

Mig P. Olack

Judge Neil P. Olack

United States Bankruptcy Judge Date Signed: March 23, 2017

The Order of the Court is set forth below. The docket reflects the date entered.

UNITED STATES BANKRUPTCY COURT NORTHERN DISTRICT OF MISSISSIPPI

IN RE:

MARITIME COMMUNICATIONS/LAND MOBILE, LLC,

CASE NO. 11-13463-NPO

DEBTOR. CHAPTER 11

ORDER RESOLVING SHOW CAUSE ORDER

This matter came before the Court for hearing on March 1, 2017 (the "Show Cause Hearing"), on the Order to Show Cause (the "Show Cause Order") (Dkt. 1389) issued to Craig M. Geno ("Geno"), counsel for the debtor, Maritime Communications/Land Mobile, LLC ("Maritime"), to show cause why the above-referenced bankruptcy case (the "Bankruptcy Case") should not be converted to a chapter 7 case. See 11 U.S.C. § 1112(b). The Show Cause Order responsive pleadings: generated the following (1) the Response of Choctaw Telecommunications, LLC and Choctaw Holdings, LLC to Order to Show Cause (the "Choctaw Response") (Dkt. 1405) and Affidavit of Patrick B. Trammell (Dkt. 1406, Choctaw Ex. 1)¹ filed by Choctaw Telecommunications, LLC and Choctaw Holdings, LLC (collectively, "Choctaw");

¹ Fourteen (14) exhibits were admitted into evidence at the Show Cause Hearing, only one of which was introduced by Choctaw. All other exhibits were introduced by Maritime. Choctaw's exhibit is cited as "(Choctaw Ex. 1)"; Maritime's exhibits are cited as "(Debtor Ex.)".

(2) the Limited Objection to the Joint Motion for Interim Disbursement of Funds Under Confirmed Plan of Reorganization and Response to Court's Order to Show Cause (Dkt. 1407) filed by the Official Committee of Unsecured Creditors (the "Committee"); (3) the Response of Debtor to Show Cause Order (Dkt. 1408) and the Declaration of Robert W. Mauriello, Jr. (the "Mauriello Declaration") (Dkt. 1414, Debtor Ex. 9) filed by Maritime; (4) the Federal Communications Commission's Response to Order to Show Cause Why Case Should Not be Converted from Chapter 11 to Chapter 7 (Dkt. 1411) filed by the Federal Communications Commission (the "FCC"); and (5) the Response to the OSC and to Choctaw Response to the OSC and Request to Permit Phone Attendance at March 1, Hearing (the "Havens Response") (Dkt. 1412) filed by Warren Havens ("Havens"). At the Show Cause Hearing, Geno represented Maritime, Timothy M. Lupinacci represented Choctaw, and Derek F. Meek represented the Committee. Although the FCC and Havens also responded to the Show Cause Order, no one appeared on their behalf at the Show Cause Hearing.²

Facts

Maritime filed a voluntary chapter 11 petition for relief on August 1, 2011. (Dkt. 1). The Court entered the Order Approving Third Amended Disclosure Statement (Dkt. 671) on September 27, 2012. On January 11, 2013, the Court confirmed Maritime's First Amended Plan of Reorganization (the "Plan") (Dkt. 669, Debtor Ex. 1), subject to the approval of the FCC, pursuant to the Order Confirming Plan of Reorganization (the "Confirmation Order") (Dkt. 973 & 980, Debtor Ex. 2). More than four (4) years have passed since the date of confirmation, yet the Plan still has not become effective.

² On February 28, 2017, the Court entered an order denying Havens' request to participate in the Show Cause Hearing by telephone. (Dkt. 1413).

A. Plan

In general, the Plan provides for a "waterfall" distribution of payments to creditors based on the sale and assignment of Maritime's spectrum licenses for wireless and cellular services (the "Spectrum Licenses") to Choctaw, an entity formed by Maritime's secured creditors for the specific purpose of implementing the Plan. (Dkt. 669 at 10-11, Debtor Ex. 1 at 10-11). In its simplest terms, the Plan stipulates that Maritime will transfer the Spectrum Licenses to Choctaw, which then will sell and assign the Spectrum Licenses to third parties, and the proceeds from these sales will be used to repay Maritime's creditors. (*Id.*). The Plan is contingent on Maritime and Choctaw obtaining approval from the FCC of the transfer of the Spectrum Licenses to Choctaw. (Dkt. 980 at 11).

