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Fraud Claims, Policy Shifts Drove Biggest 2025 Bankruptcies

By **Ben Zigterman**

Law360 (January 2, 2026, 12:22 PM EST) -- Some of the biggest bankruptcies of 2025 were marked by allegations of fraud at companies including auto-parts maker First Brands Group and subprime auto lender Tricolor, and experts said more malfeasance could be lurking in the marketplace.

Those cases also illustrate the increasingly tough approach of the U.S. Trustee's Office to Chapter 11 examiners in large, high-profile cases, the experts observed.

Meanwhile, higher interest rates, tariffs and changing federal policy sent several major renewable energy companies into Chapter 11 last year, including residential solar company Sunnova, solar energy developer Pine Gate Renewables and wind turbine blade maker TPI Composites Inc.

"Seeing the effects of changes in government policy — that's really been the story of the year," Covington & Burling LLP partner Joseph Dunn said, noting in particular the impact of tariffs on companies with cross-border relationships.

Several popular consumer brands also hit Chapter 11 last year, several for the second time, including Forever 21, Claire's and Joann Fabrics, with many citing tariffs, interest rates and inflation as consumers continue to shift away from brick-and-mortar stores to online shopping.

Uzzi Raanan, a partner at Greenberg Glusker LLP, said that "inflation and high interest rates together, those made borrowing much more difficult."

Law360 looks at some of the most closely-watched large-cap bankruptcies launched in 2025, with liabilities exceeding $500 million, and the issues they raised.

First Brands and Fraud

Troubled auto-parts maker First Brands hit Chapter 11 in September with more than $10 billion in liabilities and received a deluge of news coverage, which experts said was well-deserved given the level of fraud the debtor described.

First Brands faced questions over the whereabouts of $2.3 billion and whether inventory pledged to third-party factoring lenders was double-pledged. Its CEO, Patrick James, resigned Oct. 13.

In November, First Brands alleged in an adversary complaint that the former CEO "lined his pockets" with hundreds of millions, possibly billions, of dollars in company money before the debtor hit Chapter 11 in September. James has since moved to dismiss the complaint.

"That was maybe the first big case that we saw of double-pledging of collateral," said Bradford J. Sandler, co-chair of Pachulski Stang Ziehl & Jones LLP's creditors committee practice group. "There's certainly a concern in the lender community that there might be a lot more of the conduct that was found in First Brands."

Solar panel leasing company PosiGen, which hit Chapter 11 in November, has since been accused by a lender of pledging the same collateral to multiple parties, Sandler noted.

"It's probably more widespread than people realize," he said.

In December, former executives of subprime auto lender Tricolor Holdings, which filed papers for a more than $1 billion Chapter 7 liquidation in September, were indicted by a Manhattan federal grand jury. They are accused of double-pledging collateral and manipulating the description and classification of "near-worthless" assets to make them appear to be valid collateral.

The fallout could be "greater than First Brands," Pryor Cashman LLP partner Seth Lieberman said, as it exposes that "there's been a lot of risky lending going on for some time from all shapes and sizes."

On Nov. 19, U.S. Bankruptcy Judge Christopher M. Lopez ordered the appointment of an examiner in the First Brands case, a move which Dunn said was a continuation of a trend seen since the Third Circuit agreed with the U.S. Trustee's Office **in 2024** an examiner was required by law to be appointed in the bankruptcy of defunct cryptocurrency exchange FTX.

"I think the U.S. Trustee's Office now takes a harder look at cases that may involve allegations of fraud or mismanagement and considers perhaps more readily whether an examiner is necessary, even where a special committee for the company is in place, and even where an unsecured creditors committee is already on the scene and can otherwise perform investigations," Dunn observed.

He also noted the filings of several of First Brands' special purpose vehicles that were structured to be bankruptcy remote entities, with provisions such as requiring an independent director for decisions like filing for bankruptcy relief.

First Brands lenders have asked for those cases to be dismissed, arguing the entities' managers were improperly replaced and that their funds were to be kept apart from First Brands' assets.

Dunn called this an "interesting wrinkle" in the First Brands case that could cause other companies to re-examine how they structure similar entities, depending on how the dispute plays out.

