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Northeast Bankruptcy Conference and Consumer Forum

Business Track

Advising a Small/Mid-Market Company in Distress

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Advising Small/Mid-market Companies in Distress: Alternatives to Chapter 11

NORTHEAST BANKRUPTCY CONFERENCE & CONSUMER FORUM
July 2026

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Today's Panelists



Steve Del Sesto
Attorney
Chace Ruttenberg and
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CR & F



Hon. John Dorsey
U.S. Bankruptcy
Judge
District of Rhode
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Jacques Santucci
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1 Summary of Your Session

Moderated panel discussion

- A dialog between 4 professionals
- This program will examine the range of restructuring and turnaround options available to distressed small and mid-market companies outside of a Chapter 11 proceeding.
- The panel will explore ways to evaluate strategic alternatives to Chapter 11, negotiate with creditors and other stakeholders, preserve enterprise value, and navigate financial distress or shareholder strife while minimizing costs and disruption.
- Through practical guidance, best practices, and real-world examples, attendees will gain tools for effectively advising clients on out-of-court solutions and determining when bankruptcy may or may not be the most appropriate path forward.
- This panel of experts will discuss real experiences and offer potential solutions for those confronted with a need for creativity in the world of insolvency.

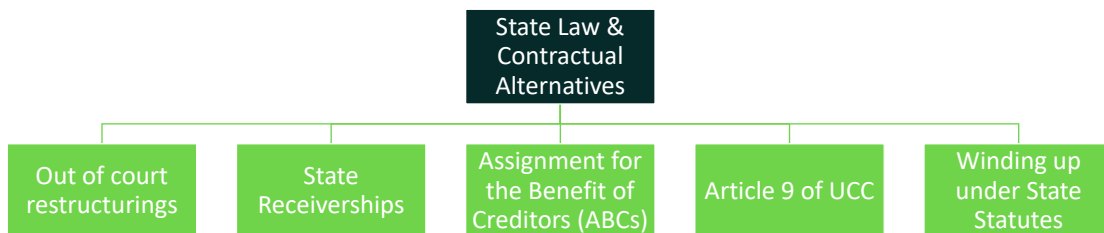
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2 Why Consider Receivership or Other Alternatives?

Federal Bankruptcy Protections may not be available or affordable

Understand the Issues, **Look at the Options** and Develop a Strategy



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3 Comparison with other options

Bankruptcy	Receivership
- Legal Action: Federal Proceeding through Bankruptcy Court - Action taken to protect a debtor from collection actions by creditors : Automatic Stay - Aimed at protecting the borrower, not the lender - Various forms: most commons - Chapter 7: liquidation - Chapter 11: restructuring - No or Limited Involvement of Selected Advisors - Makes sale of companies infinitely easier due to national jurisdiction	- Not A Legal Action per se: State Proceeding: Business Court most likely - Designed to protect the assets during an interim period : Limited Stay (court discretion) - Aimed at protecting the secured creditor's collateral (assets, cash, ..) until a solution is found and executed - Independent party handling the assets and remains in possession and control of those assets until discharged by the court - Party seeking the receiver usually recommends a certain receiver - Sale of a company in more than a couple of states can become unwieldy.

As of now, Bankruptcy filing is not available to Cannabis enterprises.

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3 Review of Options

Comparison Matrix

Issue	Chapter 11	State Receivership	ABC	Workout
Automatic Stay	✓	Court issued (may be limited)	No	No
DIP Financing	✓	Sometimes	No	No
Asset Sale	Section 363	Court-approved	Assignee	Negotiated
Contract Rejection	✓	Sometimes	Limited	No
Management Control	Debtor	Receiver	Assignee	Existing management
Cost	High	Moderate	Low	Lowest
Speed	Slow	Moderate	Fast	Fast

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4 What are the options?

Why Consider Receivership or Another Option?

Traditional Financing has not been generally available	Borrowers	Lenders
▪ Creating unusual financing and debt structure ▪ Use of Private Loans or Real-estate loans ▪ For-Profit vs. 'Non- Profit' structure	▪ Lack of awareness of all reps, warranties and covenants ▪ Impact of federal and state laws on financing ▪ Cost of financing (rates, equity or license pledge) ▪ Internal/Operational issue ▪ Covenants and Defaults clauses	▪ Limitations on enforcement of rights and access to collateral ▪ Limited access to the company assets, financial reporting and license control ▪ Lenders not interested in stepping in management/equity position

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4 When Bankruptcy isn't an option

Receivership is an alternative to bankruptcy

When Bankruptcy isn't an option: Receivership

- Seeking assistance from professionals to initiate a process wherein a "receiver" or "reorganization specialist" is appointed by a state court to manage the operation on a temporary basis and handle the reorganization of the company until the business is back on track or the assets are sold or liquidated.
- Goal: preserve and maximize the value of an operating business for the benefit of its stakeholders (similar to bankruptcy somehow), *while operation is ongoing, and license is active*
- **Receivership: a flexible way to resolve business and financial conflicts for the best outcome for all parties, while the operation is continuing**

