

# NY Court Denies Motion to Dismiss Excluded Lenders' Claims in STG Logistics LMT Litigation

01/07/26

On January 3, 2026, in a significant win for Selendy Gay minority lender clients, Acting New York Supreme Court Justice Anar Rathod Patel almost entirely denied the defendants' motions to dismiss the excluded lenders' claims in the STG Logistics, Inc. ("STG") liability management transaction ("LMT") litigation. *Axos Fin., Inc. et al v. Reception Purchaser, LLC et al*, Civ. Case No. 650108/2025 (Sup. Ct. N.Y. County 2026).

First, Justice Patel sustained all of the plaintiffs' claims based on alleged violations of their contractual "sacred rights" and other provisions of the credit agreement from STG's non-*pro rata* debt exchange and asset drop-down in the LMT. In doing so, Justice Patel ruled on the permissibility of credit agreement amendments that purport to allow the borrower to extend the grace period for interest payments until maturity without triggering an event of default, an increasingly common tactic in LMTs. While the defendants argued that the relevant amendment did not actually delay any interest payments and therefore did not violate any sacred rights, the court disagreed and ruled that the plaintiffs properly alleged "a violation of their sacred right to receive their entitled pre-maturity interest payments" because "[a]lthough Plaintiffs currently receive interest payments, they do so only at the will of STG. This alleged violation impacts the reasonable expectation of Plaintiffs when investing in these loans to receive a specified stream of cash flow on specific dates."

Second, Justice Patel sustained a claim for violation of the implied covenant of good faith and fair dealing. The defendants argued that the appellate court's decision dismissing such a claim in *Mitel* should be read broadly to foreclose implied covenant claims in LMT disputes among sophisticated parties to detailed credit agreements. *Ocean Trails CLO VII v. MLN Topco Ltd.*, 233 A.D.3d 614 (N.Y. 1st Dept. 2024) ("*Mitel*"). But the court disagreed that *Mitel* required dismissal of plaintiffs' claim, concluding that "the crux of Plaintiffs' allegations are that Defendants' amendments to the [credit agreement] flew in the face of their reasonable expectations of negotiated lender protections in the [credit agreement] in contrast to *Mitel*, where the parties did not specifically negotiate amendments to prohibit the contested transaction." Thus, the court ruled that "Plaintiffs sufficiently allege facts and conduct in support of their claim for breach of the implied covenant that are distinct from their breach of contract claims."

While Justice Patel's decision on the motions to dismiss does not finally resolve the parties' dispute, and the STG defendants have filed a notice of appeal, it provides a roadmap for how courts may address similar claims by minority lenders in the post-*Mitel* world.

## Attorneys

- Kelley Cornish
- Jennifer Selendy
- Maria Ginzburg
- David S. Flugman
- David A. Coon
- Claudia R. Tobler

## Practice

- Bankruptcy and Insolvency