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Restructuring & Debt Capital Solutions Group Bulletin

Bankruptcy Court Holds Serta "Uptier" Transaction Breached Pro Rata Sharing Provision

On July 7, 2026, the U.S. District Court for the Southern District of Texas held that Serta Simmons Bedding's 2020 "uptier" transaction breached the pro rata sharing provision of its first lien credit agreement, resulting in a significant victory for the ad hoc group of excluded lenders, represented by Paul, Weiss. In 2020, Serta executed a transaction with certain participating lenders, exchanging roughly $992 million of first lien debt for about $734 million in new super-priority debt, leading certain excluded lenders to sue. The Fifth Circuit held in 2024 that the transaction was not an open market purchase.

In a July 2026 decision after trial, the bankruptcy court held the debt exchange qualified as a "payment" under the pro rata sharing provision, holding that the provision is not limited to cash, as its express carveouts for certain debt exchanges would be surplusage if debt exchanges never triggered the section at all. The court also found that the exchange was "in respect of principal" because the amount of new debt was tied to the exchanged principal.

To award damages, the court calculated the excluded lenders' pro rata share of the face amount of the super-priority debt, approximately $348 million. The credit agreement provided that, in exchange for paying $348 million in cash to the excluded lenders, the participating lenders would receive $348 million in face amount of the excluded lenders' legacy debt. The court subtracted the market value of that legacy debt—approximately $87 million—from the $348 million cash payment, to reach a damages figure of approximately $261 million, subject to certain adjustments. It rejected the participating lenders' alternative methodology, which focused on the "benefit" of the transaction, as untethered to the text of the credit agreement, which focuses on the payment itself.

Did You Know...

- John Weber was named a *Law360* 2026 Rising Star in the Bankruptcy category, recognizing his work on the chapter 11 cases involving iRobot, Mitel, Hornblower, Incora and Forever21, among other significant restructurings. The award recognizes attorneys under 40 who have distinguished themselves through standout work over the past year.
- Jacob Adlerstein spoke with *Turnarounds & Workouts*, sharing his insights on the trends and factors shaping restructuring and distressed deal activity in the first half of 2026.
- Jamie Sprayregen will participate in the NYU Stern Workshop on Corporate Restructuring & Bankruptcy on August 5th, an annual in-person program that offers young professionals the opportunity to learn from and network with leaders in the industry.

The court rejected the participating lenders' mitigation defense, finding that the secondary market lacked sufficient buyers and trading volume for the excluded lenders to sell off their positions. The court also held that the excluded lenders could not be required to sell because doing so would have extinguished their right to pursue the breach of contract claims.

On July 31st, the participating lenders appealed the bankruptcy court's decision. On August 3rd, the excluded lenders appealed the bankruptcy court's decision on certain motions.

Chrome Plan Trust Successfully Enforces the Plan's Injunction Against California

On July 10, 2026, the U.S. Bankruptcy Court for the Eastern District of Missouri (the "Bankruptcy Court") ruled in favor

of the Plan Administration Trust (the "Trust") of Chrome Holding Co. (formerly known as 23andMe Holding Co.) ("Chrome"), directing the State of California ("California") to dismiss monetary claims it filed against the Chrome debtors in California state court after Chrome successfully confirmed its chapter 11 plan (the "Plan").

California, together with 41 other states and the District of Columbia, filed proofs of claim against Chrome related to a prepetition cyber incident that occurred in 2023. Those claims collectively asserted hundreds of billions of dollars in alleged damages, and California's claims alone asserted damages of at least $7.4 billion.

On December 1, 2025, the Chrome debtors confirmed their chapter 11 plan of liquidation and that Plan became effective on December 5, 2025. The Plan contained customary injunction provisions that prevented parties that held, or may hold, allowed prepetition claims against the Chrome debtors from asserting those claims anywhere except the Bankruptcy Court.

Notwithstanding those provisions, on May 27, 2026, California filed an action in California state court alleging substantially identical claims against the Chrome debtors to the claims alleged in California's proofs of claim. The Trust immediately filed an emergency motion to enforce the Plan injunction against California and have the state court action dismissed.

At the hearing, California argued that the Bankruptcy Court could not prevent a state from exercising its police and regulatory powers in state court. The Trust responded that California is bound by the Plan's injunction provisions to the same extent as any other creditor. The Trust emphasized that California participated in the confirmation process, objected to confirmation, negotiated with the Debtors, and ultimately consented to entry of the Confirmation Order. Having done so, the Trust argued, California was bound.

The Trust also opposed California's request that the Bankruptcy Court abstain and allow the claims to be liquidated in state court, arguing that abstention would encourage forum shopping, duplicate litigation, delay distributions, and risk parallel proceedings in up to 42 additional courts.

The Bankruptcy Court agreed with the Trust and enforced the Plan injunction requiring California to dismiss or amend the state court action to remove monetary claims against the Chrome Debtors. The court likewise found that abstention would undermine efficient estate administration and therefore was not warranted.

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