B. Effective Date of Plan

The Plan becomes effective only after: (1) the Confirmation Order becomes final; (2) "all authorizations, consents, certifications, approvals, rulings, no-action letters, opinions or other documents or actions required by any law, regulation or order to be received or to occur in order to implement the Plan on the Effective Date shall have been obtained or shall have occurred;" and (3) "[a]ll other documents and agreements necessary to implement the Plan on the Effective Date shall have been executed and delivered and all other actions required to be taken in connection with the Effective Date shall have occurred" (Dkt. 669 at 24, Debtor Ex. 1 at 24). The effective date has been delayed in large part by: (1) an appeal of the Confirmation Order to the U.S. District Court for the Northern District of Mississippi³ (the "District Court")

³ See Havens v. Maritime Communications/Land Mobile LLC, Civil Action No. 1:13-CV-00173-SA (N.D. Miss. Sept. 16, 2013).

filed by Havens (Dkt. 999) and (2) a petition filed by Havens opposing the FCC's approval of Maritime's transfer of the Spectrum Licenses to Choctaw.⁴

C. Havens District Court Appeals

On September 16, 2013, Havens appealed not only the Confirmation Order but also a related evidentiary ruling.⁵ The District Court consolidated these appeals into the lead case of 1:13-CV-173-SA (the "Confirmation Order Appeals") (1:13-CV-173-SA, Dkt. 245). In addition, Havens appealed numerous orders allowing Maritime to assume certain executory contracts.⁶ The District Court consolidated all of these appeals into the lead case of 1:13-CV-180-SA (the "Assignment/Sale Orders Appeals") (1:13-CV-180-SA, Dkt. 66). Together, the Confirmation Order Appeals and the Assignment/Sale Orders Appeals are referred to as the "Havens District Court Appeals."

On April 16, 2015, the District Court, with the consent of the parties, administratively terminated the Havens District Court Appeals without prejudice. (Case No. 1:13-CV-173-SA, Dkt. 267; Case No. 1:13-CV-180, Dkt. 89). On January 13, 2017, Maritime filed a Notice of Reinstatement of Appeals (Case No. 1:13-CV-173-SA, Dkt. 268; Case No. 1:13-CV-180, Dkt. 90), and also filed, along with Choctaw and the Committee, a Joint Motion to Dismiss Havens' Appeals (the "Dismissal Motion") (Case No. 1:13-CV-173-SA, Dkt. 270; Case No. 1:13-CV-

⁴ Application for Consent to Assign Licenses from Maritime Communications/Land Mobile, LLC Debtor-in-Possession to Choctaw Holdings, LLC, FCC 16-172 (Jan. 23, 2013) (Dkt. 1406-3, Ex. 3).

⁵ See Havens v. Maritime Communications/Land Mobile LLC, Civil Action No. 1:13-CV-00174-SA (N.D. Miss.).

⁶ See Havens v. Maritime Communications/Land Mobile LLC, Civil Action Nos. 1:13-CV-00180-SA, 1:13-CV-00181-SA, 1:13-CV-00182-SA, 1:13-CV-00183-SA, 1:13-CV-00190-SA, 1:13-CV-00191-SA, 1:13-CV-00192-SA, 1:13-CV-00193-SA, and 1:13-CV-00194-SA (N.D. Miss.).

180, Dkt. 92). As grounds for the dismissal, they alleged that Havens lacked standing to prosecute the Havens District Court Appeals, now that the Third Circuit Court of Appeals had affirmed the final judgment of the U.S. District Court for the District of New Jersey denying Havens' claims against Maritime.⁷ (*Id.* at 5-7). Apparently, Havens' claims in the New Jersey action served as the sole basis for his claims in the Bankruptcy Case. (*Id.* at 5).

