By the spring of 2016, Solid Landings didn’t have the resources to keep fighting the city of Costa Mesa. It made “a business-driven decision” to withdraw its legal proceedings against the city, and, in a settlement agreement, agreed to shut down 33 sober living homes. Fifteen closed immediately. (Photo by Michael Goulding, Orange County Register/SCNG)
Stephen Fennelly was at the top of his game and it seemed like there was nowhere to go but up. After rough times in Connecticut – including arrests for narcotics possession, larceny and weapons offenses – the former home builder had conquered his drug problem, hung up the hard hat and donned a sharp suit.

The new Fennelly was the passion-driven chief executive of a swiftly-expanding addiction treatment empire in California.

Solid Landings Behavioral Health started out in 2009 with a handful of workers and rode a cresting wave of opioid addiction – and ballooning insurance coverage – to what appeared to be fabulous success. By 2015, Solid Landings employed 1,200 and the number of addicts seeking its help quadrupled to 3,000 a year. Fennelly was named one of O.C.’s most influential people, Solid Landings was voted one of O.C.’s top workplaces, and his pay exceeded $82,000 a month. He bought a luxury condo in the Trump International Hotel & Tower in Las Vegas – complete with white-gloved doormen, valet parking, 24-hour concierge service and spectacular views – for $1.77 million in 2015, according to property records.

The company’s co-founders – Fennelly’s girlfriend Elizabeth Ann Perry, who had worked as an accounting manager and marketing associate, and Fennelly’s school pal Mark Shandrow, a Long Beach realtor – found financial success as well, each earning more than $40,000 a month by early 2016, according to court filings. The trio formed numerous enterprises together, including property and rehab management companies and a charitable foundation. Solid Landings grew at breakneck speed.

The key to their success as a recovery provider, Perry said in an interview with Psychology Today, was the breadth of their offerings, including holistic treatments as well as traditional ones, an emphasis on giving back to the community and comparably low cost. The “scholarship cash rate” was $18,500 for 30 days and $39,500 for 90 days, Perry said.

But last month, in a stunning turn-around, Solid Landings filed for federal bankruptcy protection. Four of its affiliates followed suit. Assets of $4.9 million were dwarfed by liabilities of some $12 million. Income had plummeted from $117.6 million in 2015 to just $1.1 million this year. The turn-around company brought in to save it now wants to buy it – and the company’s creditors are crying foul, charging it with insider dealing.
Founder Fennelly – who was relieved of his duties by the turn-around company in March, and refused to sign off on the purchase agreement – might be inclined to agree.

“I started getting pushed out by Alpine Pacific in September of 2016,” Fennelly said. “We were told we were going to be able to sell our company and pay our debts – never for a profit at this point, just to pay our bills. We had an offer of $1 million for our Las Vegas property that was turned down. We had another deal shot down in February of 2017 for our Texas facility. We've blown through hundreds of thousands of dollars dragging Solid Landings through the mud. When you look at the information we have now, you wonder if it was shot down because someone else was trying to get the company for pennies on the dollar. It doesn't take someone with a master's degree to see what has happened.”

But beyond the business mistakes, the bankrupt company faces myriad lawsuits and threats of litigation, from claims of unpaid wages and wrongful termination by former workers to an active investigation by the California Department of Insurance, according to documents.

This is a tale of rags to riches to rags, of an organization expanding at a pace it couldn't sustain, of crippling blows from health insurers that sued for fraud or simply stopped paying for services, of the frost cast by governmental investigation. From where Fennelly sits, it's a painful lesson about which financial advice to follow and which to ignore, about the wisdom of scaling back when you hit bumps in the road rather than taking out loans to ramp up, thinking you'll weather the storm.

It could also be a sign that what Wall Street analysts predicted years ago is finally coming to pass: an industry that's gone wild in the wake of Obamacare's mandated health insurance coverage for addiction treatment is in mid-shakeout. The money spigot is drying up. Bubbles are bursting as scrutiny intensifies.

Some welcome change, saying it will ease pressure on those who want to play straight in the rehab world. But others fear it, saying more scrutiny could reduce treatment options precisely as America's opioid epidemic reaches yet another all-time high.

