

Early Action Can Benefit Distressed Restaurant Franchisees

By **Christopher Caplinger** (August 25, 2026)

The latest wave of restaurant bankruptcies is not merely another round of pandemic fallout.

Instead, recent bankruptcy cases, including franchisees of Popeyes, Farmer Boys and Applebees, reflect a convergence of elevated food, labor and rent costs, capital structure stress, franchisor control, and compressed bankruptcy timelines.

The central question for franchisees, lenders, landlords and franchisors is whether the distressed business can move early enough to preserve profitable locations, reject uneconomic obligations, manage brand defaults, and choose between Subchapter V, traditional Chapter 11, a sale of all or some of its assets, or an orderly wind-down.



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Why Franchisees Are Filing

Multiunit restaurant franchisees are filing because the operating model has even less margin for error than it had just a few years ago.

The American Customer Satisfaction Index reported in June that rising commodity, labor and supply-chain costs have pushed menu prices higher across nearly every restaurant segment it measures, making diners more selective, more analytical and less forgiving.[1]

The pleadings in recent franchise bankruptcy cases illustrate these points.

Sailormen Inc., a Popeyes Louisiana Kitchen Inc. franchisee, filed Chapter 11 in the U.S. Bankruptcy Court for the Southern District of Florida on Jan. 15, with 136 restaurants, more than 3,300 employees, \$233.5 million in 2025 sales, an \$18.8 million operating loss, and liabilities exceeding assets by more than \$110 million.[2]

On June 23, the bankruptcy court approved the sale of substantially all of Sailormen's assets to five successful bidders following a three-day auction: Popeyes Louisiana Kitchen for the Miami region (\$9.6 million); Pulse Restaurant Group LLC for the Tampa, Tallahassee, Pensacola and Jacksonville regions (\$2.69 million); RFI Ventures for the Orlando Region (\$2.5 million); 61 Biscuits LLC for the West Palm Beach region (\$1.12 million); and SBH Foods LLC for the Savannah region (\$650,000).[3]

In Sailormen, the debtor attributed its filing to the trailing impact of COVID-19, consumer choice, high inflation, increased borrowing rates, labor force availability, plus pressure from landlords, vendors and its secured lender.[4]

The case also shows how quickly operational distress can become a bankruptcy strategy problem. Sailormen had tried to sell 16 underperforming restaurants to improve performance and limit losses, but the sale fell through, and the debtor remained liable on lease guarantees.[5]

Geddo Corp., the Farmer Boys franchisee group, filed Chapter 11 in the U.S. Bankruptcy Court for the Central District of California on March 31, and shows the capital-structure

version of the same problem.

The debtors operated 12 franchised Farmer Boys restaurants in California and Arizona and reported that they borrowed more than \$5.2 million from approximately 40 merchant cash advance lenders to fund expansion.[6] By the petition date, the debtors said they had paid almost \$5.1 million back, or about 97% of all borrowings, but that MCA collection activity severely pressured cash flow and caused defaults to the franchisor, vendors and trade creditors.[7]

In 2025, Geddo had approximately \$24.25 million in aggregate sales, but it also reported a \$920,610 net loss despite having positive aggregate net income the prior year, and pointed to increased occupancy, labor and food costs, and aggressive MCA repayment obligations as the causes of that loss.[8]

As of the filing of the status report on April 28, the Geddo entities reported that they were continuing operations and management of their 12 Farmer Boys restaurants, had obtained interim authority to use cash collateral, and anticipated filing a plan of reorganization within the exclusivity period.[9]

Importantly, the status report also indicated that the Geddo debtors may have avoidance claims against MCA lenders that asserted liens which are unperfected or recorded in the wrong jurisdictions.[10]

A status conference was held in the matter on May 12, and the bankruptcy court set a deadline of Oct. 30 to file a plan and disclosure statement.[11] The scheduling order also set another status conference for Aug. 25.[12]

Restaurant and Franchise Bankruptcies Are Unique

Restaurant and franchise bankruptcies differ from many small-business cases because the debtor is not restructuring a balance sheet in isolation, but one that is subject to unforeseen and localized shocks. A viable case often depends on a clear and comprehensive understanding of the franchise agreements, leases, vendor terms, payroll and tax obligations, payment processors, delivery platforms, and maintaining customer continuity.

