Expert Insights

When the Investigation Turns the Case: How Chapter 11 Investigations Shape Restructuring Outcomes

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In complex Chapter 11 cases, the most consequential negotiations often begin long before a plan is filed. They begin when someone starts asking hard questions about what happened before the filing.

Committee investigations into prepetition conduct can inform a party's position, provide leverage in negotiations, and ultimately shape the outcome of the restructuring, regardless of which stakeholder commissions them.

The recent *BlockFills* Delaware Chapter 11 bankruptcy involved investigations by both an independent special committee and the Official Committee of Unsecured Creditors (represented by Morris James), with dueling fiduciary duties. The information uncovered by these investigations ultimately led to a narrow scope for releases and the preservation of value in the estate.

The Scope of the Investigative Mandate

Investigating fiduciaries in Chapter 11—whether a special committee or official committee—are tasked with evaluating matters that the debtor's board may not be positioned to address on its own. This forensic mandate typically focuses on several core categories of potential estate claims.

- **Prepetition Transactions:** Reviewing leveraged buyouts (LBOs), dividend recapitalizations, affiliate financings, and other insider transactions to identify potentially colorable estate claims.
- **Fiduciary Conduct:** Assessing whether directors, officers, or sponsors breached duties of loyalty or care in the period leading up to the bankruptcy filing.
- **Release Scrutiny:** Evaluating whether proposed releases for insiders or affiliated parties are appropriate and whether such releases should be conditioned on financial contributions to the estate.

The purpose of these investigations is not merely historical. Rather, the committee is evaluating whether the estate possesses claims that may represent a recoverable asset for creditors.

The BlockFills Investigation: How It Took Shape

In the *BlockFills* case (In re Reliz Technology Group Holdings Inc., et al. (d/b/a BlockFills), Case No. 26-10371 (TMH) (Bankr. D. Del.)), the special committee was established prepetition and given authority over, among other things, investigating potential claims and approving or authorizing releases under a plan.

The Official Committee of Unsecured Creditors then entered the picture with its own statutory obligation to investigate the Debtors' conduct and potential causes of action. The special committee and official committee are both ultimately tasked with preserving the value of the estate but their fiduciary duties are to different stakeholders, which can create conflict. In *BlockFills*, the special committee initially asserted privilege over their investigation and declined meaningful access to information. The official committee initially sought to coordinate with and participate in the special committee's process to avoid duplicative work and minimize costs, but ultimately pursued a Rule 2004 motion that provided for the official committee's participation in the investigative process, through informal discovery and witness interviews in lieu of more costly formal discovery and depositions. Throughout that process, Morris James conducted its own investigation and identified additional potential claims and causes of action that informed the official committee's position in the plan negotiations.

Turning Misconduct into Plan Currency

Once a committee identifies potential claims, those claims frequently become a focal point of plan negotiations. Potential

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insider claims often influence negotiations among creditor constituencies, debtors, and former directors or sponsors. When claims appear credible, they may lead to settlements funded through insurance proceeds or negotiated contributions from insiders in exchange for releases.

In *BlockFills*, the official committee's investigation provided meaningful leverage in negotiating the scope of the plan releases. Rather than broad releases as originally proposed, the ultimate resolution preserved potential claims against a substantial universe of parties, while releases were limited to specifically identified individuals and, where appropriate, conditioned on continued cooperation and ongoing review. Certain rank-and-file employees who had received only de minimis bonuses during the relevant period were released, while potential clawback and other claims against others were preserved for the benefit of the estates. Specifically, the agreed plan released only "(a) the Debtors; (b) the Committee, and each of the members thereof in their capacity as such; (c) the Debtor Professionals; (d) the Committee Professionals; (e) Joseph Perry, Interim Chief Executive Officer; (f) the Interim CFO and the CRO; (g) the Independent Director; (h) the Other Officers, provided, that such Other Officers enter into a Cooperation Agreement" and employees who were not officers or directors and "did not receive a bonus payment exceeding $300,000 in the aggregate between 2023-2026." The preservation of claims, coupled with the targeted nature of the releases, was a significant result of the official committee's investigation.

