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U.S. Liability Management Transactions: Quarterly Update Through Q4 2025 and Primer

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The Bottom Line™:

- In this regularly released report, we provide a summary of key Liability Management Transaction (LMT) trends and themes through the fourth quarter of 2025.
- We discuss ongoing litigation and bankruptcy matters relating to LMTs.
- As always, we also provide brief descriptions of the most common structures of LMTs, along with visual representations of these structures. We also summarize the current state of "blocker" provisions.
- This quarterly is also accompanied by a separate excel file listing LMTs of note that have been tracked by Covenant Review and LFI since 2013 through the end of 2025.

I. Overview

Whether called "creditor-on-creditor violence," "distressed debt exchanges," or "out-of-court restructurings," Liability Management Transactions (LMTs) have played host to an ever-escalating arms race of gamesmanship between and among creditors and borrowers. Indeed, over the course of the past several years, distressed companies have demonstrably proved a willingness to pursue alternatives to capital restructuring outside of the traditional bankruptcy mechanisms, to the point that LMTs may have become the preferred avenue for dealing with unsustainable debt loads.

With the focus on LMTs increasing every year, this report seeks to provide a comprehensive overview of key issues for market practitioners, lawyers, and restructuring advisors. It is split into two main sections: Parts I through IV cover key trends, bankruptcy matters, litigation, and recovery data while Parts V and VI are primers on LMTs generally. Additionally, as an addendum to this report, we have included an excel file compendium of LMTs tracked by Covenant Review and sister

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company LevFin Insights since 2013, including both public and known private transactions, through December 2025.

The report is regularly updated on a quarterly basis and is primarily focused on transactions with a material US nexus. For research on the current state of European LMTs, see European Liability Management 2025 Year in Review: European LMTs Have Landed.

Lastly, for a broader discussion of the strategic themes, sector trends, and market and legal developments in the world of liability management, bankruptcy, and distressed investing in 2025 and looking forward into 2026, please see U.S. Special Sits: 2026 Outlook & 2025 Review, a joint report produced by CreditSights, Covenant Review, and LevFin Insights. For those who need additional introduction to LMTs, please view our three-part introductory webinar series on LMTs: Part 1, Part 2, and Part 3 are each available on the CreditSights Webinar Library and on our YouTube channel.

II. LMT Trends and Themes in 2025

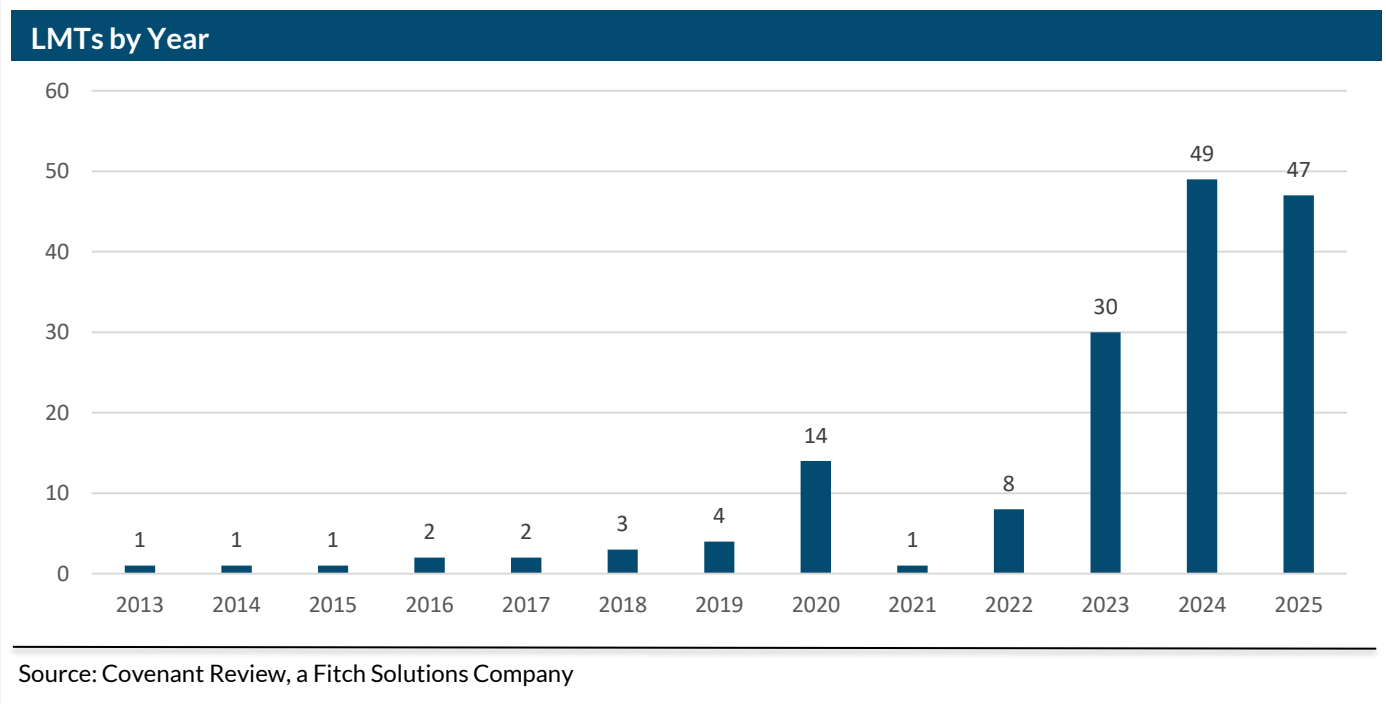

Figure 1

There is no question that 2025 was a significant year for LMT activity. Covenant Review and LFI tracked eight LMTs that were announced or completed over the course of the fourth quarter of 2025, resulting in a 47 LMTs total in 2025 (versus 49 in 2024), though of course given the somewhat subjective nature of categorizing LMTs, we can confidently assert that the pace of LMTs was essentially equivalent for both years. On a more zoomed-in timeframe, however, LMT activity did step down in the fourth quarter compared to prior periods (eight transactions versus 13 in Q3). The

cause of this late year slowdown is not yet clear, though potential reasons may be a pullback in light of uncertainty arising from certain pending court cases, or—more likely, merely a quirk in the schedules of restructuring advisors, as the overall number of potential LMT candidates has remained robust. LFI's Restructuring Runway in January 2026 reporting 50 issuers at risk of an LMT in the near term (compared with 51 in January 2025).

We comment on a few salient themes and trends as of the end of 2025:

- **Uptiers still on top (*Serta* who?):** Uptiering continued to dominate as the preferred path towards restructuring with 37 out of the 47 tracked transactions in 2025 (and six out of eight in Q4) featuring some uptiering element. Reports of the demise of uptiers post-*In re Serta* (2024) appear to have been greatly exaggerated. See The impact of the Serta (2024) decision below.
- **But drop-downs get their due:** That said, major drop-down LMTs also enjoyed their share of headlines, as this form of LMT remains a favorite if the intention is to bypass existing creditors entirely—see, e.g., Patrick Drahi's double-header LMT bombshell under both the Altice International and Optimum (nee Altice USA) umbrellas. Additionally, drop-downs relating to receivables and ABS financings also gained greater attention, particularly in the cable and telecom spaces, such as Zayo Group and Altice USA / Optimum (again). While ABS and other off balance sheet liabilities also raised eyebrows in the First Brands Group's free-fall bankruptcy, Covenant Review generally does not consider that series of unfortunate events to be an LMT.
- **Circling the wagons:** Creditor cooperation took the spotlight in Q4 (and throughout much of 2025 as a whole), which saw the return of of anti-cooperation provisions in the new issue market after a full quarter hiatus. Altice USA / Optimum (yes, again) also implemented some of the most aggressive anti-coop language yet seen in its unrestricted subsidiary financing disclosed in November 2025. Additionally, coop creditors faced off against other creditors as well as issuers in novel antitrust litigation arising from cooperation agreements. See below on *Creditor cooperation under attack* for additional discussion on this trend.
- **Fool me once, shame on you…fool me twice, also shame on you:** LMTs have seemingly taken a page from Hollywood's playbook, as sequels abounded. In Q4 alone, several companies followed up on earlier restructurings with a second LMT (including with respect to Apex Tool Group, Springs Window Fashions, Sabre, and, oh hello again, Altice USA / Optimum). The prevalence of such second trips to the LMT well suggests a growing tension between LMT expectations and reality. Ultimately, LMTs are financially engineered transactions that rarely address underlying credit issues—following the completion of an LMT, many of these distressed companies often stay distressed. In such cases, the companies are faced with a difficult choice of further financial engineering, as evidenced by these subsequent exchange events (and the scope of which may be limited by post-LMT documentation[1]), or a more significant restructuring in the form of

[1] See US Insight: LMT Facilities vs Pre-LMT Loans, by the Numbers.

recapitalization / equitization and/or bankruptcy.

- **Know when to hold 'em, know when to fold 'em:** Though the mileage may vary, at least in certain cases, LMT holdouts (those who refused to participate in proposed exchanges) were able to extract better terms, particularly in Better Health and Tropicana. In both cases, the holdouts reached agreement with the borrowers without litigation being filed. Whether holding out is a valid strategy in the dog-eat-dog world of LMT practice is likely dependent on a number of factors (and cannot be generalized as an ironclad strategy in all instances). These factors include, among other things, (1) how "aggressive" the LMT is perceived to be, (2) whether the LMT utilized any novel provisions / technology, (3) the number of hold-outs and amounts held by such hold-outs, and (4) anticipated costs of litigation. With respect to this last point, the ongoing STG Logistics litigation (where holdout lender plaintiffs recently survived a motion to dismiss) is starting to look like a cautionary tale for issuers.[2]
- **I DRINK YOUR MILKSHAKE!:** Efforts by sponsors and issuers to control as many aspects of the LMT process as possible became a recurring theme in 2025—particularly in respect of new issue provisions. In addition to "anti-cooperation" clauses (as noted above), 2025 also saw the emergence of "anti-law firm" provisions (intended to block engagement of specifically blacklisted buy-side advisors and law firms), as well as the growing prevalence of provisions designed to exert additional issuer control over lender syndicates. See Creditor Rights Coalition Special Feature: The Latest Game of Whack-a-Mole Between Sponsors & Lenders.
- **Get off the (omni)bus:** 2025 also saw an increased focus on omnibus blockers as a potential panacea to the onslaught of LMTs. Such blockers broadly prohibit borrowers and issuers from engaging in future liability management transactions. Assuming that modifications or waivers to an omnibus blocker are also treated as a "sacred right" matter, such blockers could provide nearly inviolable protection for creditors…at least in theory. Of course, the actual protection afforded by such blockers will depend on how broadly or narrowly the blocker defines what a "liability management transaction" is (which, as we discussed below in Part V, is a difficult exercise in itself). Further, any omnibus blockers will also need to overcome the countervailing incentive of those creditors who may wish to preserve the company's restructuring flexibility, particularly if they expect to be on the "winning" side of subsequent creditor-on-creditor conflicts. While omnibus blockers have appeared in some post restructuring deals (and at least one syndicated deal), they remain relatively rare, even in the post-LMT landscape.[3]

[2] Note also that STG Logistics filed for bankruptcy on January 12, 2026.
[3] For some recent examples of omnibus blocker language, see CommScope's Term Loan Credit Agreement, dated December 17, 2024 (Section 7.12), Spirit Airlines' Indenture, dated March 12, 2025 (Section 4.35), and Optimum's unrestricted subsidiary Credit Agreement, dated November 25, 2025 (Section 6.01).

