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3rd Circ. Upholds Alecto Health's Small-Biz Ch. 11 Plan

By **Emlyn Cameron**

Law360 (July 28, 2026, 6:12 PM EDT) -- The Third Circuit affirmed Tuesday that hospital owner Alecto Healthcare Services' streamlined Chapter 11 and the resulting plan confirmation withstood an appeal by a creditors' group.

In a precedential opinion, the Third Circuit stood by a lower court's finding that Alecto's Subchapter V filing was valid because Alecto hadn't gotten a written demand related to one of its debts before it entered bankruptcy, the opinion said. The subchapter, designed to help small businesses, is for entities with debts under a given threshold.

Additionally, a settlement Alecto struck dropping insider claims in exchange for $25,000 was reasonable. As such, the company's Chapter 11 plan had been appropriately confirmed despite an objection based on the settlement, the appellate court concluded.

"The reorganized debtor is pleased with the court's opinion," Jeffrey R. Waxman of Morris James LLP, Alecto's counsel, told Law360 on Tuesday.

The decision affirmed a federal district court's ruling that itself stood by decisions made by a Delaware bankruptcy judge.

Alecto, which acquires and runs distressed hospitals, sought Chapter 11 protections under Subchapter V in June 2023 with roughly $11 million in unsecured claims. In December of that year, U.S. Bankruptcy Judge J. Kate Stickles decided the company's debts were beneath the cap on Subchapter V filings, despite an objection from a group of claimants known as the Reed Action Judgment Creditors.

The Reed action plaintiffs — whose claim arose from a court judgment under the Workers Adjustment and Retraining Notification Act — had asked the court to revoke the Subchapter V designation. The claimants said a debt owed to LHP Hospital Group Inc. was liquidated and not contingent due to the underlying documents governing the lease payment guaranty among Alecto, a nondebtor affiliate and LHP.

Judge Stickles disagreed and said the debt owed to LHP under a 2014 medical facility lease purchase agreement didn't count against the $7.5 million cap. Then, in March 2024, Judge Stickles agreed to approve Alecto's plan to emerge from bankruptcy over objections, including from the Reed claimants.

The Reed claimants' issues with the company's plan had included that Alecto's officers and directors would be released from claims against them in exchange for paying a settlement of $25,000.

The U.S. District Court for the District of Delaware eventually backed those decisions, after which the Reed claimants took their arguments to the Third Circuit. Alecto asked to dismiss the appeal as moot, but the Third Circuit justices declined to do so, according to Tuesday's opinion.

However, turning to the substance of the dispute, the judges sided with Alecto, according to the filing.

"The bankruptcy court correctly concluded that the LHP debt was contingent and unliquidated and thus properly rejected the Reed Creditors' objection to Alecto's Subchapter V petition," the filing said, because LHP had been required to file a written notice of the debt, which it didn't do until after the bankruptcy began.

Additionally, the debtor couldn't have precisely determined the debt ahead of time because it didn't receive invoices, and the amount due changed month by month, the Third Circuit said. As for the settlement, the bankruptcy court hadn't abused its discretion in approving it, and the confirmation order stood, the opinion said.

Representatives for the Reed claimants did not immediately reply to requests for comment Tuesday.

Alecto is represented by Carl N. Kunz, Jeffrey R. Waxman and Douglas N. Candeub of Morris James LLP.

The Reed Action Judgment Creditors are represented by Maureen Davidson-Welling and John E. Stember of Stember Cohn & Davidson-Welling LLC, William A. Hazeltine and William D. Sullivan of Sullivan Nimeroff Brown Hill LLC and Bren J. Pomponio of Mountain State Justice.

The case is The Reed Action Judgment Creditors v. Alecto Healthcare Services LLC, case number 25-1853, in the U.S. Court of Appeals for the Third Circuit.

The underlying bankruptcy is In re: Alecto Healthcare Services LLC, case number 23-bk-10787, in the U.S. Bankruptcy Court for the District of Delaware.

--Additional reporting by Vince Sullivan, Rick Archer, Clara Geoghegan, Adam Lidgett and Emily Lever. Editing by Rich Mills.