The lease is often the most important asset and the most significant liability. Chapter 11 can create breathing room through the automatic stay, but it does not eliminate the obligation to pay postpetition rent.

Restaurant debtors must generally decide whether to assume a lease, reject it or assume and assign it to a buyer. Assumption means keeping the lease, curing defaults and providing adequate assurance of future performance. Rejection generally means giving back the space and treating resulting damages as a claim. Assumption and assignment of the lease may be used when a buyer wants the location as part of a sale.[13]

Recent pleadings demonstrate that understanding and executing a proper lease strategy in a bankruptcy case can be critical to the success or failure of the case.

Sailormen sought authority to reject 17 leases for closed stores and then to reject the related Popeyes franchise agreements because the stores had closed, and the agreements would otherwise impose unnecessary postpetition costs.[14]

NRPF Group Two LLC, an Applebee's International Inc. franchisee group that filed Chapter

11 in the U.S. Bankruptcy Court for the Northern District of Georgia on March 24, demonstrates the multilocation complexity. NRPF's sale motion stated that Citizens Bank contacted more than 80 potential buyers but could not secure a willing purchaser due in part to unfavorable lease economics and the need for concessions from landlords and the franchisor.[15]

NRPF also produced a notable lease ruling by U.S. Bankruptcy Judge Sage Sigler.

In a June 12 memorandum opinion, the bankruptcy court considered a master lease covering seven properties and held that the lease was severable, allowing the debtors to reject the master lease in part and assume the remaining leases subject to the debtors' obligation to cure defaults and provide adequate assurance of future performance.[16]

For landlords and buyers, that ruling is a reminder that lease documents, amendments, rent allocation and state-law severability principles can determine which locations remain in a transaction and which become unsecured claims. The ruling also demonstrates that bankruptcy can give franchisees leverage to restructure location-level obligations in ways that may be unavailable or impractical outside of bankruptcy.

Franchise agreements frequently add further complexity because a debtor's restructuring path may depend on franchisor rights as much as creditor consent.

Sailormen's Popeyes motion addressed franchise agreement rejection for closed stores; Geddo's first-day declaration described standardized franchise obligations around approved menus, suppliers, loyalty programs and customer programs; and NRPF's sale motion described a sale structure involving the Applebee's franchisor and the proposed assumption, assignment, or rejection of contracts and leases.[17]

The lesson in each of these cases is practical: A franchisee's restructuring plan must account for franchisor brand rights and interests, transfer approvals, operating standards, royalty obligations and cure obligations.

Strategies Used by Operators and Creditors

Recent proceedings show larger restaurant operators using bankruptcy to close unprofitable stores, sell assets, renegotiate leases, restructure debt and preserve the viable core of their businesses.

Sailormen sought cash collateral access to stabilize operations long enough to run a sale process, warning that without cash collateral it could not pay payroll or purchase supplies.[18] NRPF initiated its cases to pursue a going-concern sale of substantially all assets, using Applebee's Restaurants Mid-Atlantic LLC as a stalking horse bidder.[19] Geddo sought authority to use cash collateral, maintain merchant services and compel turnover of proceeds allegedly withheld at MCA lenders' direction, because interruption in payment processing or platform remittances would impair liquidity and threaten operations.[20]

For smaller restaurant groups, Subchapter V may be especially important, but eligibility should be determined early. Subchapter V is the small business reorganization track created by the Small Business Reorganization Act.

The current debt cap for eligibility is just over \$3.4 million in aggregate noncontingent, liquidated secured and unsecured debt, excluding certain insider and affiliate debt.[21] That threshold matters because some restaurant cases are too large for Subchapter V, while

smaller operators may lose eligibility if they wait until taxes, rent arrearages, supplier claims or MCA obligations accumulate beyond the cap.