Post-LMT bankruptcies

Mitel launched 2025's LMT-to-bankruptcy pipeline with its filing in March. This was followed by a trio of bankruptcy filings in Q2 2025 (four, if we count Altice France's Chapter 15 filing in June), with another three bankruptcies filed in Q3, and one in Q4 (United Site Service's late year filing), bringing 2025's casualty list to nine filings. Though not part of the 2025 cohort, STG Logistics filed for bankruptcy on January 12, 2026 and with Saks' bankruptcy following closely thereon late on January 13, 2026.

Firm	LMT date (circa)	Bankruptcy filing date
Saks	2025 June	13-Jan-26
STG Logistics	2024 October	12-Jan-26
United Site Services	2024 September	29-Dec-25
Anthology	2024 April	30-Sep-25
Modivcare	2025 January	20-Aug-25
LifeScan	2023 May	15-Jul-25
Del Monte Foods	2024 April	1-Jul-25
Altice France (Chapter 15)	2024 May	17-Jun-25
At Home	2023 May	16-Jun-25
Ascend Performance Materials	2025 Mar	21-Apr-25
At Home	2023 May	16-Jun-25
Del Monte Foods	2024 April	1-Jul-25
Mitel	2022 October	1-Mar-25

To date, Covenant Review and LFI have tracked 37 bankruptcies (25%) ultimately resulting from 148 LMTs (without double counting those companies that conducted more than one LMT before filing)

Though there was only one US bankruptcy filing in Q4 2025 from a company that previously completed an LMT (United Site Services), a slew of bankruptcies may be in the offing (with Saks and STG Logistics filing shortly after year end). Conventional wisdom holds that LMTs will buy a distressed borrower or issuer around 48 months (and in many cases, significantly less) of additional runway. For the LMT class of 2024 and 2023 (roughly 80 transactions), that unofficial deadline is fast approaching or has already passed. Of these names, thirteen have already filed for bankruptcy at least once. As for the remainder, some names to look out for in the coming months include Pretium Packaging (initial LMT in October 2023), Brightspeed (August 2024), Trellix (August 2024), Sonrava Health (August 2024), Alkegen (October 2024), and New Fortress Energy (November 2024). Whether these and other names will engage in a second or third LMT or whether they will be forced to file for bankruptcy will be a key question for 2026. A third option—handing the keys to creditors—has also started to make an appearance, with recapitalizations noted in a number of major prior LMTs (including SI Group and City Brewing, both in the latter half of 2025), though one could argue that such equitizations are themselves types of LMTs (or at least a distant relative).

Creditor cooperation under attack

Although 2025 was technically the Year of the Snake, it could perhaps be better called the Year of the Cooperation Agreement. Cooperation agreements (or "co-ops") have become a popular response by creditors in the past few years to LMTs. Such agreements bind the signatories together to act in a unified manner when negotiating LMTs or other restructuring transactions. Co-ops can be used both as tools to facilitate or block LMTs, depending on how they are written. Some may seek to encompass as large as percentage of creditors as possible (inclusive co-ops) while others may be structured to only account for majority groups, with the intention to obtain the best terms for members of the coop group, perhaps at the expense of other creditors (exclusive co-ops). Additionally, co-ops may themselves be bifurcated or tiered with certain members treated better or worse economically than others (often with "steerco" members getting the benefit of certain fees at the expense of other signatories[4]).

Anti-cooperation provisions

Borrower and sponsor-side responses to cooperation have been ambivalent, which accords with the fact that many of the largest financial sponsors also tend to have significant credit arms, and, as such, may benefit from cooperation arrangements as often as they are forced to negotiate against them as sponsors.

To that end, the primary approach to addressing the "cooperation problem" has been in the form of proposed anti-cooperation language, which technically prohibits creditors from entering into

[4] See, e.g., US Special Situations: Medical Solutions lender group splits up, new coop features aggressive tiered system; Glenn Agre eyes minority counsel role – Reissue and US/EMEA Special Situations: Foundever lenders extend co-op; expanded steerco carveout sparks potential minority group formation.

cooperation agreements, but in practice puts the authority to create creditor groups in the hands of the borrowers themselves (usually by allowing such co-op groups to form if the issuer or borrower otherwise consents). Such language was first seen in November 2024 in the Stepstone transaction out of Europe (though only at the "early bird" phase—the language was withdrawn prior to the launch of general syndication[5]). This was followed by a pair of US deals in Q1 2025 with similar provisions (Avalara and WHP Global), though in both cases, the language was also flexed out after a vociferous rejection by the buy-side. In Q2 2025 anti-cooperation language made an appearance in an IG consent solicitation for Warner Brothers Discovery.[6] Anti-cooperation largely lay dormant through Q3 before reappearing in Q4 in a Heidrick and Struggles LBO financing (where it was also flexed out). Anti-cooperation provisions up to this point have been similarly formulated, with consequences of breach generally limited to some combination of disqualification (i.e., becoming open to the "yank-a-bank"), disenfranchisement (i.e., losing voting rights), and/or the risk of being sued for breach of contract.

Subsequent to Heidrick, the market came face to face with Altice USA / Optimum Communications' unrestricted subsidiary financing, which included the most punitive anti-cooperation provision encountered thus far. Optimum's formulation posits that joining a cooperation agreement will force the offending lender to "forfeit its right to receive payment" with all obligations held by such lender "treated as no longer outstanding for purposes under this Agreement." Essentially, the debt held by a lender who enters into a cooperation agreement is outright cancelled. The provision also requires lenders to regularly "report" if they have violated the anti-cooperation provision, with failure to do so also allowing payments to be withheld. *See* Optimum Communications: Welcome to the Scorched Earth Era of Anti-Cooperation.

We note, however, that nearly all anti-cooperation provisions have failed to clear the market, as the buyside appears to have marked the concept as a red line in negotiations. The two known exceptions where such language does exist within definitive documentation are (1) Warner Brothers Discovery exchange offer and (2) the unrestricted subsidiary financing at Optimum Communications—though both are arguably edge cases outside of the traditional syndicated leveraged debt processes. Even as individual instances are shot down, we expect issuers and borrowers to continue to float anti-cooperation provisions in new deals, with it being only a matter of time before some variation eventually clears the market.

Antitrust litigation

Apart from anti-cooperation provisions, the other major responses to cooperation arrangements have been playing out in the courts on the basis that creditor cooperation violates Federal and/or state antitrust law. The two cases, however, differ in the details. In *Selecta* (filed in October 2025 in the Southern District of New York), the issuer and participating bondholders are being sued by

[5] See US/EMEA Pipeline: Stepstone prepares to launch ~€1.9bn-equiv. euro/dollar term loan, without proposed co-op consent requirement.
[6] See Warner Bros. Discovery Exchange: The "Non-Boycott" Covenant.

certain excluded borrowers. In *Optimum* (filed in November 2025 also in S.D.N.Y.), an inclusive cooperation agreement is at issue, with the issuer suing the creditors in that agreement.

See Part III (Litigation Updates) below for a more detailed discussion of these two cases. Additionally, see our webinar on these issues, which took place on Tuesday, January 13, 2026.

Outlook for 2026

From a holistic standpoint, heading into 2026, the landscape for LMTs remains essentially unchanged from the previous year, as we expect distressed issuers to continue to face macro-economic headwinds that may force them towards out-of-court capital solutions. Anecdotally, at least, our colleagues at LevFin Insights have also noted that co-op groups and other creditor defensive maneuvering have continued unabated in recent months. Please see LFI's US Special Situations: LFI Restructuring Runway Report – January 2026 for a curated list of distressed issuers with potential LMTs in the near term. Headline names to look out for include (and are by no means limited to): Optimum, DISH/EchoStar, New Fortress Energy, Peraton, QVC, Telesat, and Xerox, among others.

As always, facilitating the LMT process is weak covenant protections across much of the high yield and BSL markets, which continues to plumb new depths with each quarter. Per CR Trendlines, for the BSL market, covenant protections have steadily declined over the past decade (see Figure 2 below.) During the fourth quarter, the Covenant Score average stood at 3.89—on Covenant Review's scale of 1 (most protective) to 5 (least protective)—which was slightly more aggressive than the third quarter's average of 3.83 and toward the less protective end of the historical range. For PE-driven loans, likewise, the average Covenant Score deteriorated to 4.15—***the loosest on record***—from 4.07 in the third quarter.[7]

Finally, as discussed above, we also expect to see the trend of recapitalizations, second or third LMTs, and/or bankruptcies for the 2023 / 2024 cohort of LMTs (and even some LMTs from this past year) to accelerate in the coming quarters.

[7] See CR TrendLines - Loan Covenant Trends January 2026.

