Alternatives to Bankruptcy

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NAVIGATING CHANGE IN DEMANDING TIMES

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Why We’re Here

The goal isn’t to avoid court. It’s the best outcome.

1

What are we really here to do?

Start with what success means for this situation, not with the deliverable.

2

Why couldn’t they fix this themselves?

The answer is usually the issue nobody in the room is saying out loud.

3

What does a good outcome look like?

Sometimes a successful bankruptcy. Often an outcome that wouldn’t have happened without us there.

Bankruptcy is one tool for getting there. It is rarely the first one I’d reach for.

Roadmap

Four questions, in the order I’d ask them

1

PART 1

Why Chapter 11 is “Plan Q”

What it really costs, what it really buys, and the test I’d apply.

2

PART 2

The first 48 hours

How much runway is there, and how does this end?

3

PART 3

The out-of-court toolkit

Operational, lender, lease, asset, and sale solutions.

4

PART 4

Making it stick

Credibility, communication, and no sneak attacks.

Plan Q, not Plan A: the rest of the hour is about everything that comes before it.

Part 1: Why Chapter 11 Is “Plan Q”

Bankruptcy is a tool, not a strategy

What a Chapter 11 Really Costs

Dollars are only part of the bill

$6M+

Hard to run a case for less today, and that's the cheap end

$7–8M

More typical all-in cost in our recent experience

Time

The court sets the calendar, not the company

Noise

Customers, vendors, and employees all read the filing

Cost and time tip the scales: can the business afford the case, and survive it?

Figures reflect SCP's recent experience; every case differs.

What the Court Gives You

Real tools, and every one has a price

What you get	What you pay
Automatic stay: collection and litigation stop	Professional fees on both sides, often including the creditors' advisors
Reject leases and burdensome contracts	DIP financing, plus a cash crunch as vendors demand cash up front
Sell assets free and clear (Section 363)	A public filing that customers and employees read as a headline
Bind many creditors through a single plan	Time: the case sets the calendar
Choose venue, timing, and which entities file	Shared control with a court and creditor committees

The Plan Q Test

Three questions before anyone files

1

Better on the other side?

Will the company be materially better off because of tools only bankruptcy offers: lease rejections, division sales?

2

Does the math clear?

Does the benefit clearly beat the cost of the case, in dollars and in damage to the business?

3

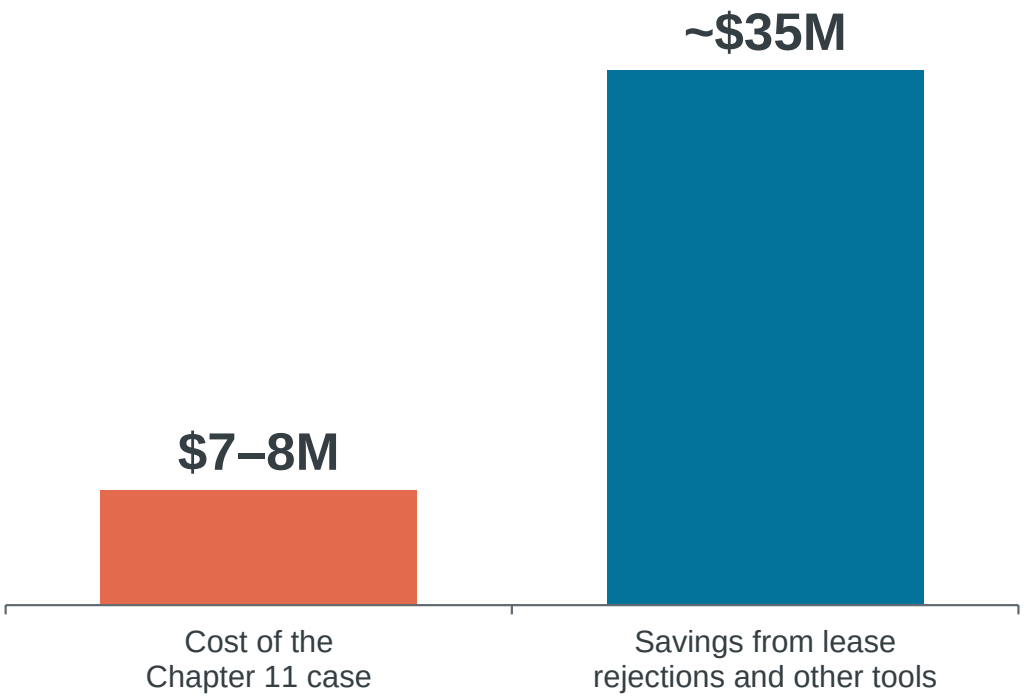
Can it withstand it?

