

**UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MAINE**

In re:)	
)	
MONTREAL, MAINE & ATLANTIC)	Case No.: 13-10670
RAILWAY, LTD.,)	Chapter 11
)	
Debtor.)	

ORDER

This matter came before me on the objection of Robert J. Keach, the representative (the “Estate Representative”) of the estate of Montreal Maine & Atlantic Railway, Ltd. (the “Debtor”)¹ to Proofs of Claim No. 116-1 and 116-2 filed by Center Beam Flatcar Company (“Center Beam”). Based upon the arguments of counsel at hearing and their submissions, and for the reasons set forth below, the Estate Representative’s objection is sustained. The entire Claim 116-1 and a portion of Claim 116-2 (\$83,403.23) are disallowed.

I. JURISDICTION AND VENUE.

This court has jurisdiction of this matter pursuant to 28 U.S.C. § 1334, and the general order of reference entered in this district pursuant to 28 U.S.C. § 157(a). D. Me. Local R. 83.6(a). Venue here is proper pursuant to 28 U.S.C. § 1408(1). This is a core proceeding pursuant to 28 U.S.C. §§ 157(b)(1) and (b)(2)(B).

¹ In accordance with the Trustee’s Chapter 11 Plan of Liquidation, dated July 15, 2015 (As Amended on October 8, 2015) (the “Plan”) (Docket Entry (“DE”) 1822), upon the Effective Date of the Plan (which occurred on December 22, 2015, see DE 1927), Robert J. Keach was no longer the chapter 11 trustee of the Debtor’s estate, but is the Estate Representative of the Post-Effective Date Estate (as defined in the Plan). See Plan § 6.1(a).

II. FACTS.

This dispute is straightforward and the facts are not contested. The Debtor leased up to 95 centerbeam railroad flatcars from Center Beam pursuant to a January 13, 2003 lease (the “Lease”). On July 6, 2013, the Debtor’s trains derailed in Lac-Mégantic, Québec causing catastrophic damage to the people and town of Lac-Mégantic. One month later, on August 7, 2013, the Debtor filed a voluntary petition for relief commencing a case under chapter 11 of the Bankruptcy Code² in the United States Bankruptcy Court for the District of Maine. Subsequently, the railroad cars subject to the Lease were returned to Center Beam, though that process took additional time because they were scattered across the country.

On August 21, 2013, the Debtor filed a motion to reject certain executory contracts and unexpired leases (including the Lease) that were, according to the Debtor, of no value to the estate (DE 66). Center Beam objected to the motion (DE 277). Subsequently, the parties reached a deal whereby Center Beam consented to the granting of the motion, *nunc pro tunc*, and reserved the right to argue at a later time as to the extent and priority of its claim against the Debtor (DE 421). On November 1, 2013, the Court granted the motion and the Lease was rejected, *nunc pro tunc* back to the petition date (DE 421). On June 12, 2014, Center Beam filed Claim 116-1. The next day it filed Claim 116-2. The claims are identical except Claim 116-1 was signed by Center Beam’s attorney and Claim 116-2 was signed by its president. Claim 116-2 asserts an unsecured claim totaling \$372,095.47, of which \$288,692.24 is a general unsecured claim for pre-petition rents, transportation, stenciling, retagging and decals, and \$83,403.23 is for “[a]ccrued unpaid post-petition rent”. The Estate Representative objected (DE 2025), Center

² All references to the “Code” or to specific statutory sections are to the Bankruptcy Reform Act of 1978, as amended by the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, Pub. L. No. 109-8, 119 Stat. 23, 11 U.S.C. § 101, et seq.

Beam responded (DE 2066), and the Estate Representative filed a reply in support of his objection (DE 2114).

III. BURDEN OF PROOF.

Given that the Estate Representative sufficiently objected to Center Beam's claims, the burden shifts to Center Beam to prove, by a preponderance of the evidence, that its claim should be allowed. Bankr. Evid. Manual § 301:50 (2014 ed.).

IV. DISCUSSION.

The parties agree that Center Beam is entitled to a general unsecured claim of \$288,692.24 and the sole unresolved issue between the parties concerns the treatment of the \$83,402.53 portion of Claim 116-2. Center Beam asserts that it is entitled to an unsecured (not administrative) claim for \$83,402.53 which is the amount of post-petition rent as lease rejection damages. Center Beam believes it is entitled to this rent because the Lease provides that upon breach by the Debtor, Center Beam "shall be entitled to collect and receive any and all rents and other amounts that under the terms of this Lease may then be due or that have accrued to the date of such delivery [of the railroad cars] to the Owner . . ." (Claim 116-2, page 11) (emphasis added). Thus, Center Beam argues that it is entitled to an unsecured claim for the amount due in lease payments until all of the rail cars were returned to Center Beam. The Estate Representative disagrees.

The answer lies in the interplay between §§365, 502 and 503 of the Code. Section 365 allows a debtor in possession to assume or reject unexpired leases. Section §365(g)(1) provides that the rejection of an unexpired lease constitutes a breach of the lease as of the day before the petition date and §502(g)(1) tells us that rejection claims arising under §365(g)(1) shall be determined as if the claim arose before the petition date. Finally, §503(b)(1) permits the

allowance as administrative expenses actual, necessary costs and expenses of preserving the estate.