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5 Review of Options

Bankruptcy Alternative Restructuring Playbook

Steps

1. Stabilize cash (can you?)
 2. Develop 13-week cash flow
 3. Communicate with secured lenders
 4. Vendor negotiations
 5. Standstill Agreement?
 6. Asset sales (what are they worth, what can you live without)
 7. New capital
 8. Evaluate insolvency risks
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6 Review of Options

Practical Tips

Top 10 Things to do Before Filing Anything

1. Review loan documents
 2. Confirm perfection
 3. Evaluate guaranties
 4. Review insurance
 5. Preserve books and records
 6. Analyze preferences/fraudulent transfers
 7. Understand fiduciary duties
 8. Obtain valuations
 9. Build liquidity forecast
 10. Prepare communications plan
-

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7 Review of Options

Emerging Trends & Additional Considerations

1. Rising interest rates and refinancing challenges
2. Increase in state court receiverships
3. Private credit replacing banks
4. Liability management transactions
5. Continued growth of out-of-court restructurings
6. Cannabis restructuring developments
7. Consideration of Sub. V

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8 An Industry with only access to alternatives

Cannabis is legal in 40 states for medical use and 24 states for recreational use But the Industry is going through turmoil

Size of Industry	Industry Sentiment
- Estimated to be a \$34 billion industry in 2025, (<i>not including hemp</i>) - \$124 billion as an economic contributor - By 2030, estimating 5%-10% annual growth rate - Some states are plateauing now.	88% of U.S. adults believe cannabis should be legal for medical or recreational use 74% of Americans live in a state where marijuana is legal for either recreational or medical use Jobs: ~445,800 full-time-equivalent positions - New States projected: Pennsylvania, Virginia - Mass.: ballot to eliminate recreational sales - DEA/HHS to pursue reclassifying cannabis from Schedule I to Schedule III, for Medical.
	

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9 Where is this going?

State of the Industry

Cannabis in 2026

- Gold [Green] Rush Is Over
- Wide range in market maturity (CO/MI v. NY)
- Major declines in wholesale prices in mature markets
- Customers remain very price sensitive
- MSOs layoffs, closing or moving out of certain markets (e.g., Pharmacann, 4Front,...)
- Capital remains difficult to find. Impending debt maturity cliff.
- M&A down! Companies are over-leveraged.

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10 Bankruptcy and Cannabis

Federal Bankruptcy Protections generally not available to cannabis companies

■ Policy Platforms:

1. The Bankruptcy System may not be used as an instrument in the ongoing commission of a crime and reorganization plans that permit or required continued illegal activity may not be confirmed
2. Bankruptcy Trustees and other estate fiduciaries should not be required to administer assets if doing so would cause them to violate federal criminal law
3. See: *Why Marijuana Assets May Not Be Administered in Bankruptcy*, Clifford J. White, John Sheahan, Office of the US Trustee, 2017

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11 Receivership and Cannabis

Receivership can offer some advantages to lenders

Offering Company and Creditors Some Advantages

- **Pre-packaging of certain outcomes and overall goals and limitations**
 - Secured collateral / potential pool of cash for unsecured
- **Some protections and safeguards**
 - Elimination of certain leases or contracts through Court proceeding
- **Access to information**
 - Financial reporting, cashflow forecasting, forensic accounting
- **Flexibility on:**
 - Costs: understanding of fees and filing costs
 - Timing: strategy execution less constraint on Court, although Cannabis compliance may slow down the process
 - Procedures: potentially less hearings and easier/flexible negotiations
- **Access to Industry Experts, Bankruptcy Professionals, Neutral Party**
- **Minimized Visibility from Public potentially**



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Thank you for attending

Questions?

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**InTrouble Manufacturing Company, Inc.
Case Study Fact Pattern**