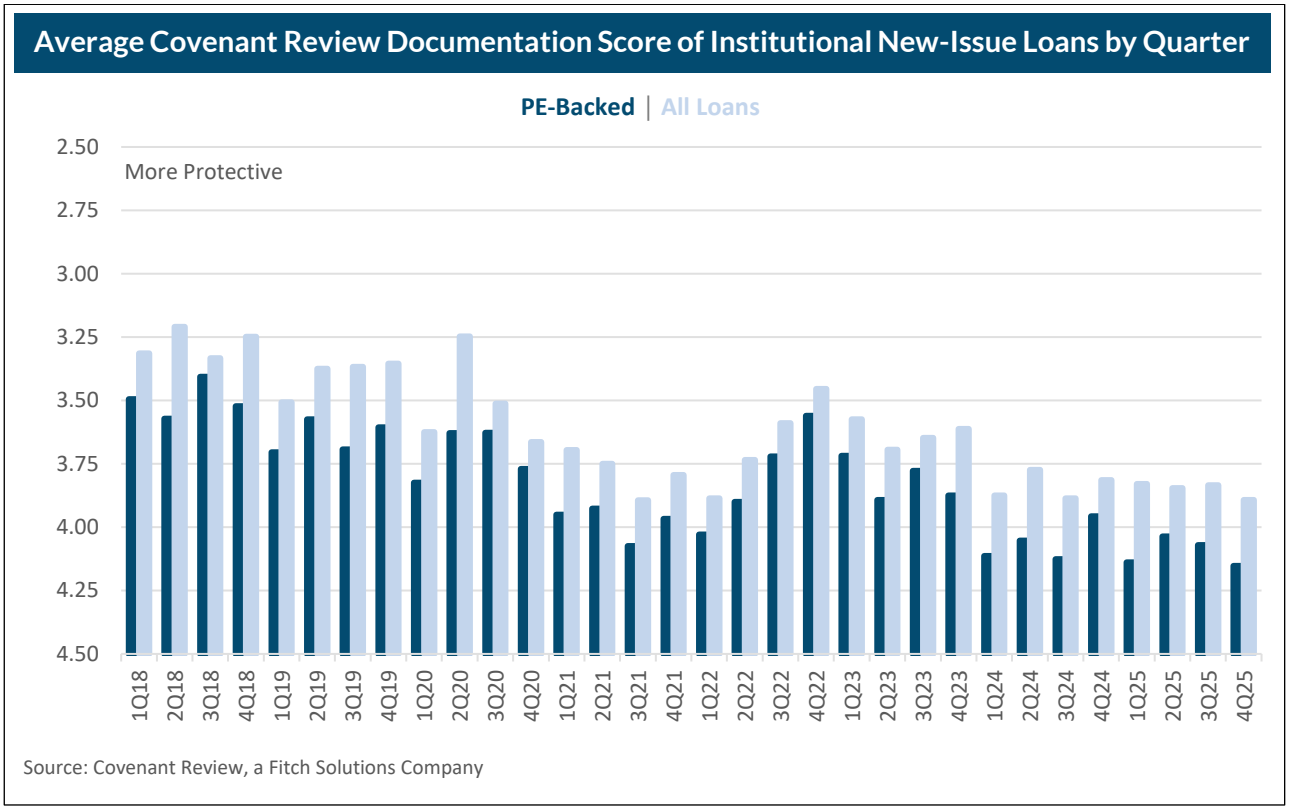

Figure 2

III. Litigation Updates

A summary of the most notable ongoing court cases relating to liability management through Q4 2025 (and into Q1 2026) follows:

STG Logistics (NY Sup. Ct, County of New York; Bankr. D.N.J.): STG Logistics' fall 2024 LMT ran the gamut of LMT structures, and included drop-down, tiered non-pro rata exchanges, and double dip components. Despite closing with roughly 93% participation from existing creditors, two holdouts, Audax and Siemens Financial, sued the company, participating lenders, and Antares (as agent) alleging a variety of breach of contract claims, as well as claiming a violation of New York's fraudulent transfer law (the Uniform Voidable Transactions Act), and a breach of the implied covenant of good faith and fair dealing. Defendants filed motions to dismiss in spring 2025 (including on the basis that the plaintiff lack standing due to the credit agreement's no action clause) and oral arguments were held before Judge Anar Patel of the Supreme Court of New York in August 2025. In a victory for plaintiffs, Judge Patel ruled on January 5, 2026, that most of the plaintiffs' claims would survive the motion to dismiss (with the notable exception of a fraudulent transfer claim). As noted above, the company filed for bankruptcy protection on January 12, 2025 in the District of New Jersey with a $150 mn DIP in place and a prearranged plan to shed 91% of its funded debt load. See also Five Notable Arguments Worth Paying Attention to in STG Logistics' LMT Litigation and STG Logistics – Plaintiffs Survive the Motion to Dismiss Largely Unscathed.

United Site Services (Bankr. D.N.J.): Porta-potty provider and Platinum Equity-backed United Site Services filed for Chapter 11 bankruptcy protection on December 29, 2025, in the US Bankruptcy Court for the District of New Jersey (Judge Michael Kaplan presiding), with first-day hearings taking place the next day. While a DIP financing was granted temporary approval by Judge Kaplan, it faced an objection from prepetition lender CastleKnight Master Fund, which had signaled its intention to file an adversary complaint to contest the company's 2024 double dip-related LMT. On January 12, 2026, LFI reported that the company had agreed to mediate with an ad hoc crossover group and CastleKnight. Retired bankruptcy judge Robert Drain will serve as mediator.

Incora (S.D. Tex; 5th Cir.): The Incora litigation derives from a March 2022 uptier LMT in which the issuer released collateral on existing secured bonds, which collateral was then offered to secure $250mn of new money as well as new bonds (issued in an exchange open only to participating holders). Non-participating bondholders were left with newly unsecured bonds at the bottom of the capital structure. The transaction depended in large part on a "vote rigging" tactic, whereby tack-on bonds were issued (with just majority consent) to meet the supermajority 66 2/3% consent threshold to release collateral (via a separate agreement). During Incora's subsequent bankruptcy proceedings, presiding Judge Marvin Isgur delivered an oral decision voiding a portion of the March 2022 transaction, which was followed by a series of "Report and Recommendations" in which he wrote that the two-part transaction was functionally one due to the "automaticity of the closing events." While this would seem to inhibit future "vote rigging" transactions, Isgur's holding later came into question with District Court Judge Randy Crane entering a docket text minute entry vacating key portions of the second Report and Recommendation and ruling that the 2022 transaction was in fact "proper and appropriate." Judge Crane's written decision was handed down on December 8, 2025 upholding Incora's LMT, stating that noteholders left out of the deal could have bargained to prevent the LMT but failed to do so. In his decision, Judge Crane unequivocally stated that "This Court refuses to find any implied sacred rights." Minority bondholders filed a notice of appeal on January 7, 2026, sending the matter to the Fifth Circuit.

Optimum Communications (S.D.N.Y.) In a potentially landmark case involving cooperation agreements, Optimum Communications filed an antitrust suit against a consortium of its lenders in November 2025. The company alleges that the creditors orchestrated a group boycott through a Cooperation Agreement that effectively locked Optimum out of the U.S. leveraged-finance market. The agreement bars Optimum's creditors from negotiating or transacting with Optimum unless a supermajority consents. The complaint argues that such agreement suppresses competition and fixes the price of Optimum's debt. With the group's members allegedly controlling roughly 88% of the U.S. leveraged-finance market (and owning nearly all of Optimum's outstanding bonds and loans), the complaint argues that Optimum cannot refinance or raise new capital on market terms. Optimum contends this "cartel" violates the Sherman Act's ban on horizontal boycotts and price-fixing, as well as the contractual flexibility embedded in its original credit agreements. The company seeks to void the agreement, enjoin its enforcement, and recover treble damages. As with *Selecta*, the court's treatment of these claims could prompt creditor groups to reassess the legal risks associated with similar agreements going forward. See Optimum Communications: The Co-op

Antitrust Complaint.

Selecta (S.D.N.Y.): Selecta Group, a Swiss vending machine company backed by KKR, defaulted on its €821mn in first-lien notes in April 2025, after which the favored noteholder group accelerated the debt and enforced the company share pledge, taking control of the group. Existing holders were left with third-out notes (issued by the creditor-owned bidco) that were exchangeable for first-out notes, but there was a catch: sacred rights were suspended for 12 months, leaving the minority at risk of further maneuvers by the majority ad hoc group. In October 2025, a group of minority noteholders filed a lawsuit against Selecta and the majority noteholders, introducing a novel element to the typical creditor-on-creditor dispute framework. Rather than relying solely on the argument that the LMT breached the governing debt instruments, the excluded holders also alleged that the majority noteholders' cooperation agreement and actions in relation to the share enforcement violated federal and state antitrust laws. In another interesting feature, the complaint also alleged that the transaction breached an English law principle that applies to the exercise of majority powers to bind a minority in the same creditor class. The court's treatment of the antitrust claims related to the cooperation agreement could have material implications for LMT strategies going forward, as a finding that such coordination among creditors violates antitrust laws may prompt companies and creditor groups to reassess the legal risks associated with similar agreements. Similarly, a decision in relation to the minority protection principle could affect use of the distressed disposal mechanics under English law-governed intercreditor agreements, which often sit alongside New York law-governed bonds issued by European companies. See Selecta: Uptiering Lawsuit Raises Antitrust Arguments Against Cooperation Agreement and Aggressive LMT.

Hunkemöller (NY Sup. Ct, County of New York): In July 2024, Dutch company Hunkemöller engaged in an uptiering transaction by way of a series of bond indenture amendments, including removal of the Payments for Consent covenant and a change to the payment priority waterfall that made the majority holder Redwood Capital's notes first out and all other existing notes second out. Another distressed disposal followed, with Redwood Capital taking over the company. In response, the subordinated bondholders filed suit in New York state court in November 2024 alleging, among other things, that actions taken in relation to removal of the Payments for Consent covenant (which requires that the issuer offer consent consideration to all bondholders, rather than select bondholders) had *itself* violated that very covenant. Notably, the claim for the breach of the Payments for Consent covenant survived a July 2025 motion to dismiss (though with Judge Anar Patel—the same judge presiding over STG Logistics—suggesting that the allegations were nevertheless somewhat "light") alongside technical claims related to whether the transaction constituted a redemption, exchange, and/or reduction of principal amount. In addition, the distressed disposal is being challenged in a UK claim, with the plaintiffs again alleging breach of the English law minority protection principle. Tort claims are also expected in Luxembourg along with a challenge of the share enforcement in Dutch court. The New York case is ongoing as of the date of this report.