Cash, time, and noise: can the business, its customers, and its vendors survive the process?

Then ask the last question: can we get the same result outside of court? If I can’t name a specific reason we need the court, I’d keep looking.

The Math: One Rare Clean Case

Project Thor: ~$7–8M to run the case vs. ~$35M of savings



Illustrative of one SCP engagement. Cost shown at the $7.5M midpoint of the $7–8M range.

Apples to apples

A DIP budget including the cost of the case, set against the chain of liabilities scheduled to be compromised.

Rare

That math is easy only when it’s this cut and dry. Most cases aren’t.

Even then, ask twice

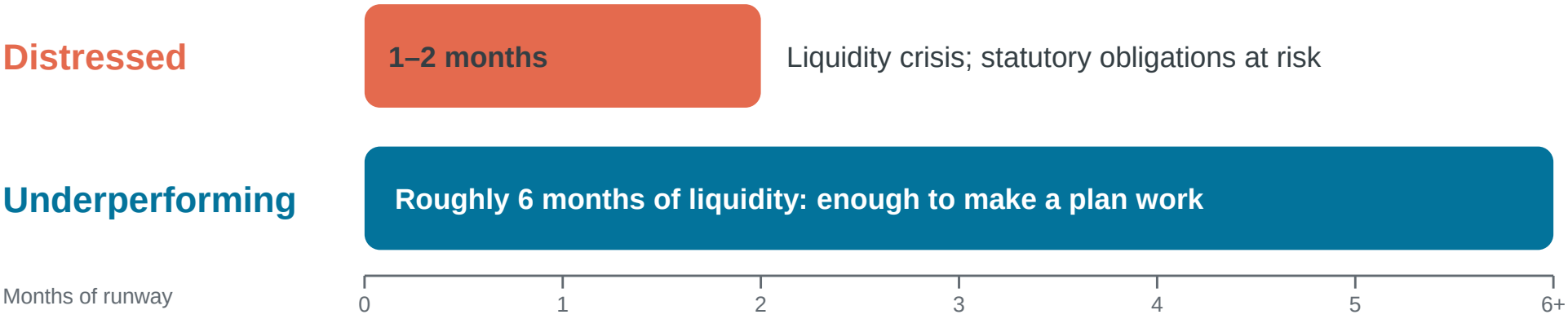
Could lease negotiations or selective asset sales get there without court?

Part 2: The First 48 Hours

How much time do we have, and how does this end?

Distressed vs. Underperforming

It’s a time question before it’s anything else



The prior gate

Does this business have a reason to exist? A product or service the world wants now or later, worth restructuring around.

Mind the red line

A runway estimate can shrink fast when liabilities nobody considered show up.

The First 48 Hours

How much time, and then, how does this end?

1

Real runway

Five-alarm fire or smoldering? Watch for the red line.

2

Motivations

Who are the players, and what does each one actually want?

3

How it ends

Form a hypothesis on the likely outcome.

4

The fulcrum

Where does the fulcrum security sit?

5

New money

Is any being funded, and by whom?

Listen for the throwaway comments. The spreadsheet gives you the meat; the aside gives you the color.

Who Has the Most to Lose?

Map motivations, then work the room

Company side

Management
Board
Owners and sponsor
Advisors

Plus the hidden influencer: a coach, a spouse, a friend

Fulcrum security holder
most to lose

Creditor side

Lenders
Vendors
Other creditors

Ask owners

More capital? Liability? The public narrative? Their answer sets the room.

A pattern worth naming

Sponsor-backed deals from 2021–22, underwritten on cheap money, that never hit plan. Not a crisis yet: inertia, marching toward default 12–18 months out, with lenders wanting their money back.