1. InTrouble is a Rhode Island manufacturer of extruded plastic thread, which is used in athletic clothing, swimsuits and other apparel.
2. Ted Williams and his two distant cousins, Emma and Jim, own InTrouble, which was started by their fathers in 1962. Ted own 100% of the voting stock of the Company, representing 70% of the economic interest.
3. Ted is the President and CEO and responsible for the day-to-day management of the operation.
4. Emma and Jim have no interaction with the Company. They receive distribution checks periodically from the InTrouble. They are sent a K-1 and a copy of internally prepared financial statements once a year. They live in California and North Carolina, respectively, and own 30% of the economic interest in the Company.
5. The process that forms the Company's main product line is based on a secret formula invented by Ted's father. It is contained in an old notebook that Ted keeps in a safe at home. Neither the bank nor Ted's cousins know anything about the formula.
6. The Company converted from a C Corp to an S Corp in 1991.
7. The Company's financial statements are audited as a requirement of the loans. The report for 2024 was unqualified.
8. The audit for 2024 went relatively smoothly as the audit firm's manager's brother-in-law became the Company's controller in early 2023. The new controller has the international and banking experience Ted was looking for. The auditor received an \$15,000 fee for placing the new controller into the position.
9. The Company maintains a line of credit and term debt with Bank of New Boston. All the Company's assets are used to secure this debt.
10. In 2023, the Company secured a \$4,500,000 term loan, which was used to purchase new equipment (\$3,250,000), update some older equipment (\$1,000,000) and update Ted's office (\$250,000).
11. \$50,000 of the-office update was used to purchase additional Red Sox memorabilia to enhance a collection Ted started from gifts from vendors. His total collection (after the World Series win) has an approximate fair value of \$225,000.
12. As a condition of the loan, Ted, Emma and Jim agreed to provide the BNB with a limited guarantee of \$2,500,000. They are jointly and severally liable under the guarantee.
13. The loan agreements are cross-collateralized and cross-defaulted. They include two financial covenants for liquidity and leverage and several operational covenants, including one prohibiting distributions and/or advances to the owners or affiliates. The financial covenants are calculated and provided to the bank on a quarterly basis.

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InTrouble Manufacturing Company, Inc. Case Study Fact Pattern

14. During 2023, the Sri Lanka government began subsidizing extruded plastic thread manufacturing in Sri Lanka. Late in 2023, imported thread began to flood the market at prices near the cost of production for InTrouble. To maintain its market share, InTrouble met the market pricing.
15. Beginning in 2022, InTrouble experienced significant increases in its utility, union and non-union health insurance costs, and raw material costs. Because of overseas competition, InTrouble could not pass these costs along to its customers.
16. In late 2021, Ted began developing real estate in Arkansas. The shareholder advances represent funds used by Ted to purchase undeveloped properties with the objective of building single-family housing. The development never got off the ground as permitting issues slowed the process to a crawl. Additional advances made over the years represent funds used to pay the carrying cost of the debt on the property, legal costs to obtain the appropriate permits, and infrastructure costs made to the development. The property had recently been appraised at \$2,000,000 assuming all permits are approved.

Jim and Emma are aware of the project but are not involved. The bank is not involved in the project but know that Ted has used Company funds to finance personal projects.

17. Cash flow in 2024 was horrific. To keep from maxing out on the \$4,500,000 line of credit the Company is delinquent with the following significant vendors:
 - Union health insurance - 2 months in arrears
 - Water and sewer - 6 months in arrears
 - Workers comp insurance - 3 months behind on its monthly payment plan with a insurance premium finance company
 - Payroll taxes - 1 full quarter in arrears for federal and state taxes
 - 401(k) plan - have not transferred employee contributions or made employer match for entire 2023, 2024 or 2025.
 - Suppliers - 90 to 120 days is the norm. Has several payment plans with major suppliers. The Company is on COD with its major raw material supplier.
 - The Company provided a note to their auditor for the 2024 audit fee of \$18,000 payable of 12 months starting in September 2024. The note is payable with interest at 4%. The 2024 audit fee is unpaid.
18. To enhance cash flow, the Company:
 - Liquidated its officer life insurance policies and used the net cash surrender value to fund operating expenses. The bank's permission was not received,
 - Liquidated inventory below cost to generate cash flow.
 - Provided extended payment terms to certain customers to keep their business.
 - Cut back on several minor expenses.

**InTrouble Manufacturing Company, Inc.
Case Study Fact Pattern**

19. The Company is currently involved in negotiating contract concessions from its union. The concessions requested relate to relief from mandated health care coverage and staffing structures.
20. The Company is part of a multi-employer pension plan. It owns a share of an under-funded liability. The extent of the Company's liability has never been requested from the union and is not disclosed in the Company's financial statements.
21. The bank knows the numbers and is aware that there were numerous covenant violations in 2024. The Company has not received a waiver for the violations in 2023 or 2024.
22. The bank has requested that Ted and the other shareholders consider contributing additional equity and providing additional collateral to offset the effect of the net operating losses for 2023 and 2024.
23. The bank is considering moving the relationship to its managed asset department.
24. InTrouble owns a variety of assets used by Ted for both business and personal activities. These assets include several vehicles, a 125-foot yacht moored in the Cayman Islands and 9,000-foot condo in Florida.
25. The Company pledged \$100,000 to Ted's religious organization in 2022 for a playground. They are paying the pledge off at a rate of \$20,000 per year. Ted was honored at the organization's 2023 annual meeting for his charity and generosity.