Serta Simmons (5th Cir.; Bankr. S.D. Tex): Serta's seminal LMT litigation reached a climax on December 31, 2024, when the Fifth Circuit court held that "open market purchases" necessarily requires that buybacks be conducted *through an open market* (the market in this instance being the BSL market), which does not include privately negotiated transactions between the borrower and specific lenders. Accordingly, the open market purchase mechanism in Serta's prepetition credit facilities *did not* justify its 2020 uptier LMT (see Serta: Implications of the Fifth Circuit's "Open Market Purchase" Holding in In re Serta). The Fifth Circuit remanded the case back to the bankruptcy court (now being managed by Judge Christopher Lopez—replacing Judge David R. Jones) to address non-consenting lenders' breach of contract claims. A trial is now scheduled for March 2026 for the re-litigation of these claims, though Judge Lopez has encouraged the parties to enter mediation in the interim. Serta later filed a motion for a summary judgment that would effectively remove the company as a party from the ongoing litigation. Judge Lopez on Nov. 12 delivered a bench ruling that granted the company's request, relieving Serta of staying involved as the lenders prepare to battle again.

Lionsgate (NY Sup. Ct, County of New York): Lionsgate's LMT in May 2024 involved the exchange of $383mn of its $715mn outstanding 5.5% senior unsecured notes due 2029 (issued out of the struggling STARZ business) into the new 6% notes issued by the more profitable Lions Gate studios business. Certain bondholders left holding the STARZ notes filed suit against Lionsgate in August 2024, alleging violations of the 5.5% senior unsecured notes' indenture's "sacred rights" provisions. Claiming that the exchange did not garner *actual* required bondholder consent, the plaintiffs are seeking the payment of all amounts owed under the notes, among other remedies. The case is pending as of the date of this report.

Robertshaw (S.D. Tex): Robertshaw involved two separate sets of LMTs entered into over the course of 2023. Aggrieved lenders filed various lawsuits, and on June 20, 2024, a decision was issued in one of these cases, *In re Robertshaw US Holding Corp*. In the opinion, Judge Lopez of the Southern District of Texas Bankruptcy Court ruled that Robertshaw and certain of the lenders violated the credit agreement when they structured a portion of an LMT by issuing new debt out of an entity that was a "Subsidiary" in the meaning of the credit agreement. However, Judge Lopez also ruled that the remedy for this contractual breach would be limited to money damages and not an equitable remedy. A summary of the ruling written by LFI is available here. Robertshaw has since emerged from Chapter 11 bankruptcy protection, with an effective date of October 1, 2024. Invesco, which was a plaintiff in the above-mentioned adversary litigation and was granted an unsecured funded debt claim in the reorganization plan, appealed Judge Lopez's opinion to the U.S. District Court of the Southern District of Texas. The parties are scheduled to complete briefing in January 2026.

IV. Post-LMT Recovery Rates

Our colleagues at the Leveraged Finance team at Fitch Ratings have undertaken an analysis of recovery rates following a Chapter 11 restructuring process for issuers that have conducted one or more LMTs prior to filing for bankruptcy protection. Their data, which is based on post-emergence expected recoveries pursuant to the approved restructuring plan in the related bankruptcy, illustrates that there is a divergence in overall and relative recoveries for first lien creditors between issuers that have and have not conducted LMTs prior to a bankruptcy filing. Overall, data is tabulated through July 2025.

- Issuers that had conducted LMTs prior to filing for bankruptcy have achieved lower recoveries on first-lien debt in the first half of 2025. The par-weighted average recovery for issuers who had executed an LMT prior to bankruptcy is just over 9% for those issuers that emerged in 2025 through July, compared to 58% for the cohort of issuers that had not gone through an LMT prior to filing.

- The 9% recovery is driven by Mitel Networks and Diamond Sports Group, which are the only issuers that previously conducted LMTs that have emerged from bankruptcy as of July 2025. Par-weighted recoveries on the first-lien debt for both issuers was far below average at just over 10% and 2%, respectively. In both cases, challenges facing the issuers were more impactful on recoveries than the additional debt incurred as part of the LMTs.

- For issuers emerging in 2024, those that executed LMTs prior to bankruptcy experienced par-weighted average (i.e., blended) recovery for first lien tranches of 44% on their original first lien claims. This compares to a 48% average for issuers who had not executed LMTs prior to filing.

- For issuers emerging since 2024 that executed one or more LMTs prior to a filing, there was also a material divergence in recovery rates for “in-group” versus “out-group” lenders. The most notable examples of these were the following:

    - Mitel Networks: Lenders recovered an estimated 9.8% on the new money priority-lien term loan due 2027. Recoveries on both the priming second lien term loan (which consisted of a roll up of the legacy first lien term loan), as well as the stub of the original first lien term loan that was primed by the uptiering transaction were both less than 1%.

    - Diamond Sports: Expected recoveries for Diamond Sports’ non-participating lenders were a mere 3.5%; in contrast, participating first-out lenders are expected to have been made whole.

    - Casa Systems: The debtor, which filed in April 2024 and exited in June 2024, had previously executed an uptiering transaction involving the exchange of existing term loans for a superpriority loan. Under the plan, first lien creditors agreed to a pari passu recovery, with lenders who exchanged into the superpriority term loan as well as those holding the stub of the original term loan recovering an estimated 18%.

    - Hornblower: Hornblower emerged in June of 2024, with prepetition super priority term loan lenders recovering an estimated 100%, while the non-participating first lien term loan lenders recovered approximately 15.5%.

- Robertshaw: Robertshaw's exit ultimately saw a blended recovery of just 29%, but this was heavily weighted in favor of super priority first-out term loans (recovering 100%) versus a mere 3% recovery for second-out term loan holders. The remainder, including a legacy sixth-out tranche, notably recovered nothing.

- Wheel Pros: Wheel Pros, which filed in September 2024, had previously executed a double-dip LMT. Under the plan of reorganization, the first lien creditors agreed to a pari passu recovery, with first lien lenders expecting to recover 61% (100% recovery for FILO loans but only 52% recovery for legacy first lien loans and newco loan holders).

Further details can be found here: U.S. Leveraged Finance First-Lien Ultimate Recoveries Monitor: 1H25

V. Types of LMTs

Categorizing LMTs is often more art than science, and like art, it can occasionally be difficult to discern definitional parameters. That said, Covenant Review considers an LMT to be any transaction by a distressed borrower or issuer which utilizes existing or amended contract terms to manage long-term corporate debt liabilities with creative out-of-court solutions. To this end, LMTs will often feature one or more of the following elements: (1) a change in relative priorities among creditors (in right of payment or collateral, or even temporally) via refinancing or through new money financing, (2) a transfer of value within, or out of, the restricted group,[8] (3) coercive elements (including, but not limited to, stratified tranches, "first come, first serve" structures, collateral dilution, covenant or collateral stripping, or other economic "sticks" against non-consenting creditors), (4) utilization of flexibility at non-guarantor subsidiaries (including unrestricted subsidiaries), (5) non-ratable treatment among creditors, and/or (6) aspects of "creditor-on-creditor" violence (i.e., where different creditor groups actively oppose one another). As a rule, we do not characterize court-facilitated transactions or debt-for-equity swaps as LMTs, though these may be treated as distressed debt exchanges by one or more rating agencies or as LMTs by other research firms.

In terms of taxonomy, Covenant Review groups LMTs into four broad categories: double-dips, drop-downs, uptiers, and miscellaneous. We provide a brief description of the features of each of these transactions, though we note that each transaction is driven by the business's specific capital structure and covenant requirements. Accordingly, there are variations within each of the foregoing prototypical LMTs. We also note that the leveraged finance markets have completed several transactions that incorporate multiple LMT structures, often in the same deal.

[8] I.e., the entities generally subject to covenant limitations and restrictions.

Drop-down LMTs

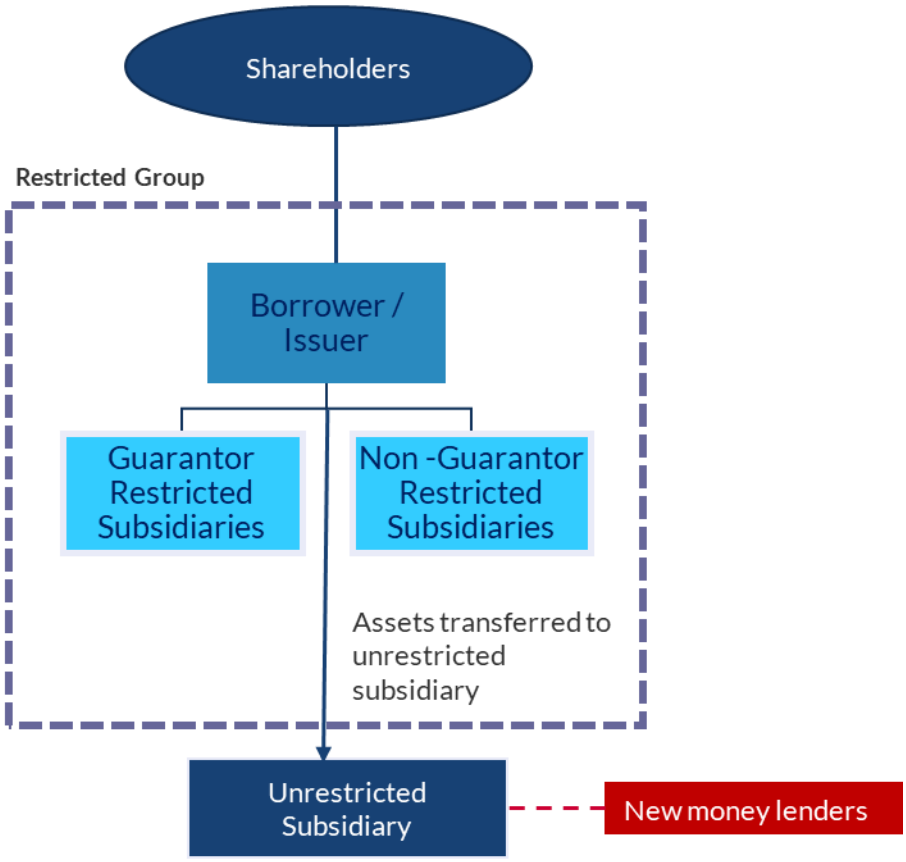

Figure 3 – Hypothetical Drop-Down transaction

One of the first types of LMTs to gain widespread attention (in respect of J. Crew's 2016 LMT—hence, the market's proclivity in calling these transactions, "J. Crew" transactions, or even more colorfully, as getting "J. Screwed"[9]), at their core, drop-downs involve the transfer of assets from entities that provide credit support for existing debt to non-guarantor subsidiaries or other non-guarantor persons. Drop-down LMTs generally take one of two flavors: those utilizing unrestricted subsidiaries and those utilizing non-guarantor restricted subsidiaries. Drop-down capacity is largely dictated by flexibility within existing debt documents' Investments / Restricted Payments covenants (and, to a lesser extent, the Asset Sales[10] and Affiliate Transactions covenants).