Then go one level deeper: from the institution to the individual.

A partner cares differently than the associate on the same deal.

Part 3: The Out-of-Court Toolkit

Run down almost every avenue first

The Spectrum

From a fix inside the company to a filing

1	**Operational turnaround**	Cash, contribution margin, and controllable cost: fixes inside the company
2	**Lender and equity solutions**	Time, amendments, forbearance, sponsor capital, new money
3	**Lease and asset deals**	Renegotiate leases; sell a division or selected assets
4	**Out-of-court sale (Article 9)**	A short, quiet sale when speed protects value
5	**Assignment for benefit of creditors**	A state-law path to sell or wind down without a filing
6	**Pre-negotiated Chapter 11**	Terms agreed with key creditors first; the court finishes the job



Operational Turnaround

Cash first, then contribution, then controllability

Cash

Cash tightens regardless. Longer timelines burn runway.

Contribution margin

Which products and services actually drop dollars to the bottom line?

Dead-weight inventory

Inventory that consumes cash and yields no contribution.

SG&A with a return

Is each investment earning its ROI, or was it bought for a growth plan that never came?

Back to the future

What did the company do when it was actually working?

Controllability

Lean on levers inside the company's control, not bluebirds landing on windowsills.

Plan off the low end of any range. Time, not analysis, is the binding constraint.

Lender and Equity Solutions

Time is often the cheapest thing a lender can give

Time and accommodations

Many sponsors and direct lenders would rather keep a case out of court, and will pay for that in time.

Read the credit agreement yourself

Administrative covenants (reporting obligations) are the real trip-wires. Restore the cadence and tell the lender first.

Start at the bottom of the stack

Will equity contribute, bridge, or stand aside? Then see who is willing to stand by.

Count the institutions

One bank or a small club

Often solvable outside of court, if nothing operational is broken.

Many holders to bring along

This is where the court's tools start to earn their keep.

Lease and Asset Solutions

Same result, no courtroom, when you can get there

Court tool	Out-of-court version	What it takes
Lease rejection	Landlord negotiation and lease amendments	A credible alternative, and a landlord who prefers a paying tenant
Division or asset sale in court (Section 363)	Selective asset sale or divisional sale outside of court	A willing buyer and a cooperative secured lender
One plan that binds every creditor	Consensual deal with the fulcrum holder and a few institutions	Few holders at the table

Take every court tool and ask: what's the out-of-court version of this?

Selling Outside of Court

Article 9 and ABCs: faster, quieter, and cheaper

Article 9 sale

A short sale of collateral, usually with the secured lender's cooperation, to a buyer who can recover most of the lender's money.

Assignment for the benefit of creditors

A state-law route to sell or wind down a business without a court filing.

Why quiet and quick matter

Customers and vendors can withstand a deal without headlines, and speed protects assets that are deteriorating.

A CASE FROM OUR FILES

~40¢

on the dollar, later

We recommended a short Article 9 sale. The lender chose a full process; the time ran the company out of money.

Sometimes the best outcome means moving faster. Sometimes it means looking under every rock.

Which Tool Fits?

Cost and time tip the scales

Tool	Best when…	Watch out for…
Operational turnaround	Roughly six months of runway and a business with a reason to exist	Needs time and real management buy-in
Lender and equity deal	Few institutions, and lender and owner want the same fix	A lender may want its money back, not more time
Lease and asset deals	The problem is a handful of leases or one division	Counterparties have to cooperate
Article 9 sale	Assets are deteriorating and a buyer can make the lender nearly whole	Lender must agree; value may be below a full process
ABC	A sale or wind-down where court tools aren’t needed	Fewer tools than a court case
Pre-negotiated Chapter 11	Key creditors are on board and court tools clearly pay	Cost, less flexibility, and milestones you can breach

Part 4: Making It Stick

Credibility, communication, and no surprises

What Makes a Plan Credible

Six things lenders and creditors look for

1 Communication

Number one. Companies stop answering the phone exactly when lenders most need to hear from them.

2 Detail

Specifics, not generalities: a clear path from point A to point B.

3 Deadlines

Target dates you hold yourself to, not “we’ll eventually get there.”

