When Good Science Meets Financial Distress: Practical Steps for Life Sciences Companies

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In the life sciences industry, a company can have robust and credible science, valuable intellectual property, a solid strategic plan, a strong management team, and a product or platform with real promise and still find itself in serious financial distress, regardless of its development stage. A financing may collapse at the last moment, a key milestone may be missed or delayed, a regulatory issue may slow progress, a trial may fail to meet its primary endpoint or produce unfavorable efficacy or safety results, a manufacturing disruption may consume remaining runway and create uncertainty, or a commercial launch may underperform. Any one of these developments can leave a promising business running out of time.

In these situations, management gets pulled out of long-term execution and into daily survival. Boards become anxious, key employees question whether to stay, vendors tighten terms, strategic partners and investors ask harder questions or restrict access to capital, and potential buyers become more opportunistic. Leadership teams may convince themselves they just need one more quarter. Although no company can predict every development, management can prepare for downside scenarios before a liquidity issue becomes a crisis. Once momentum or continuity begins to fracture, the business, unfortunately, is no longer judged on its science or commercial potential, but rather on whether it can hold itself together long enough to realize that value.

In this environment, Chapter 11 bankruptcy can serve as a value-preservation tool to stabilize operations, protect what remains, and create a controlled process for a sale or restructuring. Among its benefits, Chapter 11 typically can stop most collection activity and litigation through the automatic stay, permit a debtor to obtain postpetition financing, allow a debtor to assume critical contracts and reject burdensome ones, and provide a court-supervised path to a sale or plan-driven recapitalization. Recent life sciences cases illustrate the point. For example, in I*n re RevitaLid Pharmaceutical Corp*., Case No. 23-11704 (BLS) (Bankr. D. Del. 2023), the debtors obtained $7.5 million in debtor-in-possession financing immediately after filing and reached plan effectiveness within weeks. The Chapter 11 case of *In re Endo International plc,* Case No. 22-22549 (JLG) (Bankr. S.D.N.Y. 2022) culminated in a plan-effective transfer of substantially all operating assets to a newly formed entity with reduced debt and resolved opioid and other litigation claims through the establishment of funded trusts.

Preserving value in life sciences is not just about extending runway. It is about protecting the infrastructure that makes the business worth saving in the first place, including regulatory approvals, effective compliance, management processes and systems, commercialization capabilities, and operational know-how. When liquidity tightens, management should identify which people, functions, contracts, programs, and third-party relationships are truly value-critical, including FDA-facing obligations, promotional and medical communications controls, patient support programs, supply and distribution arrangements, clinical or post-market commitments, and employee retention or restructuring needs.

Not every distressed company should or needs to file Chapter 11. In some instances, the better path may be an out-of-court workout, bridge capital, a licensing transaction, a recapitalization, or a disciplined asset sale. The path depends on the

business, its runway, its stakeholders, and where the real value sits. It may also look different for a publicly traded company navigating disclosure obligations and market pressure as compared to a privately held business answering to a group of equity holders. In all instances, however, management should act while it still has leverage and before instability becomes the defining feature of the business.

A cash crunch does not mean the science is broken, but it does mean the company needs a realistic strategy, experienced restructuring advice, and a disciplined plan to preserve value before it slips away. The key is to plan before the company is out of runway. Practical steps include:

1. Build a 13-week cash-flow forecast and update it weekly, with clear triggers for when the company must pursue financing, a sale, a licensing transaction, a restructuring, or Chapter 11.
2. Identify the assets and relationships that drive enterprise value, including intellectual property, regulatory approvals, trial data, key contracts, supply arrangements, patient programs, and strategic partners.
3. Map regulatory and compliance obligations that cannot be allowed to lapse, including FDA-facing commitments, clinical or post-market obligations, promotional and medical communications controls, and data integrity requirements.
4. Assess employee and organizational risk, including retention of key scientific, regulatory, commercial, finance, and manufacturing personnel, and whether the current structure can support a restructuring, sale, or wind-down.
5. Review critical contracts and vendor relationships to determine which agreements must be preserved, renegotiated, assumed, rejected, or transitioned.
6. Engage restructuring, regulatory, and transaction advisors early enough to preserve optionality and negotiate from leverage rather than crisis.

Porzio brings together life sciences lawyers and bankruptcy and restructuring professionals who understand both the industry-specific challenges and the restructuring tools available during periods of financial stress. That combined perspective can help companies assess options early, preserve value, and navigate distress with practical, industry-specific guidance.