The First Brands filing was one of several large bankruptcies in 2025 in the auto sector, including from Tricolor and **automotive parts manufacturer** Marelli Corp., which listed nearly $5 billion in liabilities in its Chapter 11 filing in June.

Sunnova Leads Renewables' Slide

The solar industry faced major challenges in 2025, with several companies in the sector filing for Chapter 11 relief, including Sunnova, which entered Chapter 11 in June with nearly $9 billion in liabilities.

"It's one of the biggest cases of the year, but I think it will be less remembered for its size, and more remembered for how it kind of forced the market and its peers to confront whether their current models for financing residential solar can be resilient in this brand-new world that they're in," said Reed Smith LLP partner Jason Angelo, who represented Wilmington Trust NA, the indenture trustee for several of Sunnova's major debt instruments. "I think the answer is it's going to be, and continues to be, a challenge."

The renewables sector also saw major filings from PosiGen and Pine Gate, which listed more than $1 billion in liabilities in its November filing, as well as solar panel financing company Solar Mosaic, which listed more than $264 million in debt in its June petition. Wind blade maker TPI Composites also filed for bankruptcy relief in August with at least $1 billion in liabilities.

The sector is facing a major challenge from the Trump administration and the One Big Beautiful Bill Act, which was signed into law in July and phases out many tax incentives for installing solar panels, wind turbines and other clean energy projects. Elevated interest rates also pressured the industry, experts noted.

"It's perhaps unsurprising that an industry that has been heavily reliant on state and federal government incentives and growth largely driven by those incentives has faced significant stress when the underlying policies change and the growth slows," Dunn said.

Sunnova's Chapter 11 case was also particularly challenging, Angelo observed, with a complicated capital structure, limited cash in hand and a lack of a clear road map when the company filed.

The debtor had to quickly sell some of its assets to fund bankruptcy expenses until it obtained a $90 million debtor-in-possession financing package, and in July, it sold almost all its assets to a group of lenders for about $118 million.

Its Chapter 11 liquidation plan was approved in November, with creditors expected to receive recoveries of about 2.2%.

Spirit Airlines' Speedy Ch. 22

Spirit Airlines returned to Chapter 11 in August, just five and a half months after its previous Chapter 11 plan became effective, and is aiming to make more use of the Bankruptcy Code's features to restructure the company.

"I would struggle to tell you a 22 of this magnitude that was filed so close to the exit of the prior 11," Lieberman said of the "Chapter 22" repeat filing.

The first case, launched in November 2024 and received confirmation in February, was a more straightforward balance sheet restructuring. While it shaved $795 million off its $3.6 billion debt load, experts remained concerned about Spirit specifically and the broader discount air travel environment generally.

With its second filing in August, a Spirit Airlines attorney said the company would use Chapter 11's tools to cancel costly contracts, ditch dozens of jets and change where it flies.

In December, an examiner found no evidence of bad faith in the back-to-back filings, concluding that Spirit's financial deterioration in 2025 was "far more severe" than expected, coming at a speed and scale not foreseeable when it was exiting its first bankruptcy.

While the initial bankruptcy could be considered a success for how quickly the debtor confirmed a plan, Lieberman said that in hindsight, the parties "didn't do enough."

The newer Chapter 11 filing is more reminiscent of other airline bankruptcies, he said, with complicated aircraft, landlord and airport issues to work through.

"These are things that the Bankruptcy Code allows for a debtor to revisit and at times rightsize," Lieberman said. "Spirit II seems to be doing that, although it's still ongoing and the jury is still out as to how it will end."

Brazilian airline Azul also hit bankruptcy in 2025, filing for Chapter 11 relief in May with roughly $3 billion in debt, citing challenges stemming from the COVID-19 pandemic, industry supply chain disruptions and broader economic pressures.

Forever 21, Claire's Among Retail Chapter 22s

Fashion retailer Forever 21 and ear-piercing retailer Claire's both entered Chapter 11 for the second time in 2025, highlighting the challenges facing brick-and-mortar stores and the different paths a bankruptcy can take.

Forever 21 filed for Chapter 11 protection in March with $1.58 billion of funded debt and plans to wind down operations at its 354 U.S. stores if it failed to find a buyer. It previously restructured in Chapter 11 in 2019.

