

PE Firm Cornell Sued Over \$345 Million Instant Brands Dividend

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[Cornell Capital LLC](#), the former owner of [Instant Brands](#), was accused of misleading lenders about the company's performance in order to extract a \$345 million dividend that helped drive the Instant Pot maker into bankruptcy.

A trustee filed [suit](#) Wednesday in bankruptcy court in Texas against the private equity firm, its founder Henry Cornell and former Instant Brands executives. The trustee, Alan Halperin, is seeking to recover at least \$400 million for creditors of the company, which filed for Chapter 11 protection last year.

Cornell and his firm "plundered their portfolio company Instant Brands, leaving it insolvent and unable to repay its creditors," Halperin said in the suit.

"We are aware of the complaint, which is baseless and without merit," Cornell Capital said in a statement. "We intend to vigorously defend ourselves."

When Instant Brands [filed](#) for bankruptcy, the company blamed high interest rates, a post-pandemic lull in demand, supply-chain problems and other "uncontrollable macroeconomic events" over the last few years. But Halperin's lawsuit pins the company's bankruptcy primarily on the dividend.

Overpaid

The 2021 dividend was funded with a \$450 million term loan as well as \$100 million of the company's cash, according to the lawsuit. Cornell Capital and its co-investors received \$200 million, Instant Brands' founders got \$101 million and company management collected \$4 million, the lawsuit said.

According to the trustee, Cornell Capital determined it had overpaid for the Instant Pot maker after the company acknowledged that it overstated a key measure of earnings for 2018. The private equity firm threatened to sue Instant Brands' co-founder and subsequently entered into a restructuring agreement with them that resulted in "a massive reduction of the purchase price," Halperin said.

These issues were not disclosed to lenders when Instant Brands went to market to borrow money for the dividend in March 2021, Halperin alleges. Also undisclosed was a government investigation into reports of Instant Pots catching fire, melting and posing fire and burn hazards, the lawsuit said. Instead, management allegedly produced overly optimistic forecasts and projections to justify the dividend.

Instant Brands ran out of cash less than 21 months after the dividend was paid, according to the complaint.

'Death Knell'

At Cornell Capital's direction, the company executed a complex debt transaction in January 2023, the lawsuit said. The transaction transferred substantially all of Instant Brands' tangible assets from existing

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lenders' collateral pool into new subsidiaries, which pledged the assets to Cornell Capital. In exchange, the private equity firm lent Instant Brands \$55 million.

The lawsuit alleges news of the transaction was "the death knell of Instant Brands" because it prompted suppliers to tighten credit terms with the company. Halperin claims the transaction was intended to delay an inevitable Chapter 11 filing, which could have rendered the dividend voidable under bankruptcy law's two year look-back period.

Instant Brands filed for Chapter 11 in June 2023 and most of its assets were sold to [Centre Lane Partners](#). Roughly \$391 million was outstanding under the term loan that helped fund the dividend at the time the company filed bankruptcy. Lenders recovered between seven cents on the dollar and nine cents on the dollar, resulting in a collective loss of about \$360 million, according to the complaint.

The case is *Halperin v. Cornell Capital LLC*, 23-90716, US Bankruptcy Court, Southern District of Texas (Houston).