Lies, Greed and Exploding Crockpots: How PE Firm Cornell Capital's Purchase of Instant Brands Went Very Wrong
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Crock pots are typically associated with cozy domestic scenes. But in the case of cookware maker Instant Brands and the private equity firm Cornell Capital, the devices gave rise to a bitter bankruptcy case featuring accusations of greed, deceit and self-dealing. Other litigation puts forward troubling claims of children scalded by the pressure cookers.

The ugly saga began in 2019 amid a crock-pot craze when millions of home cooks turned to them as an easy way to make hearty, comforting meals. That's when Cornell Capital, the PE vehicle of former Goldman Sachs senior executive, Henry Cornell, bought Instant Brands for $615 million.

The deal soon went sour, though, as Cornell experienced a bad case of buyer's remorse and concluded it had overpaid by $273 million. Then, according to a November 13 filing in Texas bankruptcy court, the firm allegedly lied to lenders and loaded up Instant Brands with $450 million of debt—ultimately pushing the cookware maker into insolvency and bankruptcy in 2023.

Cornell's plan to recoup its money came partly in the form of a $450 million term loan, which the firm forced Instant Brands to take out in April 2021. Instant Brands used the loan, along with $100 million from its balance sheet, to pay a $345 million dividend to Cornell Capital, its co-investors, the sellers of Instant Brand, and the management team, according to the lawsuit

Reeling from this huge debt load and loss of capital, Instant Brands defaulted on its loans and filed for bankruptcy two years later.

The upshot is that Cornell "plundered their portfolio company Instant Brands, leaving it insolvent and unable to repay its creditors," according to the lawsuit filed by Alan Halperin, the trustee, who is seeking to recover at least $400 million for creditors. The lawsuit lists about 20 defendants, including Cornell Capital founder Henry Cornell and Robert Wang, inventor of the Instant Pot.

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

Wang, a former Nortel employee, invented the beloved Instant Pot pressure cookers that soared in popularity in 2016 and 2017. Instant Brands, a company cofounded by Wang and two partners, owned Instant Pot. (Pressure cookers like Instant Pots have faced several personal injury lawsuits, including a 2022 class action, due to reports that the appliances were defective.)

The lawsuit against Cornell claims the purpose of the dividend was to enrich Instant Brand's investors and its management even as the company's financial situation worsened.

It is not uncommon for PE firms to oblige their portfolio companies to make such payouts—known as dividend recaps—in order to return capital to investors without selling their stake in a business. In these situations, a company owned by a private equity firm typically issues new debt to pay for the distribution, which usually goes to the PE firm. Portfolio companies often must increase their total debt to pay for the dividends.

Accounting tricks and exploding crock pots

In March 2019, shortly after the acquisition, Cornell threatened to sue after it inspected Instant Brands' financial statements and concluded it had overpaid by $273 million. Grant Thorton, an accounting firm, in 2019 re-audited the company's pre-acquisition financial statements and found severe material weaknesses and significant deficiencies.

In February 2020, the parties reached an agreement where Instant Brands's purchase price was reduced, while Cornell agreed to release the sellers from "inaccuracies or misstatements" relating to the company's financial statements, financial projections, and any other financial information, the lawsuit said.

More importantly, Henry Cornell, Cornell's founder and senior partner, allegedly stated during the negotiations that he planned to take out a large dividend as early as 2019 which would provide partial repayment for the seller's note. Cornell also filed an insurance claim to recoup the $268 million overpayment that was settled for $55 million in 2022, according to the lawsuit.

Even before it purchased Instant Brands, some at Cornell feared the company was in decline. Instant Brands had saturated the market with its key product, the Instant Pot, and several Cornell investment professionals, prior to the acquisition, were very concerned about the company's unrealistic sales forecasts, according to the lawsuit.

Instant Brands' performance, after the sale, was dismal. The company in 2019 had forecasted $143 million of free cash flow but ended 2019 with $9 million negative operating cash flow. The following year, in 2020, the company missed its "worst case scenario" projections, generating only $965 million of revenue, while adjusted EBITDA was $90 million.In 2020, the U.S. Consumer Product Safety Commission began investigating Instant Brands, because of "hundreds of reports" that the pressure cookers had caught fire, exploded, melted or blew up, the lawsuit said.

In June 2021, a Pennsylvania mother sued Instant Brands and Target on behalf of her two-year-old daughter. Brittany Gonzalez claimed she was cooking soup in her Instant Pot and, after adding all the ingredients, properly closed the lid to the device. When the dish was done, a "burn" message erroneously appeared. Gonzalez released the pressure and began taking Instant Pot's lid off but the device's top "shot open with great force, spewing the scalding hot contents of the cooker into Plaintiffs' kitchen," according to a 2021 lawsuit. The soup spilled onto Gonzalez's daughter, who was sitting in a nearby chair, and suffered second and third-degree burns to her face, neck, shoulder, and arm. The case, and dozens like it, are ongoing.

Despite these troubling issues, Cornell pushed forward with plans for a $450 million div recap, which Instant Brands secured in April 2021. Cornell allegedly failed to disclose to lenders that it overpaid for the company, or reveal the misstated financials, the insurance claim or the CPSC investigation. Instant Brands had $138 million on its balance sheet at the time, but $100 million went toward the dividend, which totaled $345 million. Almost all the div recap, or $200 million, went to Cornell and its co-investors, while Instant Brands sellers received $101 million and company management got $4 million, according to the lawsuit.

Cornell “gutted the different-than-advertised Instant Brands of its remaining value through a massive dividend for Cornell Capital’s benefit,” the lawsuit said.

Roughly two years later, in June 2023, Instant Brands filed for Chapter 11 bankruptcy protection. About $391 million of the term loan remained outstanding, the lawsuit said.

In March, Instant Brands emerged from bankruptcy with a new name. It is now Corelle Brands and is currently owned by Centre Lane Partners, which was not named in the lawsuit.