

Christmas Tree Shops Preference Dismissal for Failure to Plead Pre-Lawsuit Due Diligence: An Early Holiday Gift for Trade Creditors

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Credit managers increasingly find themselves navigating preference exposure in bankruptcy cases—both as custodians of payment histories and as first-line recipients of pre-suit communications from trustees. Preference law is designed to prevent unequal treatment among creditors in the run-up to bankruptcy, but it has long imposed substantial costs on trade creditors who received routine payments in the ordinary course. The Small Business Reorganization Act of 2019 amended 11 U.S.C. § 547(b) in an attempt to rebalance these dynamics by requiring trustees to conduct and plead “reasonable due diligence” and to take into account a creditor’s known or reasonably knowable affirmative defenses before suing.

On December 5, 2025, the Delaware bankruptcy court dismissed a Chapter 7 trustee’s preference complaint in the *Christmas Tree Shops* bankruptcy case for failing to...

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