4 No worse off

Show creditors aren’t deteriorating while you execute, or that the upside is much higher if they are.

5 Controllability

Cost and efficiency levers inside the company’s control, not hoped-for revenue.

6 Do what you say

Follow through, deliver bad news fast, and build consensus before the big meeting.

The Options Deck

Show the plan beats the alternatives, and favor one

1 **How did we get here?**

A bridge from original expectations to reality.

2 **Where are we?**

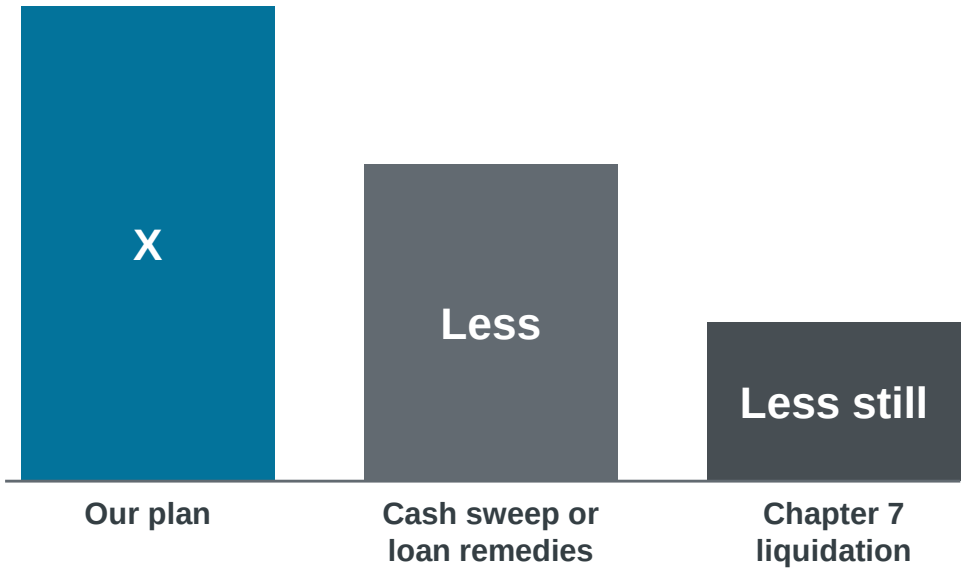
The 13-week cash flow, plus an 18–24 month medium-case P&L, balance sheet, and cash flow.

3 **Where are we going?**

The recommendation, with one option clearly favored.

Compare it to their other rights and remedies

Illustrative, not to scale



No Sneak Attacks

Constituent management is the secret sauce

The conversation that never happened

Before any board, lender, or sponsor call, talk to the key decision-makers one on one.

By the time the group meets, people are constructive instead of reactionary.

Bad news delivered for the first time in a group is a failure.

Be Switzerland

Never speak poorly of one constituent to another. It always comes back.

Read the room

Are they ready to hear it? Exercised over one thing? Already made up their mind?

Every voice is a data point

Don’t lean toward the loudest or the most recent. Draw your own conclusions.

Map motivations

At the institutional level and the individual level, and keep talking.

When Chapter 11 Is the Right Answer

Then do it deliberately, and prepared

It earns its cost when…

- The company will be materially better off using bankruptcy-only tools
- The math clearly clears the cost of getting there
- There are too many institutions to compromise consensually
- The business can withstand the cash, time, and noise

If you go, go negotiated

Negotiate first

Start with the secured lender or fulcrum holder; memorialize it in a restructuring support agreement.

Run parallel paths

Prepare the filing and the DIP financing while you negotiate.

Know the trade-off

Lower cost and a faster case, for less flexibility and milestones you can breach.

Keep Your Eyes on the Prize

Analysis is table stakes. The action is the differentiator.

1. **Chapter 11 is Plan Q. It needs a specific reason.**
2. **Time decides. Know the runway first.**
3. **Run down every out-of-court avenue before you file.**
4. **Plan around what you control, off the low end.**
5. **No surprises: communicate early, in private, with everyone.**

It's not a contest about who's right. It's about who pushes the situation to the actual outcome.

Questions?

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