The Southern California News Group recently investigated the addiction industry and found it peppered with financial abuses that bleed untold millions from public and private pockets, can upend neighborhoods and often fails to set addicts on a path to sobriety. The revolving door between detox centers, treatment facilities, sober living homes and, often, the streets generates huge money for operators who know how to game the system. And even obvious fixes can be hard to make.

California's lax regulation of the industry has been attacked for myriad failings over the years. But its abandonment of the "certificates of need" system – where would-be rehab operators must prove there's a local demand for their services before opening – is a key reason why Southern California has become known as The Rehab Riviera, the epicenter of addiction treatment, importing patients from other states.

Four counties – Los Angeles, Orange, Riverside and San Bernardino – host more than half of all licensed rehabs in California, and thousands more unregulated sober living homes.

Solid Landings has not been accused of any wrongdoing by officials. But in this booming landscape, with more than 1,100 licensed centers between Malibu and Lake Arrowhead and San Clemente, bankruptcies are rare.

“it's surprising for me to see a flat-out bankruptcy. I don't know what they could have done to do that,” said Dexter Braff of The Braff Group, a mergers-and-acquisitions firm specializing in health care services. “it's not like there's not a real demand out there. If you're not doing it stupidly, there's money to be made.”

Braff stressed that he was commenting on the general state of the industry, and not on the specifics of Solid Landings' woes. The industry is populated by extraordinarily-dedicated people, he said – people who are almost proselytizing in their zeal to help others overcome addiction.

"The money is nice, but that's not why they got into it,” Braff said. “It's a mission to them.”

What happened?

Fennelly asks himself that every day, he said.

When Solid Landings opened its first sober living home in Costa Mesa in 2009, clients often paid cash because addiction treatment wasn't covered by most health insurance policies, its bankruptcy filings say. But then came the Affordable Care Act in 2014, changing the game entirely. By 2015, some 95 percent of the company's revenue came via reimbursements from commercial insurance companies.

To meet the sudden, surging demand, Solid Landings grew exponentially, opening dozens of inpatient and outpatient centers and sober living homes – as well as three clinical medical laboratories – in Texas, Nevada and California over the span of just a few years.

The business model posed challenges from the get-go, its filings said. Solid Landings grew to have nearly three dozen houses and centers in Costa Mesa alone – most with six or fewer residents – which “presented operational inefficiencies with, among other things, staffing and patient transportation.”
Things grew more complicated – and expensive – after Costa Mesa neighbors complained bitterly that their once-quiet residential streets had morphed into noisy, smoky, drug-treatment campuses. The city took action with an ordinance requiring 650 feet between sober living homes in 2014, which severely restricted the ability of Solid Landings and other operators to do business, its filing said.

Solid Landings then did what many providers have done: It sued the city in federal court. Costa Mesa's ordinance discriminated against the disabled, they argued, and addicts are, by law, disabled.

As the legal battle wound its way through the system, Solid Landings' Nevada and Texas centers used more centralized models. Cedar Creek opened in Austin in May of 2015; Silver Rock opened in Las Vegas that June. It added toxicology testing services to the mix, developing the three clinical medical labs. Such labs are vital to the rehab business: Urine is tested to ensure clients are drug-free as often as every other day in some rehabs. Also, insurance billings for these tests have provided a lucrative stream of revenue. The relationship of rehab centers and self-owned medical labs has become a focus for investigators.

Publicly, in the fall of 2015, Solid Landings was crowing about its growth, touting more than 550 beds, 3,000 clients a year, and 1,200 employees. But clouds were darkening the horizon.

The legal battle with Costa Mesa was dragging on, racking up legal bills of hundreds of thousands of dollars. There was a death at one of its Costa Mesa facilities, and the state moved to revoke that license. It was hit with multiple lawsuits, including at least five wage-and-hour suits from employees.

Solid Landings hired investment banking firm Brentwood Capital Advisors, seeking a sale or equity recapitalization of the businesses. There was interest, its bankruptcy filings said – but marketing efforts ceased in December 2015, “following challenges to complete a quality of earnings analysis.” The documents do not say precisely what those challenges were.

A third-party lender, CapStar Bank, swooped in with $7.5 million in secured financing for Solid Landings that winter. Two of the three toxicology labs were sold. A decision that Fennelly now views as fateful was made: Billing operations would come in-house in 2016, rather than being handled by an outside contractor.

