Articles + Publications | February 10, 2026

No Such Thing as an Implied Sacred Right

WRITTEN BY

Alex R. Rovira | Sarah L. Hautzinger Loumeau

This article was originally published in The Legal Intelligencer and is republished here with permission as it originally appeared on February 10, 2026.

The U.S. District Court for the Southern District of Texas, in *Wesco Aircraft Holdings v. SSD Investments*, No. 4:25-CV-202, 2025 U.S. Dist. LEXIS 252576 (S.D. Tex. Dec. 8, 2025), reminds parties that it is critical to use precise language in debt documents rather than assuming the existence of implied rights, particularly where such rights are considered sacred.

A recent district court decision provides key lessons in the latest on liability management exercises. The U.S. District Court for the Southern District of Texas, in *Wesco Aircraft Holdings v. SSD Investments*, No. 4:25-CV-202, 2025 U.S. Dist. LEXIS 252576 (S.D. Tex. Dec. 8, 2025), reminds parties that it is critical to use precise language in debt documents rather than assuming the existence of implied rights, particularly where such rights are considered sacred. The Wesco liability management transaction also highlights that voting rights can be varied through the incurrence of additional indebtedness and must be considered when building a blocking position. Finally, the decision also illustrates that the use of "effect of" language is limited and should be interpreted to apply to the instrument it relates to rather than applying to a series of transactions or amendments.

Wesco Aircraft Holdings, Inc. provided distribution and supply-chain services in the civilian and military aerospace industry. In 2020, Wesco financed an acquisition through the issuance of bonds under three indenture agreements, which were set to mature in 2024, 2026 and 2027, respectively. Soon after Wesco entered into the indenture agreements, the COVID-19 pandemic struck. Wesco quickly saw a decline in demand and supply chain disruptions, which led to a shortfall in its liquidity. Wesco began to discuss funding options with its noteholders and eventually negotiated rescue financing terms with a majority group of noteholders (the majority group) under the existing indentures. The rescue financing provided for $250 million in new money, extended maturities and reduced cash interest and the exchange of the Majority Group's 2024 and 2026 notes for super-senior first-lien notes (the 2022 transactions).

Meanwhile, a minority group of 2024 and 2026 noteholders (the minority group) also proposed a rescue financing solution but offered less new money and required the collateralization of letters of credit. Among other reasons, Wesco's board of directors accepted the majority group's proposal, finding it provided more needed liquidity on superior terms.

The majority group initially believed it held the requisite two-thirds of the outstanding 2026 notes to release the collateral as to the 2026 notes. Interestingly, the minority group sought to block the 2022 transactions by

purchasing a blocking position in the 2026 notes.To counter the blocking position, the first step of the majority group's liability management transaction was an amendment that allowed for the issuance of $250 million in additional 2026 notes to the majority group. Notably, the amendment to issue additional notes only required the approval of a majority of the holders of the 2024, 2026, and 2027 notes. Next, Wesco and the majority group entered into a purchase agreement, under which the majority group invested $250 million of new money into Wesco in exchange for the newly issued additional 2026 notes. As a result, the majority group's total share of the then-outstanding 2026 notes grew to more than two-thirds. This allowed Wesco to take its third step, which was to release the liens securing the 2024 and 2026 notes with the requisite two-thirds approval.

In October 2022, the minority group sued Wesco in New York state court, seeking an order avoiding the 2022 transactions between Wesco and the majority group. But in June 2023, while that state court litigation was pending, Wesco and its related entities filed voluntary Chapter 11 petitions in the U.S. Bankruptcy Court for the Southern District of Texas. Wesco immediately initiated an adversary proceeding against the minority group and sought a declaration that it did not breach its indentures by entering into the 2022 transactions. The bankruptcy court ruled that Wesco's 2022 transactions breached the 2026 indenture by failing to obtain consent from two-thirds of the then-outstanding 2026 noteholders for the release of liens on the 2024 and 2026 notes. The bankruptcy court recommended unwinding the 2022 transactions, reinstating the liens of the 2026 noteholders and leaving the majority group with an unsecured claim for its $250 million new money investment. The parties objected to the bankruptcy court's ruling, and the matter was appealed by the U.S. District Court for the Southern District of Texas.

In its de novo review of the bankruptcy court's ruling, the U.S. District Court for the Southern District of Texas concluded that Wesco's uptier 2022 transactions were lawful and refused to find any "implied sacred rights." The district court was not persuaded by the minority group's arguments that the 2022 transactions should be collapsed into a single transaction, the effect of which caused the release of liens on collateral, thus requiring consent from at least two-thirds of existing noteholders. Instead, the court found that Wesco was permitted to amend the 2026 indenture to allow for the issuance of additional notes by only a simple-majority consent, and in a separate, yet coordinated, amendment, release the collateral for the 2026 notes by a two-thirds vote, which included the votes of the holders of the newly issued notes.

The district court noted that its conclusion was "confirmed" by the Fifth Circuit's decision in *In re Serta Simmons Bedding,* 125 F.4th 555 (5th Cir. 2025), in which the Fifth Circuit held that Serta failed to obtain the unanimous consent required in an express "sacred right of pro-rata sharing." The district court noted that there was no similar sacred right provision in Wesco's indenture agreements and that the parties understood that the lack of such a sacred right allowed Wesco to "dilute a minority group's voting power by issuing new bonds with majority consent and to then rely on consent from those additional bonds to issue senior debt over the minority noteholders' objection."

Indeed, the district court made clear that parties cannot rely on alleged implied sacred rights and the court will not find implied rights. "The indentures were negotiated by sophisticated parties who chose their language carefully; if the parties had wanted to bargain for additional sacred rights that would have allowed minority holders to prevent the 2022 transactions, they could have done so, but they did not. This court refuses to find any implied sacred rights."

The district court also limited how far downstream an amendment may be read to “effect.” The minority group argued that the amendment, when combined with the other steps of the 2022 transactions, had the “effect of” releasing collateral, and thus, the Majority Group failed to obtain the requisite supermajority consent. The district court rejected this argument. Instead, it held that the focus must be on “the immediate effect of the amendment itself—without regard to subsequent actions that may follow—in order to determine in real time whether a supermajority vote is required.” Any other reading of the amendment would “flout the ordinary meaning of ‘effect’” and lead to practical difficulties in contract interpretation and execution.

Ultimately, by declaring that the 2022 transactions did not breach Wesco’s obligations under the indentures, the district court imparted three key liability management lessons. First, use precise language to expressly provide for sacred rights, as a court may not agree that an “implied” sacred right exists. Second, carefully consider the ramifications of a simple-majority’s power to amend provisions, especially when the simple majority has the ability to vary voting rights. Third, the “effect of” an instrument is limited, so its effects cannot be traced downstream through a series of transactions. Any other interpretation of “effect of” would be unwieldy and lead to confusion among courts and practitioners alike.

Alex R. Rovira *is a partner in Troutman Pepper Locke’s New York office and* **Sarah L. Hautzinger Loumeau** *is an associate at the firm in the New York office.*

Reprinted with permission from the February 10, 2026, edition of *The Legal Intelligencer*© 2025 ALM Global Properties, LLC. All rights reserved. Further duplication without permission is prohibited, contact 877-256-2472 or asset-and-logo-licensing@alm.com.

RELATED INDUSTRIES + PRACTICES

- Bankruptcy + Restructuring