

Selendy Gay Reaches Favorable Settlement in STG Logistics Liability Management Dispute

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Selendy Gay clients, Siemens Financial Services and Axos Financial, reached a favorable settlement in their litigation against STG Logistics, certain of its lenders, and the administrative agent of STG's loans. The dispute arose out of STG's 2024 liability management transaction, a "double-dip" transaction that transferred away critical credit support for our clients' loans. The settlement paved the way for a consensual confirmation process in STG's Chapter 11 bankruptcy cases.

Taking a broader view, the settlement offers some important takeaways for lenders, sponsors, and other stakeholders. While disputes over liability management transactions are unlikely to abate, this settlement reflects that final merits rulings (at summary judgment or after trial) on the permissibility of particular liability management transactions remain infrequent, and most such disputes are resolved prior to trial. The willingness of defendants in such disputes to negotiate a resolution may be amplified if the borrower has filed Chapter 11, such that the dispute poses an impediment to a consensual exit from bankruptcy, though the leverage excluded lenders have to reach a favorable settlement in such circumstances may materially depend on the amount of progress they have made litigating their claims prior to a bankruptcy filing.

As to the future of liability management transactions, we are unlikely to see a slowdown, though high-profile disputes may further incentivize dealmakers to attempt to avoid future litigation, by designing transactions to be more pro rata and engaging with holdouts earlier in the process to reduce post-closing litigation risk, and/or by using coercive tactics to discourage smaller lenders from bringing suit.

Bottom line--minority lenders continue to have leverage in fighting these transactions, but it remains to be seen how dealmakers will evolve to mitigate the fallout.

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Practice

- Liability Management Transactions