Spigot: off

It would not be enough. Health insurers, aghast at exorbitant billings gushing in from many addiction treatment centers, began cracking down.

Reimbursement rates were slashed to providers like Solid Landings, and the pace of those reimbursements slowed. Some insurers, such as Cigna and Health Net, ceased payments altogether, bankruptcy filings said.

And there were allegations of fraud.

In a federal lawsuit filed in Florida, UnitedHealthcare accused Solid Landings of forging medical authorizations for urine tests to a company called Sky Toxicology, for which Sky paid Fennelly and Perry $30,000 per month each in kickbacks.

“(T) thousands of UA tests submitted to Sky Toxicology, Ltd. from Solid Landings, LLC’s facilities were never ordered by physicians or contained forged physician authorizations,” United's suit said. “Physicians interviewed by United, who allegedly authorized UA tests on Solid Landings, LLC’s patients and referred them to Sky Toxicology, Ltd., informed United that they never authorized any UA tests and that documents claiming otherwise were forged and/or fraudulent.”

Lawyers for Solid Landings struck back, arguing that United failed to link Fennelly's and Perry's conduct to the insurer’s “alleged injury” at Sky's hands. “The Solid Landings Defendants have treated hundreds of patients with life-threatening addictions, many of whom have no future unless they find recovery,” Solid Landings' lawyers said in response. “This patient population is predisposed to relapse, which is both avoided and discovered through the use of urinalysis ("UA") tests. (United) has determined retrospectively that it paid too much for UA testing, and seeks here to recover that money...”

United sued under a Florida state law forbidding deceptive and unfair trade practices – a law that could not be called upon in federal court to extend to Solid Landings, operating in California, Solid Landings' lawyers said. A federal judge in Florida dismissed the suit late last year. United vowed to refile.

Fennelly said there was no forgery and nothing irregular about its dealings with Sky. But Solid Landings' new, in-house billing operation was simply in over its head, he said, unable to process admissions and billings to insurers in a timely manner. “We couldn't keep up with it,” he said. “It was really hard to track everything.”

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The company brought in new senior management, including Gerik Degner of Alpine Pacific Capital LLC, and that's when Fennelly and his co-founders began to lose control of it, Fennelly said. Solid Landings defaulted on its loan obligations to CapStar in June 2016, and CapStar agreed to allow “an opportunity to pursue and consummate a sale” of its businesses.
In October, Solid Landings was hit with an investigative subpoena from the California Department of Insurance. It was exhaustive, demanding that the company hand over an enormous trove of documents on everything from the nonprofit, Solid Landings Foundation, to records of money used to buy insurance for clients, to protocols used for urine testing, according to the subpoena.

In 2017, Solid Landings' footprint in California, Nevada and Texas shrank to 133 licensed beds in just 10 facilities. Still, the company continued to fall behind on payments to vendors and landlords.

On June 1, Solid Landings worked out a deal in which Alpine Pacific would buy Solid Landings for $9 million. But Solid Landings' creditors object, saying the deal would give the company's creditors nothing. The sale price doesn't match up with the company's remaining value, and creditors haven't been given enough time to examine it. A hearing is slated for Wednesday, July 26.

Meantime, those who remain on the front lines of treatment are trying to do their jobs. But the stress is palpable, according to an update from the company's patient care ombudsman, filed in bankruptcy court. "The Southern California program was dramatically reduced over a series of staff reductions that preceded bankruptcy. Accordingly, the program is minimally staffed, particularly so in counseling and nursing... the Southern California team reported a higher level of anxiety awaiting clarity on future ownership and operations...."

Although he hasn't been paid since March, Fennelly said, he's still on the phone every day, looking for buyers, looking for options.

"At the end of the day, my goal is to have enough money to satisfy all the creditors. I have to see this thing through," he said. "This is my passion. We built this program and had a tremendous amount of success because of the way we treated people. We faced some significant challenges, took some bad advice, and put ourselves in a major predicament. I want to make sure that when the doors are shut and the lights are off, we can say we did everything we can."

Fennelly's condo in Las Vegas, meanwhile, is on the market for $2.2 million.