- Drop-downs utilizing unrestricted subsidiaries: These transactions—exemplified by the J. Crew 2016 LMT—typically involve the transfer of one or more assets of the relevant borrower / issuer or other guarantors to one or more unrestricted subsidiaries, which are not subject to the covenants. That unrestricted subsidiary can then incur debt that is structurally senior in respect of the

[9] See *Lenders can still get J. Screwed* (Financial Times, February 12, 2024).
[10] See European Liability Management: Pfleiderer Serves Up Silekol Dropdown.

transferred asset(s) or, alternatively, sell the asset(s) (or be sold itself), which typically then results in the net cash proceeds of any such asset sale not being subject to the original debt's asset sale prepayment requirements (if any). In some deals, it may also be possible to spin such unrestricted subsidiaries to the equity-holders.

- Drop-downs utilizing restricted non-guarantor subsidiaries: These transactions, which are somewhat less common than their unrestricted subsidiary cousins, typically involve the transfer of one or more assets within the restricted group from a guarantor to a non-guarantor restricted subsidiary, as permitted by the Investments or Restricted Payments covenants. That entity, in turn, can incur debt to the extent permitted by the Debt covenant, and that new debt (even if unsecured) will also be structurally senior to the claims of the existing credit agreement lenders.

- Securitizations: Though not often thought of as LMTs, many asset-based securitizations (ABS) or receivables financings—particularly when conducted by distressed borrowers and issuers—are also, at their core, a type of drop-down financing. Indeed, such debt is typically issued out of a bankruptcy remote SPV (a non-guarantor) and is often structurally senior to parent debt with respect to the transferred assets. Moreover, at least in the BSL and HY space, such financings are often permitted without cap throughout the negative covenants (usually to the extent such debt is non-recourse to the obligors under existing corporate debt). Recent securitization financings from distressed companies like Zayo, Frontier Communications, and TeamHealth exemplify this trend.

Drop-downs can be particularly worrisome to secured creditors, since assets transferred from guarantors to non-guarantors (restricted or unrestricted) are usually released from the collateral pool, if not automatically, then with the explicit requirement of collateral agents to execute necessary release documentation. Collateral, it should be reiterated, is neither static nor sacred.[11]

Additionally, drop-downs are often viewed as an "off the shelf" solution to liability management issues, as it can be conducted *without* existing creditor support (assuming sufficient investments / dispositions capacity otherwise exists in the extant covenants to permit the drop-down). In other words, getting "J. Screwed" does not necessarily need creditors to sign off on an amendment to existing documentation.

Subject assets

Drop-downs are usually considered in respect of the transfer of IP assets, in part because of the J. Crew 2016 LMT itself (where the drop-down was conducted with the company's brand trademarks). However, while IP is often a target of drop-downs due to the relative ease of transferability (at least from a documentation standpoint), any asset can in theory be dropped into a non-guarantor entity for LMT purposes. The following is a summary of drop-downs transactions and the types of assets transferred if known (excluding receivables financings and/or securitization-type transactions and also excluding the PetSmart / Chewy transaction, discussed below).

[11] See Revisiting the Trapdoor: Five Lessons Learned from J. Crew.

Date (circa)	Company	Subject asset
25-Nov	Altice Financial	Business / subsidiary
25-Sep	Liberty Puerto Rico	Specified assets
25-Jul	Rinchem	Specified assets
25-May	Ivanti	Specified assets
25-May	Anastasia Beverly Hills	IP
25-Jan	Trinseo	Business / subsidiary
25-Jan	Pabst Brewing	IP / specified assets
24-Nov	Astound Broadband	Business / subsidiary
24-Nov	Empire Today	IP
24-Oct	STG Logistics	Business / subsidiary
24-Aug	Del Monte Foods	Business / subsidiary
24-Aug	Trellix	IP
24-Jun	Pluralsight	IP
24-Jun	Sonrava Health	Business / subsidiary
24-May	Altice France	Business / subsidiary
24-Apr	City Brewing	Specified assets
24-Jan	EchoStar / Dish Network	Specified assets
23-Dec	Michaels	Business / subsidiary
23-Jun	Shutterfly	IP
23-May	U.S. Renal Care	Specified assets
23-Feb	Corelle Brands	Specified assets
22-Sep	Bausch Healthcare	Business / subsidiary
22-Aug	Envision Health	Business / subsidiary
20-Oct	Hornblower	Specified assets
20-Jun	Party City	Business / subsidiary
20-Jun	Travelport	IP
20-May	Cirque du Soleil	IP
20-Apr	Fertitta Entertainment (Golden Nugget)	Business / subsidiary
19-Aug	Revlon	IP
18-Sep	Neiman Marcus	Real property
16-Dec	J. Crew	IP

PetSmart / Chewy variant

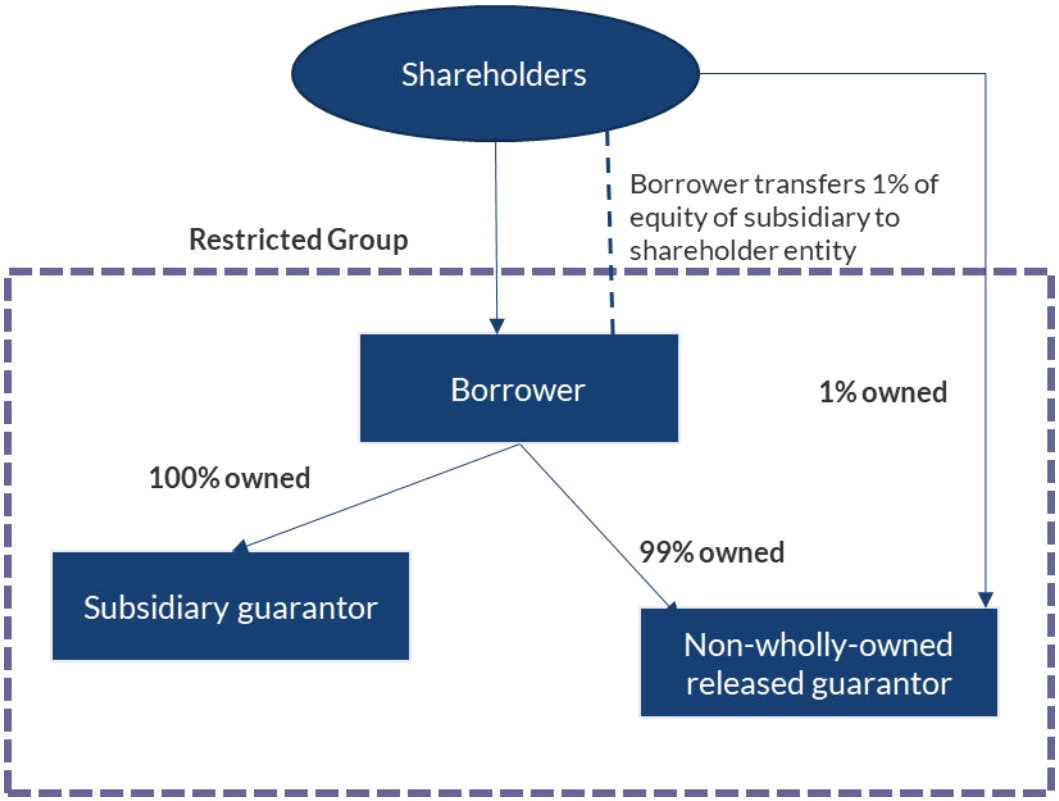

Figure 4 – Hypothetical "Chewy" transaction

The PetSmart / Chewy LMT in 2018 involved (in part) the release of a restricted subsidiary guarantor from its obligations under the existing PetSmart credit agreement due to the transfer of a portion of equity of Chewy to an unrestricted subsidiary, as well as the spin-off of another portion of Chewy equity to PetSmart's sponsor. This allowed PetSmart to automatically release Chewy from providing credit support because—as a newly minted non-wholly owned subsidiary—it was no longer required to do so and the underlying credit agreement permitted such release without additional lender input (Chewy itself remained a restricted, but non-wholly owned and non-guarantor, subsidiary). Functionally, this transaction was similar to a drop-down of Chewy to a non-guarantor restricted subsidiary, though the legal mechanics were different. In response to the Chewy maneuver, the market responded with a bevy of "Chewy blocker" provisions, which seek to address this flaw in a myriad of ways—mainly by requiring additional conditions to be met before such a release can occur (see Part VI below).

Chewy LMTs remain a relatively rare occurrence, even in this age of creative LMTs, in part because the released guarantor usually remains a restricted subsidiary (that is still subject to the limitations and restrictions of the covenants). Indeed, a drop-down involving an unrestricted subsidiary is almost always preferable (from the company's perspective) to a Chewy LMT because the former provides significantly greater flexibility for the borrower or issuer.