The District Court entered orders (Case No. 1:13-CV-173-SA, Dkt. 274; Case No. 1:13-CV-180, Dkt. 96) on February 7, 2017, imposing a deadline of March 15, 2017, for Havens to respond to the Dismissal Motion. As of the date of this Order, Havens has not filed a response, but on March 9, 2017, he filed a Notice of Appearance as *Pro Se* Party (Case No. 1:13-CV-173-SA, Dkt. 277; Case No. 1:13-CV-180, Dkt. 99). The Havens District Court Appeals remain pending.

D. January Status Conference

After Maritime filed the Motion to Approve Sale and Lease of Licenses to PTC-220 LLC (the "Sale Motion") (Dkt. 1360) and the Committee filed the Limited Objection to the Debtor's Motion to Approve Sale and Lease of Licenses to PTC-220 LLC and Motion for Notice of Effective Date (Dkt. 1366 & 1367), the Court became concerned that Maritime was attempting to implement the Plan before its effective date and/or to modify the Plan during the pendency of the Havens District Court Appeals. The Court set a status conference on January 30, 2017 (the "January Status Conference"), at the same time as the hearing on the Sale Motion, for the purpose of discussing the anticipated effective date of the Plan, the status of the FCC proceedings and the Havens District Court Appeals, and the advisability of continuing with the

⁷ Havens v. Maritime Commc'ns/Land Mobile, LLC, No. 11-993(KSH) (CLW), 2014 WL 4352300 (D.N.J. Sept. 2, 2014), *aff'd*, 820 F.3d 80 (3d Cir. 2016). The Mauriello Declaration (Dkt. 1414, Debtor Ex. 9) summarizes the New Jersey litigation.

Plan. (Dkt. 1374). Only counsel for Maritime and the Committee appeared at the January Status Conference, at which time the Court mentioned that it was considering the following options: dismissal of the Bankruptcy Case, modification of the Plan, or conversion of the Bankruptcy Case to a chapter 7 case. Neither Maritime nor the Committee supported any of these options at the January Status Conference, and neither expressed any concern about Maritime's ability to substantially consummate the Plan. They agreed, however, that a "bright line" test for determining the occurrence of the effective date of the Plan should be established and that notice of the occurrence of the effective date should be given to all interested parties.⁸

E. Disbursement Motion

Only two (2) days after the January Status Conference, on February 1, 2017, Maritime and Choctaw, which did not participate in the January Status Conference, filed the Joint Motion for Interim Disbursement of Funds under Confirmed Plan of Reorganization (the "Disbursement Motion") (Dkt. 1381), seeking an interim distribution of the funds received as a result of Maritime's sale of Spectrum Licenses to the Southern California Regional Rail Authority ("SCRRA") on December 16, 2016. (Dkt. 1355).

F. Expedited Relief Motion

Only four (4) days after the January Status Conference, on February 3, 2017, Maritime filed the Motion for Expedited Status Conference with Respect to Joint Motion for Interim Disbursement of Funds Under Confirmed Plan of Reorganization (the "Expedited Relief Motion") (Dkt. 1383), stating that an "urgent situation existed[ed]" because its post-petition and post-confirmation lender "has expressed concern as to whether or not it will continue funding [Maritime's] operations in the absence of an immediate distribution of funds from the Spectrum

 $^{^{8}}$ The Order Requiring Notice of Effective Date (Dkt. 1422) was entered on March 13, 2017.

[License] sales proceeds that are available." (*Id.* at 2). Maritime requested an expedited status conference in order to inform the Court of its current situation "with respect to post-confirmation operations and funding so as to avoid a potential shutdown of post-confirmation operations." (*Id.* at 2). On February 8, 2017, a telephonic status conference was held on the Expedited Relief Motion (Dkt. 1386), at the conclusion of which the Court entered the Order Denying Motion for Expedited Status Conference with Respect to Joint Motion for Interim Disbursement of Funds Under Confirmed Plan of Reorganization. (Dkt. 1387). The Court shortened the deadline for filing objections to the Disbursement Motion and set the Disbursement Motion for an expedited hearing, but denied Maritime's request for an expedited status conference. (*Id.*). Given that the request was made only four (4) days after the January Status Conference, during which no mention was made of any "urgent situation," counsel was unable to persuade the Court that expedited relief in the form of another status conference was necessary.