Large restructurings involving complex liabilities also illustrate how litigation exposure influences plan negotiations. For example, the restructuring of *Endo International plc* (Case No. 22-22549, later consolidated under Case No. 22-22608, In re Branded Operations Holdings, Inc., Bankr. S.D.N.Y.) in the Southern District of New York involved extensive negotiations among creditor constituencies regarding the treatment of potential liabilities and the structure of the confirmed plan.

Coordination or Litigation: Two Routes to the Same Duty

In *BlockFills*, the official committee used a Rule 2004 order to achieve a full investigation alongside the special committee, when their duties and processes were misaligned. In the 2003 *Cybergenics* bankruptcy (Official Comm. of Unsecured Creditors v. Chinery (In re Cybergenics Corp.), 330 F.3d 548 (3d Cir. 2003)), the courts authorized the official committee to pursue a derivative claim on behalf of the estate when the debtor-in-possession refused to pursue a colorable claim.

Through different strategies and tools, bankruptcy courts facilitate full and credible investigations and fair results that manage the conflicting interests in the estate and preserve its value.

Negotiating Leverage After *Purdue Pharma*

The strategic significance of committee investigations evolved in light of the U.S. Supreme Court's decision in *Harrington v. Purdue Pharma L.P.,* 603 U.S. 204 (2024).

In *Purdue*, the Court held that the Bankruptcy Code does not authorize nonconsensual releases of claims against nondebtors through a Chapter 11 plan. That ruling created greater uncertainty around the use of broad third-party releases in restructuring plans.

As a result, investigations into potential insider claims, such as those in *BlockFills*, may play an even more significant role in negotiations. Where releases must be consensual, stakeholders may evaluate whether to support those releases based in part on the factual record developed during the investigation.

In that environment, the potential value of estate claims can become an important factor in determining whether parties choose to resolve claims during the case or preserve them for later litigation.

Key Takeaways for Practitioners

The *BlockFills* bankruptcy offers several practical lessons for restructuring professionals navigating a preexisting special committee process.

Coordination Is Not a Substitute for Independent Judgment. Participating in another committee's investigation can satisfy the duty to investigate efficiently, but it does not discharge the duty to reach an independent view. A committee that adopts another body's findings wholesale, without testing them against its own constituency's interests, risks a record that does not hold up if those interests diverge.

Negotiate Investigative Terms Before Positions Harden. The scope of a Rule 2004 order — informal discovery, witness access, document protocols — is far easier to negotiate at the outset than after a special committee has already staked out a position on privilege or access. Raising coordination early preserves the option to escalate later without having conceded ground.

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Calibrated Findings Make for More Durable Releases. A binary approach to releases — grant broadly or withhold entirely — is often harder to defend than one grounded in the investigative record. Findings that distinguish between de minimis actors and real targets give a plan sponsor, the estate, and objecting parties a shared factual basis for the deal, which matters more than ever after *Purdue*.

Test the Originating Committee's Authority Before Relying on Its Work. Not every special committee investigation carries the same weight. Before building a negotiating position on another committee's findings, confirm it had genuine authority to investigate and settle, real independence from the parties under review, and a mandate broad enough to reach the claims actually at issue.

When the Investigation Turns the Case

Modern Chapter 11 practice increasingly reflects a simple reality: many of the most consequential disputes arise from the conduct that preceded the bankruptcy filing.

Committee investigations, by any constituency, provide a mechanism for examining those issues and determining whether the estate possesses actionable claims.

When such claims exist, they often influence negotiations over plan releases, settlements, and litigation trusts. In that way, the investigative process can shape the restructuring itself.

In complex Chapter 11 cases, the investigation is therefore not merely a procedural step. It frequently becomes a central element in determining how the case is ultimately resolved.

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