Uptier LMTs

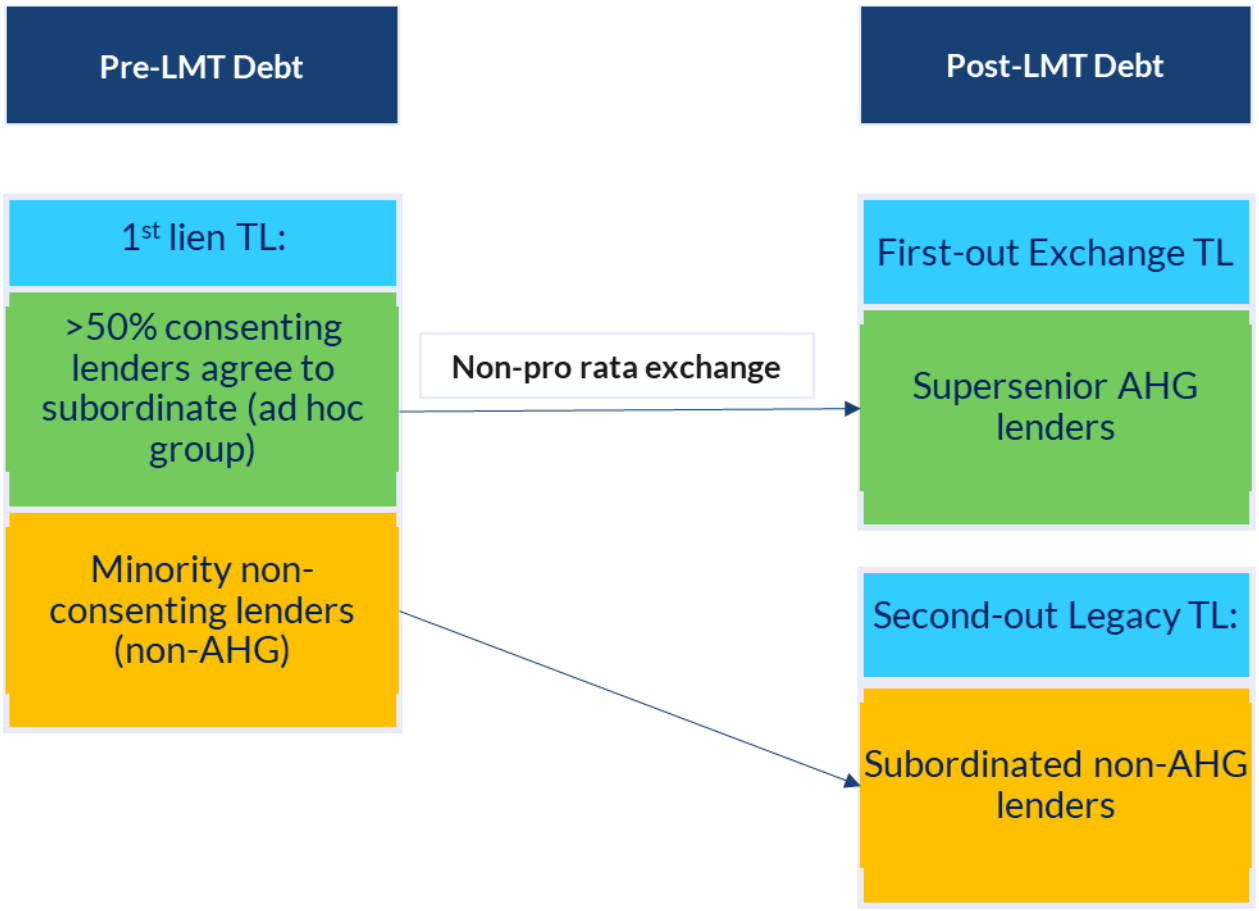

Figure 5 – Hypothetical uptier exchange transaction

Uptier LMTs at their heart refer to the re-shuffling of relative payment or lien priorities within a debt stack. This is typically accomplished by amending an existing credit agreement or indenture with the consent of a requisite subset of the existing creditor group to permit the incurrence of a senior priority debt tranche and/or the non-pro rata exchange of some or all of the existing consenting creditor debt into the new priority tranche. Uptiers may consist solely of a "new money" debt commitment or may involve a combination of new debt and the exchange of preexisting debt. Unlike double-dip or drop-down LMTs, documentation flexibility for uptier LMTs is mostly determined on the basis of the amendments and assignments provisions (rather than the negative covenants).

Although Serta was not the first borrower to conduct an uptier LMT (NYDJ's 2017 LMT is generally viewed as the first such transaction where consenting lenders issued new money in exchange for subordinating a minority lender group), it is synonymous with the maneuver. At the height of the COVID pandemic, these transactions (including Serta itself) tended to take a scorched-earth approach (with subordinated creditors often not learning of the subordination until after the fact). In contrast, uptier LMTs throughout 2023, 2024, and into 2025 have moved towards more

"consensual" exchange transactions (sometimes referred to as the "LMT 2.0" era), with most (if not all) affected creditors given at least an opportunity to participate in priming debt.

Of course, offers to participate do not always translate into "fair" transactions, with uptiers resulting in significant deltas between the "haves" (those in the steering group) and "have-nots" (everyone else). Indeed, left-out creditors are often offered less than ideal economics compared to their ad hoc group counterparts, including in respect of PIK interest, lower positions in a waterfall, and/or significant haircuts. Prospects for those who do not participate can be even more dire, with such creditors being even further subordinated and/or economically punished (e.g., shutting off cash interest payments and/or being stripping of existing covenant protection or some portion of credit support). The rise of such voluntary exchanges can be tied to a number of factors, including (1) the growing prevalence of "Serta blockers" (which often include a ROFR exception—i.e., allowing majority consent to subordinate if the priming paper is offered to affected lenders), (2) an attempt by distressed borrowers and issuers to litigation-proof their LMTs (via broad waiver language, particularly in loans), and (3) economic expediency (including the capturing of discounts).

More than any form of LMT, uptiering has been the subject of significant scrutiny from the courts. The legal issues around Serta are twofold: whether the subordination is permitted with less than unanimous consent and whether the resulting non-pro rata exchanges of existing holders into priming debt is otherwise permitted. In respect of the former, courts have been largely willing to defer the issue to the specific contract language (see, e.g., the Delaware Bankruptcy Court's decision in *In re TPC Group Inc.* (2022)). To wit, if the underlying debt document does not expressly treat subordination as a sacred right, the courts are not going to read such sacred rights into the agreement. In respect of the latter issue, the courts have primarily focused on whether uptier exchanges can be conducted as an "open market purchase." Some initial uncertainty on this point was created due to court rulings in the *Serta* and *Boardriders* litigations, particularly following Judge David Jones's 2023 ruling in the *Serta* Chapter 11 litigation that dismissed most of the relevant minority lender claims in part because, according to Judge Jones, the term "open market purchase" clearly and unambiguously encompassed non-ratable exchanges.[12] Since then, however, the general viewpoint has shifted to one where the term "open market purchase" by itself does not justify non-pro rata exchanges—a position crystallized by the Fifth Circuit's rejection of Judge Jones's position as discussed above in Part III.

The impact of the Serta (2024) decision

With 2025 in the rearview mirror, the impact of the Fifth Circuit's decision has proven surprisingly muted, at least as far as *preventing* uptier LMTs is concerned (as noted above, uptiers represented a significant majority of LMT activity in 2025). Instead, it appears that most distressed borrowers and issuers have simply incorporated an additional step of "Serta avoidance" into their restructuring proposals. Indeed, the market perhaps underestimated how easy it would be to bypass the Fifth Circuit's opinion via additional structuring or maneuvering. We have identified at least four such

[12] See Initial Reactions to Serta Bankruptcy Litigation Decision.

approaches to avoid the limitations imposed by the *Serta* decision that have arisen over the past few months:

- Extend and Exchange: In the Better Health LMT, an uptiering was accomplished by creation of a new class for the ad hoc group. This was reportedly accomplished by having the ad hoc lenders first agree to extend their maturities (such changes generally only require the consent of the extending lenders).[13] In doing so, the extending lenders bootstrapped themselves into a separate class relative to the non-ad hoc group lenders. At that point, the ad hoc group lenders (which presumably represented a majority of all lenders) were able to exchange their extended class into priming debt, since doing so did not represent non-ratable treatment of *that* particular class of lenders. Post-exchange, the company offered non-ad hoc group lenders an opportunity to participate in the new financing.[14] Oregon Tool also reportedly followed this approach in its LMT in Q1.
- Add-on and Exchange: In the Confluence LMT, the priming exchange was reportedly accomplished by utilizing the accordion to first incur a $60mn incremental term loan (presumably non-fungible with existing term loan debt) before exchanging the new debt into a superpriority position. The underlying principle here is assumed to be the same as in Better Health: the exchange of the incremental class into a priming position was pro rata *within* that class (meaning there was no non-ratable treatment that would have implicated an "open market purchase" discussion).
- Bootstrapping: As a general matter, changes to "open market purchase" language often are not expressly set forth in the sacred rights of the amendment provisions (though they may be implicated by the pro rata sharing language). It is therefore at least possible for changes to these provisions to occur with just majority lender consent, subject to specific limitations of individual agreements.
- Sidestepping: Some transactions have simply opted to avoid the open market purchase trap entirely by using pro rata mechanisms (including Dutch auctions) or other more esoteric structures ("downtiering" via holdco debt issuances for example).

Even without such machinations, the impact of the Fifth Circuit's opinion was arguably overstated in the first place. As we noted in our prior report, "we do not believe the decision has sounded a death knell for uptier LMTs as a whole, as the relevant portions of the opinion were largely limited to discussions of open market purchases as an exception to pro rata sharing and payment rules (and we note that the Fifth Circuit did not opine on the validity of subordination via majority consent)."

Further, the *Serta* opinion may have a limited effect on the high yield bond market, since many indentures expressly permit negotiated transactions (in addition to open market purchases), many OMs include a disclosure that issuers may engage in such transactions, and such negotiated purchases are arguably an established market practice. Lastly, we cautioned that the Fifth Circuit's

[13] This was notably not conducted via a traditional amend-to-extend, which traditionally must be offered to all lenders on a pro rata basis.
[14] For additional analysis into this approach, see: Market Alert: Better Health LMT Structured to Potentially Bypass the Recent Serta Decision.

decision—while undoubtedly influential—is not dispositive precedent for all other courts in the United States, including New York state courts and the Second Circuit.

Where *Serta* appears to have had the biggest impact is on new loan issuances rather than distressed debt. In 2025 36% of new issue loans in the BSL market incorporated language designed to bypass the Fifth Circuit's opinion (versus only 23% in 2024), typically by explicitly permitting buybacks via privately negotiated transactions on a non-pro rata basis or by omitting reference to "open market purchases" entirely.