G. Show Cause Order

As a result of Maritime's allegations in the Expedited Relief Motion that it faced a potential shutdown of its business operations, the Court on February 8, 2017, issued the Show Cause Order to determine whether it was in the best interest of the creditors and estate to convert the Bankruptcy Case to chapter 7 under 11 U.S.C. § 1112(b). Section 1112(b) lists as an example of "cause" for conversion the "inability to effectuate substantial consummation of a confirmed plan." 11 U.S.C. § 1112(b)(4)(M). Moreover, an unreasonable delay in liquidating an estate and failing to account to investors has been considered "cause" to convert a case to chapter 7. *Pioneer Liquidating Corp. v. U.S. Trustee (In re Consol. Pioneer Mortg. Entities)*, 264 F.3d 803, 808-09 (9th Cir. 2001); *see also In re Coffee Cupboard, Inc.*, 118 B.R. 197, 199-200 (Bankr. E.D.N.Y. 1990).

In none of the written responses to the Show Cause Order did anyone support conversion of the Bankruptcy Case to a chapter 7 case. Choctaw opposed conversion, stating that "Maritime is on the verge of completing the detailed process of reorganization contemplated by the . . . Plan" and that it "anticipates that the Effective Date should occur under the Plan within ninety (90) to one hundred twenty (120) days." (Dkt. 1405 at 1, 22). The FCC likewise opposed conversion, stating that "under this case's unique facts, the FCC does not believe conversion is appropriate." (Dkt. 1411 at 1). Even Havens did not support conversion of the Bankruptcy Case, merely suggesting that conversion might be avoided or deferred if Maritime would only engage in serious settlement discussions. (Dkt. 1412 at 4).

H. Show Cause Hearing

Four (4) witnesses testified at the Show Cause Hearing. FCC counsel for Maritime, Robert J. Keller ("Keller"), and for Choctaw, Robert G. Kirk ("Kirk") both testified about the status of the proceedings before the FCC for approval of the transfer of the Spectrum Licenses. John Reardon ("Reardon"), the managing director of Choctaw and general manager of Maritime, testified at length about the potential use and sales of Spectrum Licenses. Patrick B. Trammell ("Trammell"), chairman and chief executive officer of Choctaw and managing member of Southeastern Commercial Finance, LLC ("Southeastern"), testified about Maritime's post-confirmation funding sources. (Dkt. 1406 at 1).

1. Keller

As to the status of the FCC proceedings, Keller explained that on April 19, 2011, the FCC issued to Maritime the Order to Show Cause, Hearing Designation Order and Notice of Application for Hearing (the "HDO"), 26 FCC Rcd. 6520 (2011), to determine whether Maritime is qualified to hold the Spectrum Licenses. The FCC questioned Maritime's "character

qualifications" because of its apparent failure to disclose the revenues of Donald DePriest, the husband of its sole principal, Sandra DePriest, when it first acquired the Spectrum Licenses at public auction.

Under the *Jefferson Radio* policy, the FCC generally will not approve the transfer or assignment of a license while "character qualifications" are the subject of a pending matter before the FCC. *See Jefferson Radio Co. v. FCC*, 340 F.2d 781 (D.C. Cir. 1964). There is an exception to the *Jefferson Radio* policy, called the *Second Thursday* doctrine, which applies when "the individuals charged with misconduct will have no part in the proposed operations and will either derive no benefits from favorable action on the applications or only a minor benefit which is outweighed by equitable considerations in favor of innocent creditors." *See In re Second Thursday Corp.*, 22 F.C.C.2d 515, 516 (FCC 1970).

In accordance with the Plan, Maritime and Choctaw filed a joint application on January 23, 2013, invoking the *Second Thursday* doctrine and alleging that neither Donald DePriest nor Sandra DePriest would incur any benefit from the assignment of the Spectrum Licenses to Choctaw. (Dkt. 1406-3, Ex. 3). Havens filed a petition to deny the application, which triggered the filing of numerous pleadings before the FCC. On March 21, 2013, the FCC stayed the hearing on Maritime's basic character qualifications on the ground that a decision on the application of the *Second Thursday* exception could moot those issues.