Forever 21 was unable to find a buyer, and in June, its liquidation plan was approved.

"It reveals the perilous nature of retail Chapter 11s," Lieberman said. "Retail Chapter 11s are hard."

Claire's had better luck finding a buyer in its insolvency case.

After a previous trip through Chapter 11 in 2018, Claire's filed for bankruptcy relief in August with $690 million in funded debt.

At a hearing the day after the retailer entered Chapter 11, a Delaware bankruptcy judge approved its bid to begin closing some of its 1,500 North American stores. An attorney representing Claire's said the debtor could pause the store shutdowns if a buyer stepped forward, but as it stood, the company needed the money to help run its bankruptcy.

In August, it reached a $104 million deal with an affiliate of private equity firm Ames Watson, in which the investment firm agreed to buy more than 970 of Claire's North American stores. The deal will preserve hundreds of stores and thousands of jobs, a Claire's attorney said. The sale was approved in September.

Its focus on ear-piercing gave Claire's a foothold in the lives of teenagers around the country and helped it stand out from other retailers.

"To the extent that there was a buyer of Claire's, its stores, etc., I think that was a driving force underlying it," Lieberman observed.

While ear-piercing must be done in person, online challengers increasingly threaten brick-and-mortar stores.

"The effect that the world of Amazon and the like has had in the last 15, 20 years just makes it a really difficult environment," Lieberman said. "When you look at Forever 21, and you start thinking to yourself: Why am I going to a mall to go to Forever 21 rather than clicking on my computer or scrolling on my phone?"

Forever 21 also faced bad timing following its 2019 Chapter 11 case, in which it found a buyer in February 2020, just as COVID-19 pandemic restrictions were being put into place.

Other major retail bankruptcies in 2025 were from WeightWatchers in May, with more than $1 billion in liabilities, and arts and crafts retailer Joann, which returned to Chapter 11 in January after an earlier case from March 2024.

Healthcare Reckoning Continues

The healthcare industry continued to face a financial reckoning, producing in Genesis Healthcare one of the most contentious Chapter 11s of 2025.

The nursing home company filed for bankruptcy relief in July with more than $2 billion in liabilities, and its proposed $40 million sale prompted Democratic lawmakers, including U.S. Sen. Elizabeth Warren of Massachusetts, to call for an examiner to be appointed in the case.

The lawmakers argued the winning bidder for the debtor is an insider and would wipe away claims from negligence claimants.

In December, U.S. Bankruptcy Judge Stacey G.C. Jernigan found that Genesis would have to restart its auction process, saying she was not convinced the debtor's first attempt at selling its assets had been fair.

Genesis had selected CPE 88988 LLC, an affiliate of a private equity firm named ReGen Healthcare LLC that bought into Genesis, as the winning bidder.

"I don't know how the end of that book will be written," Lieberman said of the hotly contested case, which ended the year in its early stages despite having launched in July. "Perhaps we'll be talking about that one next December also."

After the auction results were thrown out, the U.S. Trustee's Office moved to appoint a Chapter 11 trustee in the case, alleging the nursing home operator's case was being undermined by an insider and his loyalists and arguing that new, independent oversight is needed.

Raanan noted the case feeds into the narrative of private equity firms taking control of businesses and then stripping them of their assets.

Joel Landau, a Genesis insider, has been accused by creditors of a pattern of acquiring nursing home companies, siphoning off value, pushing them into bankruptcy to shed tort liabilities and then selling the cleaned-up assets to himself.

Another major healthcare bankruptcy in 2025 was from Prospect Medical.

Prospect filed for Chapter 11 protection last January with over $1 billion in debt. The multistate hospital operator planned to shed its least profitable hospitals to focus on its more profitable operations.

In the spring it closed two Pennsylvania hospitals despite having worked for several months with state regulators to keep the safety-net hospitals open. Prospect found buyers of its other hospitals in California, Connecticut and Rhode Island.

Healthcare-related bankruptcies stand out, Raanan said, because of the potential life-and-death consequences. The trends in the industry are "worrisome" and could get worse, he added.

--Editing by Covey Son.
