

A Legal Shakeup in Houston's Corporate Bankruptcy Landscape



The sudden resignation of a prominent Houston judge has cast a shadow of uncertainty over the city's status as a favored destination for corporate bankruptcy filings. The departure of Judge David R. Jones, who was instrumental in establishing the reputation of the US Bankruptcy Court for the Southern District of Texas, has prompted questions about the future of Chapter 11 filings in the region.

The Jones Scandal

The US Bankruptcy Court for the Southern District of Texas found itself at the center of controversy following the resignation of Judge David R. Jones. Jones departed after revelations that he had concealed a romantic relationship with a local attorney from Jackson Walker LLP, a law firm frequently representing large corporations in his courtroom. This relationship raised concerns about potential bias in his rulings.

Creating the Complex Case Panel

Judge Jones played a pivotal role in implementing the complex case panel in 2016, a system designed to assign significant Chapter 11 cases to either Jones himself or another Houston-based judge. This arrangement offered predictability and efficiency that attracted high-dollar cases to the region.

Reassignment of Caseload

Following Judge Jones's resignation, his enormous caseload of approximately 4,200 cases was reassigned. The new complex case panel consists of Judges Marvin Isgur and Christopher Lopez.

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Potential Implications for Corporate Filings

While it remains too early to gauge the full impact of Judge Jones's resignation, corporate bankruptcy attorneys may now consider alternative venues for filing Chapter 11 cases due to the loose federal rules governing venue selection. Judge Isgur boasts 19 years of experience, while Judge Lopez is relatively junior, with four years in the field. Popular venues like Delaware and New York may become more attractive options for filers.

The Kirkland Effect

Kirkland & Ellis LLP, a major law firm, has significantly boosted Houston's reputation as a corporate bankruptcy hub by filing numerous large Chapter 11 cases in the region. However, the firm has also been filing cases in the US Bankruptcy Court for the District of New Jersey, leading to the possibility of cases shifting away from Texas, a development that could impact Houston's appeal.

Historical Surge in Filings

The Southern District of Texas saw a surge in significant corporate bankruptcy cases, particularly in the oil and gas industry, during a prolonged period of low commodity prices starting around 2015. Implementing the two-judge complex case order 2016 streamlined the adjudication process, attracting more high-profile cases to the district. The Southern District of Texas overtook New York in 2020, becoming the second most popular megacase venue, trailing only Delaware.

Jones's Unprecedented Influence

Over the past decade, Judge Jones presided over more corporate debtors with over \$1 billion in assets and liabilities than any other judge in the country, solidifying his status as a prominent figure in the bankruptcy world.

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The Unfolding Fallout

Jones's concealed relationship with attorney Elizabeth Freeman has had ripple effects, with parties now scrutinizing his neutrality in Jackson Walker cases. These developments have raised questions about the future of the district's reputation as a bustling magnet court.

Uncertainty Looms

With Judge Jones stepping down, Judges Isgur and Lopez now occupy the complex case panel. The Southern District of Texas is working to fill the vacancy left by Judge Jones's resignation, which could take several months. The court's ability to maintain its appeal to debtors' counsel will depend on its willingness to continue handling large and complex cases efficiently.

Potential Rival Courts

The emergence of other courts seeking to replicate the Southern District of Texas's efficient procedures, like the Northern District of Texas, could further challenge Houston's status as a corporate bankruptcy hub. As attorneys explore alternative options, the landscape of Chapter 11 filings may undergo a significant transformation.

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