A key potential benefit to a Subchapter V bankruptcy is that the process is designed to move quickly. The debtor remains in possession, a Subchapter V trustee facilitates negotiations and monitors the case, and the debtor generally must file a plan within 90 days.[22] There is generally no creditors' committee, no competing creditor plan and no disclosure statement unless the court orders one.[23]

Importantly, owners may retain equity without paying unsecured creditors in full if the plan satisfies the statute's requirements, and nonconsensual confirmation may be available if the plan commits projected disposable income for three to five years.[24]

For operators, those features can preserve ownership and reduce administrative expenses. For creditors, they compress the timeline and force an early focus on feasibility, collateral, projected cash flow, lease status and franchise defaults.

A Subchapter V case that begins with a credible store-level budget and a negotiated path with landlords and the franchisor may produce substantially more value than a delayed filing after termination notices, eviction judgments, tax pressure and MCA sweeps have consumed the liquidity necessary to preserve enterprise value or feasibility.

Practical Guidance for Franchisees Facing Financial Distress

The first practical lesson is to start early. By the time a restaurant is facing simultaneous rent defaults, supplier holds, franchise defaults and lender enforcement, the filing decision may be reactive rather than strategic.

Sailormen filed after BMO Bank sought appointment of a federal receiver in New York; Geddo filed after MCA withdrawals and platform withholdings threatened working capital; and NRPF filed after a failed prepetition sale process and continuing cash-flow constraints.[25]

But those larger operators had the financial wherewithal to overcome the effects of waiting too long to file; smaller operators need to be far more vigilant and evaluate restructuring options earlier.

Second, franchisees should build a location-by-location restructuring model before filing. That model should identify each location's profitability, rent burden, arrears, cure costs, guarantee exposure, franchise compliance expenses, labor costs, vendor terms, merchant-processing exposure, delivery-platform receivables, and detailed and realistic projected cash flow.

It is essential to understand that the goal of this work is not to save every franchise location. Instead, the goal is to preserve locations that can support a feasible plan or sale, and identify locations that are structurally unprofitable and should be closed.

Third, franchisees should engage with franchisors, landlords, and key creditors before positions harden. NRPF's pleadings show that a sale may require concessions from both landlords and the franchisor; Sailormen's motions show that closed stores may require both lease rejection and franchise agreement rejection; and Geddo's experience demonstrates that payment platforms and MCA lenders can become central to liquidity in the first days of a case.[26]

Early negotiations can protect value for all constituencies, including lenders and landlords that may otherwise face shuttered stores, unpaid rent, employee disruptions, related claims and guarantee litigation costs.

Finally, operators should make the decision regarding a bankruptcy filing based on the actual feasibility of preserving a core business, not unjustified optimism that things will get better if the business just has some breathing space. Chapter 11 and Subchapter V work best when the debtor has a viable core business, credible projections, and a plan for leases, vendors, employees, franchisor obligations and secured debt.

If the concept is no longer viable or the debt cannot be supported, a controlled wind-down, asset sale or out-of-court restructuring may be more realistic than reorganization.

As the 2026 restaurant franchise cases show, value preservation is likely to turn less on the mere existence of distress than on how quickly stakeholders identify the viable core of the business, assess and formulate a plan for addressing franchise and lease constraints, and choose a process that matches the economics of the particular business.

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[1] American Customer Satisfaction Index, "Reframe the Pricing Pressure and Rising Food Costs Restaurant Experience," June 9, 2026, at 1-2.

[2] Declaration of David M. Baker in Support of First-Day Motions, In re: Sailormen Inc., Case No. 26-10451-RAM, U.S. Bankruptcy Court for the Southern District of Florida, filed Jan. 15, 2026, Doc. 9, at 4-5, ¶¶ 13, 15-17.

[3] Order Authorizing and Approving (I) the Sale of Substantially All of the Debtor's Assets Free and Clear of Liens, Claims, Encumbrances, and Interests, and (II) the Assignment and Assumption of Certain Executory Contracts and Unexpired Leases, In re: Sailormen Inc., Case No. 26-10451, U.S. Bankruptcy Court for the Southern District of Florida, Filed June 23, 2026, Docs. 715-719; Declaration of Matthew R. Dorsey in Support of Sale Motion, In re: Sailormen Inc., Case No. 26-10451, filed June 17, 2026, Doc 677 at 3-4, ¶¶ 8-9.