Then, on September 10, 2014, the FCC rejected the request of Maritime and Choctaw for *Second Thursday* relief on the ground that the proceeds from the sale and assignment of the Spectrum Licenses to third parties would extinguish Donald DePriest's liability arising under his

 $^{^9}$ A cardboard box measuring 15" \times 12" \times 10," filled with copies of pleadings and transcripts of proceedings before the FCC, was introduced into evidence without objection as "Debtor Exhibit 11."

personal guarantees of loans to Maritime. *See Memorandum Opinion and Order* (the "MO&O"), *In re Maritime Commc'ns/Land Mobile, LLC*, 29 FCC Rcd. 10871, 10880, 2014 WL 4490115 (Sept. 11, 2014); (Dkt. 1406-4 at 8, Ex. 4 at 8). As a result, the FCC withheld action on the joint application of Maritime and Choctaw pending a determination of Maritime's basic character qualifications. The FCC, however, removed the application of SCRRA from the ambit of the HDO based on the public interest in facilitating the deployment of "positive train control." Pursuant to the MO&O, the Wireless Telecommunications Bureau issued an order granting the assignment by Maritime of certain Spectrum Licenses to SCRRA on September 14, 2016. After SCRRA sought and obtained offsets to the purchase price for the Spectrum Licenses (Dkt. 1355), the sale closed on December 16, 2016, with SCRRA paying Maritime a total purchase price of \$6,490,221.72. (Dkt. 1381 at 4).

In the meantime, on October 14, 2014, Maritime and Choctaw filed petitions to reconsider the FCC's denial of *Second Thursday* relief. (Dkt. 1406-5, Ex. 5). On December 15, 2016, the FCC released the *Order on Reconsideration and Memorandum Opinion and Order* (the "Recon Order"), *In re Maritime Commc'ns/Land Mobile, LLC*, 2016 WL 7340459 (FCC Dec. 15, 2016) (Debtor Ex. 12), finding that the discharge in bankruptcy of Donald DePriest on October 27, 2015, discharged him of his liability on the personal guarantees he made to Maritime's lenders and that this change in circumstances, which occurred after the issuance of the MO&O, warranted its reconsideration. The FCC's decision in the Recon Order to grant *Second Thursday* relief terminated the hearing as to Maritime's basic qualifications and removed *Jefferson Radio* policy as an impediment to the processing of the assignment of Maritime's remaining Spectrum Licenses to Choctaw. Shortly thereafter, on January 6, 2017, the FCC released the Order (Debtor Ex. 13) denying all of the pleadings filed by Havens in opposition to

the transfer. Because of these rulings from the FCC, Keller was "highly confident" that the FCC will grant the joint application within an estimated ninety (90) to one hundred twenty (120) days.

2. Kirk

Kirk opined that a conversion of the Bankruptcy Case would render *Second Thursday* relief inapplicable, which would further prolong the FCC proceedings. He agreed with Keller's estimate of a favorable ruling from the FCC within ninety (90) to one hundred twenty (120) days, but he believed that the FCC would release its ruling closer to ninety (90) days.

3. Reardon

Reardon testified about the potential need and uses of Spectrum Licenses, especially in the industries of transportation, energy, and utilities. (Debtor Exs. 3-5). He discussed the concept of the "Internet of things," which generally refers to the ability of devices to communicate with the Internet. When asked by the Court, he testified that he believed that the Plan will become effective as soon as the FCC approves the transfer of the Spectrum Licenses, which should occur within ninety (90) to one hundred twenty (120) days.

4. Trammell

Trammell remarked that no one could have predicted how disruptive one individual (Havens) could be to the FCC proceedings when the Plan was confirmed. Given the Show Cause Order and the prospect of conversion of the Bankruptcy Case, Choctaw was no longer interested in prosecuting the Disbursement Motion and agreed to withdraw it. Trammell testified that Southeastern and Choctaw have provided post-petition and post-confirmation funding to Maritime of approximately \$7.2 million to support its ongoing operations. Moreover, in early

¹⁰ In the Havens Response, Havens denied that he engaged in any improper conduct before the FCC and blamed Maritime for prolonging the proceedings due to its alleged violations of "fundamental FCC rules" and other actions. (Dkt. 1412 at 4).