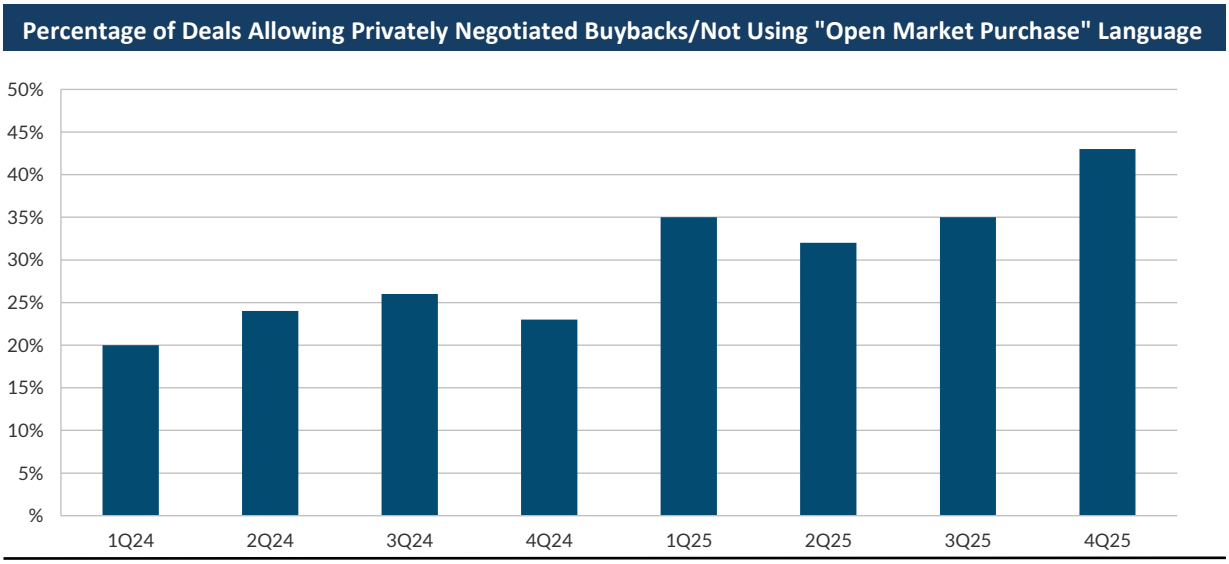

Figure 6

Double-dip and pari-plus LMTs

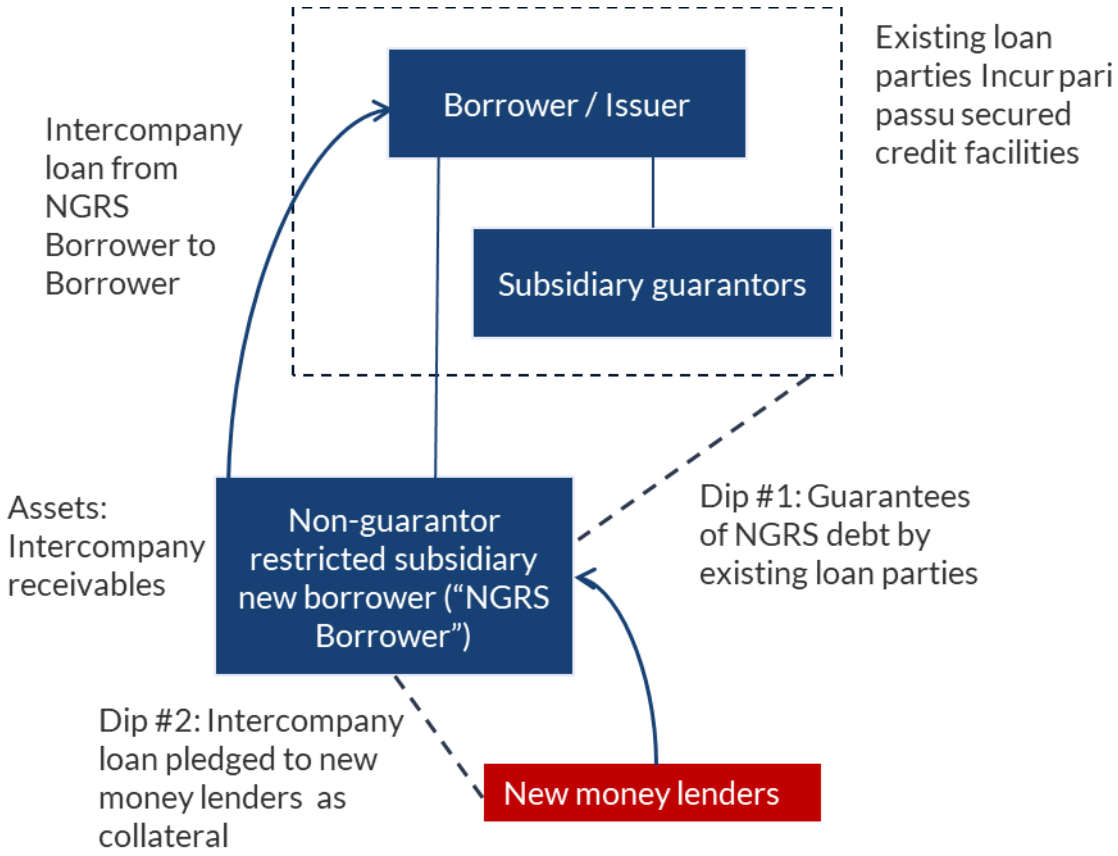

Figure 6 – Hypothetical Double Dip transaction

Double-dips (sometimes known as an "At Home" transaction for At Home's 2023 LMT, which is usually credited as the first example of such an LMT) are the third primary, and most recent, LMT category. Double-dips involve the issuance of new debt with potential enhancement of claims against existing collateral assets. This usually occurs via the following structure: (1) incurrence of a new debt facility at a non-guarantor subsidiary of the existing borrower / issuer, either within or outside of the restricted group and (2) on-lending the proceeds of the new debt facility to the existing borrower / issuer via an intercompany debt facility, with the new non-guarantor subsidiary borrower as the lender. The facility incurred under step one is usually guaranteed and secured by the existing guarantors and collateral assets that provide credit support for the existing first lien debt obligations. On top of that, the intercompany debt facility is also guaranteed and secured by the same guarantors and collateral. In this way, the secured claims of the new third-party creditors include both of the facilities incurred under clauses (1) and (2), as the intercompany loan facility provides the third-party creditors with an indirect claim against the guarantors / collateral assets. This is because the intercompany loan itself is an asset of the non-guarantor subsidiary borrower / issuer, which is also pledged for the benefit of the third-party creditors. In other words, for each $100 of new money, the new lenders now have $200 of claims—hence, a "double dip."

Pari-Plus LMTs are a variant on the standard double dip model and involves the provision of additional credit support to the new money creditors. In the 2023 Sabre transaction, this included (1) the incurrence of a new money term loan facility by an unrestricted subsidiary, (2) guarantees by non-guarantor restricted foreign subsidiaries of the unrestricted subsidiary obligations under the new term loan, and (3) the subsequent on-lending of the new term loan proceeds to the existing guarantor group via a secured intercompany loan. As with generic double-dip LMTs, the intercompany loan incurred in this last step is usually pledged for the benefit of the new money creditors (ranking equal to the existing parent-level first lien obligations).

Double-dip and pari-plus transactions are usually facilitated by the following covenant provisions:

- **Debt and Liens covenant capacity:**
    - The related credit agreements and/or indentures must have sufficient debt and liens capacity to allow both the debt incurrence by the applicable non-guarantor subsidiary (the "New Money Debt") and the subsequent intercompany debt facility incurrence of the on-lent proceeds of the New Money Debt. Depending on the use of proceeds of the New Money Debt, this could potentially qualify as "refinancing debt" (rather than incremental debt) in respect of existing pari passu secured obligations (as was the case in Sabre and some of the other transactions we have covered).
    - The debt agreements must also include sufficient capacity for the guarantees (and collateral support, if any) provided by the existing credit parties in respect of the New Money Debt obligations incurred by the non-guarantor subsidiary.
- **Investments covenant capacity:**
    - As the provision of a guarantee is also normally an "Investment," capacity under the Investments / Restricted Payments covenants is usually required as well. Often, however, the Investments / Restricted Payments covenants include a generic cross-reference permitting any debt that is permitted to be incurred by the Debt covenant. As such, if the Debt covenant provides sufficient capacity, this will be sufficient to justify the Investment portion of the double-dip.
- **Other potentially relevant provisions:**
    - There also must not be any requirement that intercompany debt for borrowed money and guarantees be subordinated to other obligations; this is a common limitation but often only applies to intercompany debt using a dedicated intercompany debt basket (rather than a "global" requirement that overrides all existing debt and liens baskets).
    - To the extent an unrestricted subsidiary is the obligor under the New Money Debt, there must also be no limitation on credit support provided by the restricted group in respect of unrestricted subsidiary debt obligations.

Despite increased usage by distressed entities, the ultimate enforceability of double-dip structures in bankruptcy remains an open question. While there is some case law on similar structures (see, e.g., *Lehman Brothers* (*2008*) and *GM Nova Scotia* (*2009*)), these predate the later rise of LMT double-dips and generally were not *designed* to give rise to double claims (but rather resulted in potential double claims because of specific underlying circumstances). As of the date of this writing, we are not aware of any precedent directly addressing whether an *intentionally engineered* double-dip structure will afford new debt creditors two allowed secured bankruptcy claims against what is, for all intents and purposes, the same collateral. But even if a court were to otherwise bless this structure, aggrieved creditors might be able to raise other issues if supported by the facts—for example, they may claim that the double dip was a fraudulent transfer (assuming insolvency), that the obligors should be substantively consolidated, or that the double dip claim should be equitably subordinated.[15] In practice, however, and particularly in the absence of caselaw precedent, we think the real advantage to the double dip creditors is negotiating leverage in a formal restructuring. Even though the double dip doesn't result in more than a full recovery on the bankruptcy claim itself, it allows access to additional collateral support ranging from 1x to 2x. In many bankruptcy proceedings, such as the aforementioned *Lehman Brothers* case, a negotiated resolution is common and typically results in a recovery for double dip creditors that benefits from this extra collateral support, which enables such creditors to achieve higher recoveries than similarly situated creditors in the capital structure.[16]

Triple Dips

If there are double dips, could there also be “triple dips”? The short answer is “yes,” at least in theory. To date, the only known instance of creditors claiming a “triple dip” was in the Spirit Airlines 2024 bankruptcy.[17] A group of Spirit Airlines' 8% secured bondholders (organized with Akin Gump and Evercore) argued they were entitled to three additional sources of value beyond their original collateral, via (1) an intercompany Loan ($1.1 bn) to Spirit parent from the loyalty bond issuer, (2) a parent guarantee (for the full $1.1 bn value), and (3) damages (~$600 mn) from potential termination of the brand IP license agreement, calculated as the present value of future licensing fees (assumed at $45mn annually).

The argument was predicated on a highly complex—and atypical for leveraged finance—loyalty program IP financing and generally withered on the vine during the bankruptcy proceedings. Accordingly, we think it relatively difficult for distressed debtholders to recreate a triple dip structure at least as a de novo restructuring plan. That said, the argument *is* out in the wild, awaiting clever restructuring advisors to utilize in future scenarios.