Faculty

Stephen Del Sesto is a partner with Pierce Atwood LLP in Providence, R.I., where he focuses his practice on corporate restructuring, state and federal insolvency proceedings, creditors' and debtors' rights, civil business litigation and general corporate matters. He has regularly served as a court-appointed fiduciary for federal and state courts in Rhode Island and Massachusetts for business disputes, Securities and Exchange Commission actions, fraud investigations and insolvency matters. Mr. Del Sesto has advised various businesses on issues related to all phases of formation, growth and sale. He also has a wide range of experience in such areas as creditors' and debtors' rights, commercial real estate transactions, commercial zoning and land use, business licensing, corporate lending, corporate workout, business litigation and business litigation mediation. Mr. Del Sesto is often appointed by federal and state courts to provide oversight and guidance to struggling businesses or to investigate allegations of fraud. He also serves as general corporate counsel to a variety of small to medium-sized businesses. For more than five years, Mr. Del Sesto provided legal counsel and direct oversight and management of the day-to-day operations of a large Rhode Island healthcare organization that was successfully brought out of receivership. He has most recently been appointed as receiver to control and oversee the state of Rhode Island's first private pension failure receivership. The only SEC-approved receivership attorney in Rhode Island, Mr. Del Sesto has been appointed by the Chief Judge of the Rhode Island Federal District to investigate and oversee the liquidation of assets in a multimillion dollar Ponzi scheme. In addition to his practice, he previously served as legal counsel to the Rhode Island Senate Committee on Finance and is Practitioner Faculty in Management (business law) at Providence College. Prior to joining Pierce Atwood, Mr. Del Sesto was a partner at Donoghue Barrett & Singal in Providence. He was recognized by *Rhode Island Monthly* for Professional Excellence in Bankruptcy & Workout for 2026 and named "Lawyer of the Year" by *The Best Lawyers in America* for Closely Held Companies & Family Businesses Law in 2021, he has been recognized by *The Best Lawyers in America* for Closely Held Companies & Family, Businesses Law, and Corporate Law since 2019. Mr. Del Sesto is a member of the Rhode Island Bar Association's Debtors' and Creditors' Rights Committee and Business Organizations Committee, the Massachusetts Bar Association and the Turnaround Management Association. He received his B.A. from the University of Rhode Island and his J.D. from Roger Williams University School of Law, during which time he was a member of the Moot Court Board.

Hon. John A. Dorsey is a U.S. Bankruptcy Judge for the District of Rhode Island in Providence, appointed to the bench on Sept. 9, 2025. Prior to his judicial appointment, he was a court-appointed receiver and special master in the Rhode Island Superior Court and numerous municipal courts throughout the state, where he preserved and repositioned distressed businesses for the benefit of creditors across a wide range of industries — including health care facilities, nursing homes, retail complexes, restaurants and technology companies. Judge Dorsey served on the Rhode Island Superior Court Business Calendar Receivership Committee and in 2020 was appointed as a program coordinator for the Rhode Island Superior Court COVID-19 Business Recovery Program. He also designed and piloted an innovative public nuisance receivership program to address blighted and abandoned properties statewide, and was appointed as a Commissioner by both the Rhode Island Superior Court and the U.S. District Court in matters involving court-supervised real estate sales. His broader practice encompassed environmental remediation, land use development, tax credits, title

matters, and construction and business litigation. Judge Dorsey was recognized as a “Rising Star” in real estate law by *Super Lawyers* from 2015-23 and received the Excellence in the Law (Bankruptcy) distinction from *Rhode Island Monthly* in 2024. He received his B.S. in management in 2007 from Rensselaer Polytechnic Institute and his J.D. in 2010 from Roger Williams University School of Law.

Jacques Santucci is the president and founder of Opus Consulting Group in Portland, Maine, a business advisory firm, where he supports companies and their stakeholders from start-up to turnaround, and offers management as well as fractional c-suite services to unlock performance. He has executive experience in corporate strategy, financial management and organizational transformation. Before founding Opus, Mr. Santucci began his career at Ernst & Young and later held strategic and financial leadership roles at multinational firms including Universal Pictures in Paris. Since moving to the U.S. in 1999, he has led numerous consulting engagements and held executive roles across a variety of industries. Mr. Santucci has more than 20 years of experience in turnarounds and restructurings, frequently serving as a restructuring officer or turnaround advisor. His work includes court-appointed receiverships, bankruptcy proceedings and financial restructurings — bringing disciplined execution and a practical, hands-on approach to each engagement. At the helm of Opus, he was one of the first in the nation to establish a full-service consulting practice for enterprises in the cannabis industry, advising on licensing, operations, strategy, and most recently pioneering the receivership process for cannabis businesses in multiple states. Mr. Santucci serves on the board of the Northeast Chapter of the Turnaround Management Association, is an ABI member and is treasurer of the Institute for Family-Owned Businesses. He received his degree in finance from EDHEC Business School.