February, 2017, Southeastern and Choctaw provided additional lending of \$2 million (Dkt. 1406-10, Ex. 10). He believed that the infusion of \$2 million would allow Maritime to continue its business operations for at least the next eighteen (18) months, well before the anticipated occurrence of the Plan's effective date. Like Reardon, he testified that FCC approval of the transfer of the Spectrum Licenses would take place within an estimated ninety (90) to one hundred twenty (120) days, but he later predicted that the ruling would occur within the next forty-five (45) days.

Discussion

A recurring theme of the testimony presented at the Show Cause Hearing was that significant progress had been made toward substantial consummation of the Plan during the past four (4) years at considerable expense and effort and that only a few steps remained to reach implementation of the effective date and substantial consummation of the Plan. In contrast, conversion of the Bankruptcy Case to a chapter 7 case would only impede and delay the FCC's approval of the assignment of the Spectrum Licenses because of the introduction of a chapter 7 trustee in the proceedings and the unavailability of *Second Thursday* relief.

Specifically, the testimony showed that only two (2) steps must take place before the effective date will have occurred: (1) dismissal of the Havens District Court Appeals and (2) finalization of FCC approval of the assignment of the Spectrum Licenses to Choctaw. (Dkt. 1405 at 30). All of the witnesses agreed that these events should take place no more than one hundred twenty (120) days from the date of the Show Cause Hearing. Indeed, all of the witnesses estimated that the FCC would approve the assignment of the Spectrum Licenses in less than one hundred twenty (120) days. As pointed out in the Choctaw Response, it is not unheard of for there to be delays in implementing a plan when government approval may impact a

debtor's ability to consummate a plan. (Dkt. 1405 at 25 n.4) (citing *In re Aladdin Gaming, LLC*, No. 2:01-bk-20141 (Bankr. D. Nev. Aug. 29, 2003) (plan confirmed on August 29, 2003, but effective date did not occur until September 7, 2004)). The Court's concern about the consummation of the Plan, however, was not limited to the passage of time but included Maritime's source for post-confirmation funding. *See, e.g., In re Smith*, 201 B.R. 267 (Bankr. D. Nev. 1996), *aff'd*, 141 F.3d 1179 (9th Cir. 1998) (converting chapter 11 case to a chapter 7 case where the debtor's source of funding proved to be inadequate).

At the Show Cause Hearing, the Court asked Trammell to reconcile the statements made by Maritime in the Expedited Relief Motion that "[t]he Lender has expressed concern as to whether or not it will continue funding [Maritime's] operations in the absence of an immediate distribution of funds from the Spectrum [License] sales proceeds" (Dkt. 1383 at 1) with his affidavit testimony that "Choctaw and Southeastern have not said that they will not continue funding [Maritime] operations unless sale proceeds are distributed immediately under the Plan." (Dkt. 1406 at 6, Choctaw Ex. 1 at 6). Trammell admitted that there was "a heated discussion" where comments were made to Geno about Maritime losing it sources of funding. He explained that when Maritime closed the sale of Spectrum Licenses to SCRRA and received \$6,490,221.72, his telephone "lit up" with calls from secured creditors, insisting that Choctaw withdraw its funding unless the sales proceeds were immediately distributed. It appears that Trammell relayed these concerns to Geno, which prompted Maritime to file the Expedited Relief Motion. Now, apparently, Southeastern and Choctaw have agreed to provide the necessary additional funding after considering the consequences of conversion to chapter 7. To his credit, Trammell readily agreed with the Court that if the Disbursement Motion was merely a bluff, it was a costly one, given the effort expended to avoid conversion to chapter 7.

Conclusion

Despite the unknowns that remain as to the effective date of the Plan, the Court declines to convert the Bankruptcy Case to a chapter 7 liquidation at this time given the recent progress that has been made in the FCC proceedings and the additional \$2 million in funding provided by Southeastern and Choctaw. The Court, therefore, finds that the Show Cause Order should be dismissed. If, however, no notice of occurrence of the effective date has been filed by June 29, 2017 (which is one hundred twenty (120) days from the date of the Show Cause Hearing), the Court may issue another order to show cause so that the conversion issue may be revisited.

IT IS, THEREFORE, ORDERED that the Show Cause Order is hereby dismissed.

##END OF ORDER##