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[15] For a more detailed discussion on arguments regarding the enforceability of double dips in bankruptcy, see Part 3 of our Webinar Series on LMTs available at https://know.creditsights.com/webinars/liability-management-webinar-series-ep3-double-dips-and-other-lmt-strategies/.
[16] See generally Double Dip Analysis Under High Yield Indentures.
[17] See US Special Situations: Spirit Airlines ‘Triple Dip’ Analysis — LFI Research for a more detailed dive.

Miscellaneous LMTs

In the final category, we include any other out-of-court restructuring that includes significant elements of our LMT definition but does not necessarily fall cleanly into the categories of double-dips, drop-downs, or uptiers. Additionally, more traditional "liability management," such as amend-to-extends or par / pro rata exchanges, can also be categorized here if such transactions include significant coercive elements, enhanced credit support, or creative liberties with document protections.

VI. LMT Blocker Provisions

The buy-side market's reaction to LMTs has been likened to a game of "whack-a-mole." Each successive LMT has garnered its own blocker provision, which is ostensibly designed to prevent future iterations of the LMT in question. In practice, however, blocker provisions are heavily negotiated and rarely provide ironclad protection.

Blocker	Description	Common weaknesses	Common locations in debt documents
Common new issue blockers			
J. Crew / Pluralsight	Prohibits transfer of certain assets to non-guarantor subsidiaries and/or unrestricted subsidiaries; blockers to non-guarantor restricted subsidiaries are sometimes referred to as "Pluralsight" blockers after the June 2024 private credit LMT[18]	Only prohibits transfer of certain assets (usually material IP) Only prohibits transfers by or to a limited subset of parties May only apply to investments (but not other dispositions / transfers) May apply only at the time of "designation" of the unrestricted subsidiary and not subsequent transfers[19]	Definition of "Unrestricted Subsidiary" Designation of Unrestricted Subsidiary covenant Override in RP, Investments, and/or Asset Sale covenants Separate covenant
Serta	Most commonly takes the form of requiring heightened consent to acquiesce to subordination (often consent of "directly and adversely affected" creditors)	Often subject to material exceptions (especially for DIPs and ROFRs) Collateral subordination sometimes limited to only "all or substantially all"[20] collateral May allow subordination if otherwise permitted by debt documentation Heightened consent for only certain types of subordination	Amendment and waiver provision

[18] See Is Pluralsight the Proverbial "Canary in the Mine" of Liability Management Exercises ("LMEs") in Private Credit?
[19] See Market Alert: Punching Holes in the J. Crew Blocker in US Leveraged Loan Credit Agreements.
[20] See Substantially All Assets Analysis.

Chewy	Either establishes that existing guarantors cannot be released unless they cease to be a subsidiary (a "true" blocker) or requires that a guarantor that becomes non-wholly owned can only be released if certain conditions are met (a "qualified" blocker); conditions can include having sufficient investments capacity and whether the underlying transaction had a bona fide purpose	Qualified Chewy blockers are usually subjective—i.e., the company is typically the entity that determines (in its discretion) whether the conditions for release are met	Agent authorization provision Specific guarantee / collateral release provision(s) "Excluded Subsidiary" definition Amendment and waiver provision
Envision	Given the hybrid nature of the Envision LMT, we generally define Envision blockers to be the presence of a J. Crew blocker, Serta blocker, and capacity for investments in unrestricted subsidiaries being less than 1.5x EBITDA	See above for J. Crew and Serta blocker weaknesses	See above for J. Crew and Serta blocker; Investments covenant
Common post-LMT blockers			
Double-dip ("At Home")	Typically requires any intercompany debt owed by the borrower or guarantor to a non-guarantor to be subordinated in right of payment and/or collateral, which effectively shuts off the secondary claim May explicitly prohibit debt incurrences designed to create multiple claims in bankruptcy arising from a single debt issuance	Sometimes limited only to specific baskets rather than as a general override	Debt covenant override
Vote rigging ("Incora")	Prohibits incremental creditors (e.g., add-on lenders under a credit agreement's accordion) from being counted in voting thresholds for any concurrently sought amendment	Often subjective and tied to the "primary purpose" of the underlying debt incurrence	Accordion Amendment and waiver provision
Omnibus / omniblocker	Any provision or covenant that broadly prohibits "Liability Management Transactions" or similar language	The term "Liability Management Transaction" may be defined in an overly narrow manner (or not defined at all), introducing ambiguity into interpreting such provisions Sometimes limited to specific baskets Can be subject to overly subjective qualifiers	Separate covenant

While Chewy, J. Crew, and Serta blockers (and, to a lesser extent, Envision blockers) have become

de rigueur buy-side asks for new issuances,[21] other blocker provisions tend to only appear in post-LMT financings or in more bespoke / challenging financing arrangements.

In more tightly drafted agreements, the blocker language may go one step further by establishing that a change to the blocker provision itself is also treated as a "sacred right" (requiring affected, unanimous, or some variant on supermajority consent) ensuring that a lower threshold of creditors (e.g., majority lenders in most BSL credit agreements) cannot weaken or remove such provisions in advance of a more expansive LMT. This kind of backstop LMT protection is rare in the new issue market.

Serta blocker efficacy

Efficacy of blockers is sometimes questionable at best, as sponsors and their counsel continue to implement purposefully ambiguous or flawed provisions. For example, given that most LMTs in 2025 continue to predominantly utilize uptiering components, market participants rightfully have started to question how effective Serta blockers actually are in a distressed scenario (particularly since such blockers are in a majority of loans in the JP Morgan index).

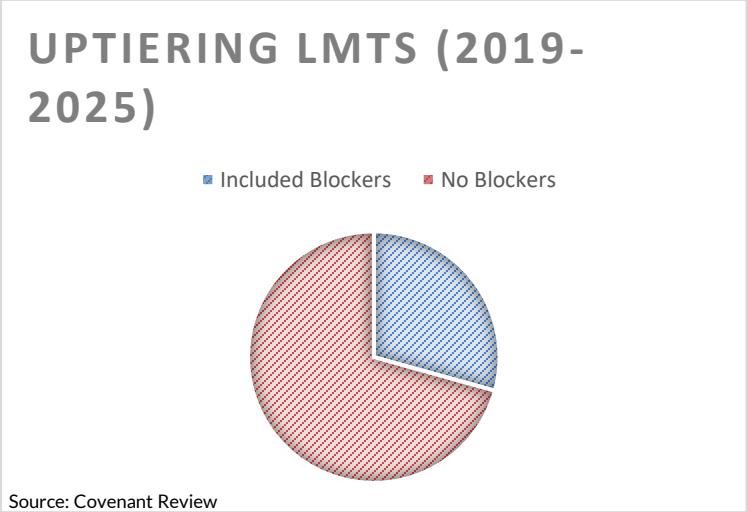

Figure 7

Based on Covenant Review data, out of a sample of 58 uptier LMTs (among the broadly syndicated loan market), approximately 41 (or ~71%) lacked *any* blocker language. Thus, at the very least, it would appear that uptier LMTs are more likely than not to occur where underlying documentation lacked *any* blocker language.[22] That said, we caveat that the quality of the Serta blocker language still matters in how an LMT might be structured, most recently illustrated by the Saks LMT.[23] Moreover, the choice of LMT will also depend on other ancillary factors beyond just the presence or absence of specific "blocker" language.

[21] See CR Trendlines: Lens on Loopholes 3Q25 Update: Share of Index Loans with J. Crew / Serta / Chewy (Full & Qualified) / Envision / Pick-Your-Poison Loopholes Across the Index.
[22] See Serta Blockers in US Leveraged Loans: Paper Tiger or Guardian Angel?
[23] See Saks: The Serta Blocker That Didn't Work for a recent instance of where poorly drafted Serta blocker language may have allowed uptiering.

VII. LMT Transactions Tracker

See the associated file (see Figure 9 below) for a description of LMTs dating back to as early as 2013, together with the sponsor (if any) that drove the transaction, a brief description of what happened in the transaction, and the ultimate transaction outcome (if known).

We caveat that the list is primarily based on publicly available sources; as additional information comes to light regarding these transactions, our categorization of various LMTs (and the descriptions themselves) is subject to change.

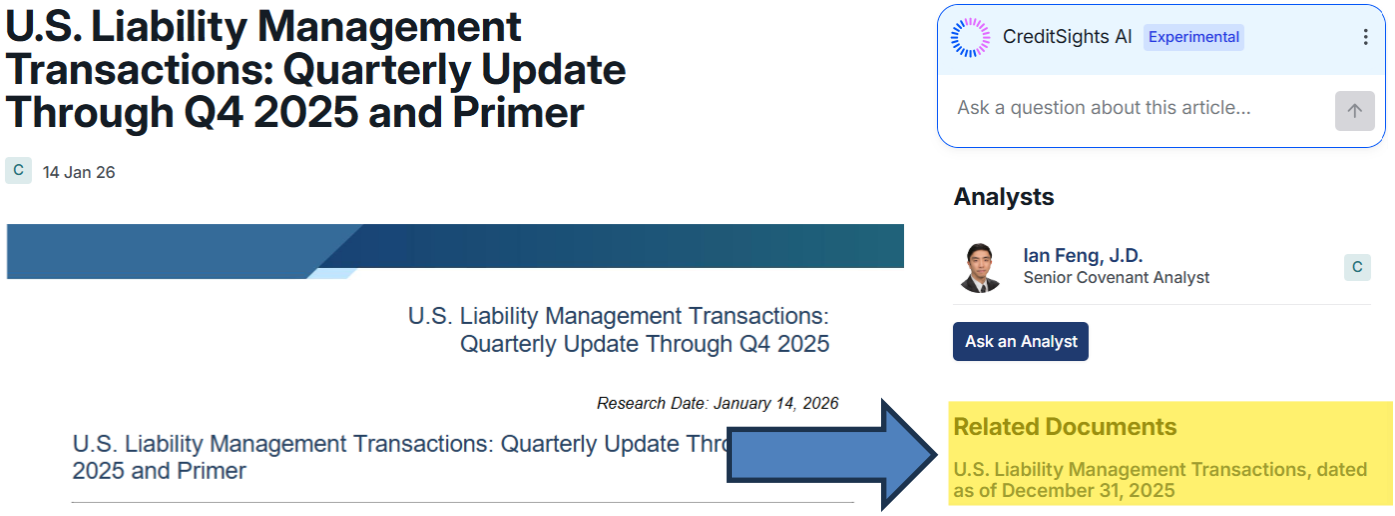

Figure 8

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