[4] Baker Declaration, *supra* note 4, at 6-7, ¶¶ 22-25.

[5] *Id.* at 7, ¶ 23.

[6] Declaration of Joseph Sadek in Support of Debtors' First Day Motions, In re: Geddo Corporation et al., Case No. 8:26-bk-11022-MH, U.S. Bankruptcy Court for the Central District of California, filed Apr. 6, 2026, Doc. 38, at 4, ¶ 9 and 5, ¶ 12.

[7] *Id.* at 5-6, ¶¶ 13-14.

[8] *Id.* at 13-14, ¶¶ 38-39.

[9] Initial Status Report, In re: Geddo Corporation et al., Case No. 8:26-bk-11022, U.S. Bankruptcy Court for the Central District of California, filed Apr. 28, 2026, Doc. 87, at 2-5.

[10] Id. at 3-4.

[11] Scheduling Order, In re: Geddo Corporation et al., Case No. 8:26-bk-11022, U.S. Bankruptcy Court for the Central District of California, filed May 14, 2026, Doc. 109 at 2.

[12] Id.

[13] See 11 U.S.C. § 365.

[14] Omnibus Motion for Entry of an Order Authorizing Rejection of Certain Franchise Agreements with Popeye's Louisiana Kitchen, Inc., In re: Sailormen Inc., Case No. 26-10451-RAM, U.S. Bankruptcy Court for the Southern District of Florida, filed Feb. 25, 2026, Doc. 245 at 2-5, ¶¶ 5-12; Order Authorizing Rejection of Certain Franchise Agreements, In re: Sailormen Inc., Case No. 26-10451-RAM, U.S. Bankruptcy Court for the Southern District of Florida, filed Mar. 9, 2026, Doc. 309, at 1-2, ¶¶ 1-2 & Ex. A.

[15] Debtors' Motion for Entry of an Order Approving Bidding Procedures and Related Relief, In re: NRPf Group Two LLC et al., Case No. 26-53945-sms, U.S. Bankruptcy Court for the Northern District of Georgia, filed Apr. 16, 2026, Doc. 70 at 2.

[16] Memorandum Opinion, In re: NRPf Group Two LLC et al., Case No. 26-53945-SMS, U.S. Bankruptcy Court for the Northern District of Georgia, filed June 12, 2026, Doc. 274 at 1-3.

[17] Sailormen Franchise Rejection Motion, *supra* note 11 at 2-5, ¶¶ 5-12; Sadek Declaration, *supra* note 7, at 7-9, ¶¶ 20-27; NRPf Sale Motion, *supra* note 12, at 8-9, and 17-18, ¶ 20.

[18] Baker Declaration, *supra* note 4, at 7-8, ¶¶ 25-28.

[19] NRPf Sale Motion, *supra* note 12, at 1-3 and 7-8.

[20] Sadek Declaration, *supra* note 7, at 12-13, ¶¶ 36-37; 15-16, ¶¶ 45-47.

[21] 11 U.S.C. §§ 104 and 1182(1).

[22] 11 U.S.C. § 1189(b).

[23] 11 U.S.C. §§ 1102(a)(3), 1189(a), and 1181(b).

[24] 11 U.S.C. § 1191(c)(2).

[25] Baker Declaration, *supra* note 4, at 6-7, ¶¶ 12-25; Sadek Declaration, *supra* note 7, at 5-6, ¶¶ 14-16; Declaration of Katie S. Goodman in Support of First Day Applications and Motions, In re: NRPf Group Two LLC et al., Case No. 26-53945-sms, U.S. Bankruptcy Court for the Northern District of Georgia, filed Mar. 24, 2026, Doc. 18, at 4-5, ¶¶ 7-8.

[26] NRPf Sale Motion, *supra* note 12 at 2 and 17-18, ¶ 20; Sailormen Franchise Rejection

Motion, supra note 11, at 2-5, ¶¶ 5-12; Sadek Declaration, supra note 7, at 12-13, ¶¶ 36-37.