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Democracy Dies in Darkness

The wave of covid bankruptcies has begun

A year into the pandemic, bankruptcies have soared for businesses in real estate, energy, retail and other industries that can no longer pay their bills

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A New Albany, Ohio, music school offering piano, guitar and violin lessons racked up under nearly $1 million in loans and $35,000 in credit card debt.

A fine-dining restaurant in Providence, R.I., received more than $450,000 in federal small-business funds to help pay workers but still had to close its doors.

A nonprofit overseeing the Kit Carson Home and Museum in Taos, N.M., welcomes visitors to learn about the famous frontiersman but listed just $17,000 in assets even after every bone-handled knife, buffalo hide apron and flintlock musket had been tallied.

Nearly a year since coronavirus-related shutdowns began affecting large swaths of the American economy, more businesses are filing for bankruptcy as Chapter 11 filings were up nearly 20 percent in 2020 compared with the previous year, court records show.

Data on a subset of businesses — those registered as corporations — shows that some sectors are faring much worse than others, with restaurants, retailers, entertainment companies, real estate firms and oil and gas ventures filing for protection in far greater numbers than in previous years, according to New Generation Research.

Bankruptcies filed by entertainment companies in 2020 nearly quadrupled, and filings nearly tripled for oil and gas companies, doubled for computer and software companies and were up 50 percent or more for restaurant owners, real estate companies and retailers, compared with 2019, data from the research firm shows. Among those industries most affected, there were 5,236 Chapter 11 filings in 2019 but 6,917 last year, a tally at least 30 percent higher than any of the previous four years.

Economists are predicting strong economic growth this year overall. But the bankruptcy data show that despite $3.7 trillion in federal stimulus spending to combat the recession triggered by the pandemic, and another $1.9 trillion being proposed by President Biden, businesses in certain industries have become particularly vulnerable and may take years to recover enough to pay their bills. Others will not recover at all.

Other sectors have so far not fared as badly as one might expect, as only 77 hotel or gaming companies filed for protection in 2020, down from 92 in 2019 — a year when the tourism industry thrived.

Because bankruptcy filings lag other signals of economic distress, experts say the worst may be yet to come. Bankruptcies stemming from the 2007 financial crisis didn't peak until 2010.

“Bankruptcies don’t cause damage to the economy," said Ed Flynn, a consultant to the American Bankruptcy Institute. "The damage has already been occurred when the bankruptcy is filed. Higher bankruptcies is more a symptom of economic harm than the cause.”

Michigan-based BarFly Ventures operated three small restaurant chains — HopCat, Stella’s Lounge and Grand Rapids Brewing — and had more than a dozen restaurants throughout Michigan and down to Florida at its peak. Although BarFly received $6.6 million in Paycheck Protection Program funds from the Small Business Administration, the company was forced to lay off staff and close some locations permanently, according to filings. It filed for bankruptcy in June.

“BarFly has faced a number of challenges in recent years, including increased industry competition and craft beer saturation,” founder Mark Sellers announced. “However, we were meeting these challenges, and operationally the business was sound until the recent global pandemic pushed us into an unforeseen economic crisis and a 100 percent drop in revenue for almost three months."

BarFly owed more than $1.7 million to a food provider, according to its bankruptcy filing. Sellers said he hoped the move would “allow us to emerge as a financially stronger company." In October, BarFly announced it was being purchased by two investment firms.

Restaurants have been one of the hardest-hit sectors on almost every measure during the pandemic, and experts say the worst of the fallout is likely still to come.

“Restaurants I know are having a hard time. And it’s just a question of when they are going to file," Los Angeles bankruptcy attorney Rosendo Gonzalez said.

Gonzalez, who serves as a court-appointed bankruptcy trustee in some cases and represents other companies for their own filings, said restaurant clients he has talked to are either closed or hanging on by a thread. Some will just walk away from their locations and not bother filing, he said. Others may wind up filing for Chapter 7, meaning all of their assets are liquidated and they do not reopen.

"I think there is going to be an increase across the board, of all types and chapters. I just don’t know when it’s going to happen,” he said.

Real estate start-up Knotel, which helps companies book flexible office space, raised hundreds of millions of dollars and competed with WeWork following its 2016 founding by entrepreneur Amol Sarva.

But as working from home became the norm during the pandemic, the need for office space dissipated, and the company filed for bankruptcy last month. “The pandemic created a uniquely challenging operating environment,” Sarva said. Knotel is being acquired by the real estate services firm Newmark Group.

As the value of retail and office space has plummeted during the pandemic, it has plunged development projects underwater, meaning the values of the properties are lower than the amount the owners owe. Jim Hammond, chief executive of New Generation Research, said real estate companies with heavy debts will be at risk.

"Even a return to normal may not be enough to save them.” Hammond said.

Despite the increase in business Chapter 11 filings, there is good news. Because this category of bankruptcy provides filers with protection from creditors for a limited time, it allows them to reorganize and sometimes remain in business. Some, including a day-care center in suburban Boston and a specialized manufacturer outside Detroit, are being purchased or transferred to new management, according to court filings.

Companies with many subsidiaries are among the filers, which may make some industries appear to be worse off than they are.

And other types of bankruptcy filings, those for individuals and those from businesses planning to liquidate (rather than reorganize) were both down by about 30 percent in 2020 compared with 2019 levels despite the economic pain wrought by the coronavirus. Early data for 2021 show slightly fewer large bankruptcies have taken place so far compared with last year.

Experts said those decreases could be signs that federal and local stimulus efforts have at least delayed many individuals and businesses from hitting bottom.

“I think the fall in individual bankruptcies is a factor to some degree of mitigating government interventions: stimulus, moratoria on rent payments, and a function of having to be locked down and courts being limited,” Hammond said.

Hundreds of bankruptcies that have already taken place are clearly a byproduct of the pandemic and its nearly year-long squeeze on the economy. Many of them will not recover.

Over the summer, chain retailers became some of the biggest names to file for Chapter 11, among them J. Crew, Neiman Marcus, J.C. Penney, Brooks Brothers and Lord and Taylor. In June and July, there was an average of more than two corporate bankruptcy filings per day, according to S&P Global.

It isn’t clear yet if retailers’ woes will return to those summer levels, said Chris Hudgins from S&P. “It’s hard to tell. We’re at the point where hopefully vaccines are right around the corner, so it could be that companies hope that things more or less get better," he said.

Retailers’ woes have begun to trickle down to some of their suppliers, however. On Feb. 15, Country Fresh, a provider of fresh fruit snacks, salads, sides and soups to convenience stores and other markets, filed for Chapter 11. Based in the Houston, the company listed hundreds of thousands of dollars in debts to packaging, logistics, shipping and marketing contractors.

“Pandemic-related supply chain and business disruptions have affected Country Fresh and our customers dramatically over the past year,” said Bill Andersen, Country Fresh president and chief executive. He said the company and its assets would be sold.

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