates] are not able to consummate the sale, their financial limitations would lead to an orderly but relatively quick shutdown of all operations," wrote Martin McGahan, Church Street's chief restructuring officer, in court papers. McGahan took on his post in October as the company searched for buyers.

The company doesn't have a finalized offer for its assets, but a preliminary offer from distressed-debt investor Garrison Investment Group emerged as the best deal after several weeks of searching for buyers, the company said in court documents.

Mitchell Drucker, co-head of Garrison's corporate finance group, declined to say the value of the offer, which the company would likely use as an opening bid at an April auction.

McGahan said the company's centers help fill a health-care void within poor neighborhoods, where children suffer from more dental decay than their middle- and upper-class peers.

Despite that, dentists are reluctant to operate there, Church Street said in court papers. Children in low-income families technically have access to Medicaid, but federal agencies have pointed out that many dentists are hesitant to take on Medicaid patients because they have a high rate of breaking appointments and their services typically have high administrative costs and low reimbursement rates.

Last year, more than 90% of the company's revenue came from Medicaid. In court documents, the company said its contractual revenue topped \$138 million.

"The company has developed a successful business model that enables the dental centers to focus on providing high quality dental care to Medicaid and [State Children's Health Insurance Programs] children without having to worry about administrative and other factors that ordinarily deter dentists from treating these children," McGahan said in court papers.

But Church Street's finances suffered after it agreed to pay a \$24 million settlement to the Justice Department, which accused it of charging millions of dollars for services that children didn't need. In that settlement, the company didn't admit wrongdoing, but the deal triggered a round of separate inquiries led by state attorneys general.

Meanwhile, a news report that aired on Good Morning America and other news broadcasts put a spotlight on the company's treatment of its patients, featuring footage of children screaming during their procedures.

Citing the news report and the Medicaid investigation, more than 100 patients have collectively filed law suits against Church Street in states like Ohio, New York and Oklahoma. The company's insurance policy refused to cover the costs of those law suits.

The company's bankruptcy filing largely shields it from additional law suits during the Chapter 11 case.

Church Street executives launched an expensive, multimillion campaign to fight the negative publicity "to educate the media about the profound treatment needs of its patient population," which placed an additional strain on finances.

The company plans to hold an auction for its assets in early April, allowing enough time for the sale to close by April 30. But even if higher bids emerge to challenge an initial offer, the company said it's unlikely that the final sale price will be high enough to pay off lenders in full.

The company said it owes about \$153.8 million to senior lenders and another roughly \$76 million to lower ranking lenders. The company did not identify most of its lenders.

About Daily Bankruptcy Review
Dow Jones Daily Bankruptcy Review is an e-newsletter delivering breakthrough news about distressed companies, with in-depth analysis of U.S. bankruptcy court cases

Please [click here](#) for more information or a free trial.

 **Daily Bankruptcy Review**

[Judge Clears Dodgers To Move I With Chapter 11 Plan](#)
[Judge's Decision Means More C&L Lehman Creditors Soon](#)
[Judge Gives Nebraska Book Until To File New Plan](#)
[High Leverage Haunts Developer](#)
[Debt Payment Looms](#)
[GM In Talks With France's Peugeot On Possible Alliance](#)
[Edinburgh Woollen Mills Buys U.K. Peacocks Retail Chain](#)
[Judge Throws Out Some Madoff Against Italian Bank](#)
[Dealers Joust With Saab Cars Over Bankruptcy Location](#)
[Operator Of Small Smiles Chain Files Chapter 11 Protection](#)
[ConAgra, Union Pension Object To Hostess Withdrawal Bid](#)
[Azeri Socar Confirms Interest In](#)

Web Blogs

lower-ranking lenders. The company did not identify most of its lenders.

Church Street said it will also ask to tap a \$12 million bankruptcy loan that it could use throughout the case to keep its centers running.

The company's 72-worker headcount doesn't include the employees who staff its dental centers, which are owned separately by licensed dentists. Those individual clinics were not part of the Chapter 11 filing.

The company's bankruptcy case, numbered 12-01573, has been assigned to Judge Keith M. Lundin.

Document DJFDBR0020120221e82lnzoto

(c) 2012 Dow Jones & Company, Inc.

Share : 

[Print](#) | [Email](#)

[Subscribe Now](#) to Dow Jones Daily Bankruptcy Review