Turning to the rejection aspects of Center Beam's claim, Center Beam concedes that the Debtor was not benefited by the Lease following the rejection date and therefore is not entitled to an administrative claim under §503(b)(1), but it asserts, based upon the language of the Lease, an unsecured claim for the rents that accrued until the railroad cars were returned to it.³ Center Beam has offered no authority to support this proposition and I have been unable to find any. The Code allows the payment, as administrative expenses, of certain post-rejection commercial property lease claims when those expenses were necessary for the preservation of the estate. §§ 365(g)1), 502(g) and 503(b)(1). It does not permit the payment of such lease payments as unsecured claims in situations like this one where it is undisputed that the Lease did not benefit the estate in any way post-rejection. Nor can Center Beam use the provision in the Lease cited above to make an end run around the provisions of the Code. Since damages are fixed as of the petition date, the fact that it took some time post-petition to deliver the rail cars to Center Beam (and during which time it is undisputed that the estate did not benefit from the use of the cars) should not be included in Center Beam's claim. To paraphrase the First Circuit in the Public Service Co. of New Hampshire case, if Center Beam thought that there was some "manifest unfairness" in requiring it to wait while the Debtor decided to "embrace or jettison" the Lease, it could have filed a motion to compel election under § 365(d)(2). In re Pub. Serv. Co. of New Hampshire, 884 F.2d 11, 15–16 (1st Cir. 1989); see also In re Enron Corp., 354 B.R. 652, 659

³ Unfortunately, §502 of the Code does not provide a clear method for the calculation of damages for the breach of commercial personal property leases, as does §502(b)(6) for real property leases. See In re Maupin, 165 B.R. 864, 866, 30 Collier Bankr. Cas. 2d 1758, Bankr. L. Rep. P 75843, 1994 WL 120148 (Bankr. M.D. Tenn. 1994).

(S.D.N.Y. 2006). It did not do so and the record before me is bare of any other steps Center Beam took to hasten the return of the cars.

Center Beam has not carried its burden of proof and the Estate Representative's objection to the \$83,403.53 portion of Center Beam's Claim 116-2 is sustained.

Date: August 25, 2016

/s/ Peter G. Cary
Peter G. Cary
United States Bankruptcy Judge

District/Off: 0100-1

User: kford

Date Created: 8/25/2016

Case: 13-10670

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TOTAL: 4

Recipients of Notice of Electronic Filing:

ust Office of U.S. Trustee ustpreion01.po.ecf@usdoj.gov
aty Aaron P. Burns aburns@pearcedow.com
aty Adam Paul, Esq. adam.paul@kirkland.com
aty Adam J. Shub, Esq. ashub@preti.com
aty Alan R. Lepene, Esq. Alan.Lepene@ThompsonHine.com
aty Andrew Helman, Esq. ahelman@mcm-law.com
aty Anthony J. Manhart amanhart@preti.com
aty Benjamin E. Marcus, Esq. bmarcus@dwmlaw.com
aty Brian T. Henebry, Esq. bhenebry@carmodylaw.com
aty Bruce B. Hochman, Esq. bhochman@eatonpeabody.com
aty Craig Goldblatt craig.goldblatt@wilmerhale.com
aty Curtis E. Kimball, Esq. ckimball@rudman-winchell.com
aty D. Sam Anderson, Esq. sanderson@bernsteinshur.com
aty Daniel C. Cohn, Esq. dcohn@murthalaw.com
aty Daniel R. Felkel, Esq. dfelkel@troubhheisler.com
aty Darcie P.L. Beaudin, Esq. dbeaudin@sta-law.com
aty David C. Johnson bankruptcy@mcm-law.com
aty Debra A. Dandeneau debra.dandeneau@weil.com
aty Edward MacColl, Esq. emaccoll@thomport.com
aty Elizabeth J. Wyman, Esq. liz.wyman@maine.gov
aty Elizabeth L. Slaby bslyby@clarkhill.com
aty F. Bruce Sleeper, Esq. bankruptcy@jbgh.com
aty Frank J. Guadagnino fgudagnino@clarkhillthorpreed.com
aty Fred W. Bopp III., Esq. fbopp@perkinsthompson.com
aty Frederick C. Moore, Esq. frederick.moore@libertymutual.com
aty George J. Marcus, Esq. bankruptcy@mcm-law.com
aty George W. Kurr, Jr. gwkurr@grossminsky.com
aty Isaiah A. Fishman ifishman@krasnowsaunders.com
aty James F. Molleur, Esq. jim@molleurlaw.com
aty Jason C. Webster, Esq. jwebster@thewebsterlawfirm.com
aty Jay S. Geller jgeller@jaysgellerlaw.com
aty Jeffrey D. Sternklar, Esq. jeffrey@sternklarlaw.com
aty Jeffrey T. Piampiano, Esq. jpiampiano@dwmlaw.com
aty Jennifer H. Pincus, Esq. Jennifer.H.Pincus@usdoj.gov
aty Jeremy R. Fischer jfischer@dwmlaw.com
aty John Eggum jeggum@fgppr.com
aty John R McDonald, Esq. jmcdonald@briggs.com
aty Jordan M. Kaplan, Esq. jkaplan@zwerdning.com
aty Joshua R. Dow, Esq. jdow@pearcedow.com
aty Julia G. Pitney, Esq. jpitney@dwmlaw.com
aty Kameron W. Murphy, Esq. kmurphy@tuethkeeney.com
aty Keith J. Cunningham, Esq. kcunningham@pierceatwood.com
aty Kelley J. Friedman kfriedman@jandflaw.com
aty Kevin J. Crosman, Esq. kevin.crosman@maine.gov
aty Lindsay K. Zahradka lzahradka@bernsteinshur.com
aty Maire Bridin Corcoran Ragozzine, Esq. acumings@bernsteinshur.com
aty Marcus A. Helt mhelt@gardere.com
aty Matthew E. Linder, Esq. mlinder@sidley.com
aty Matthew Jordan Troy matthew.Troy@usdoj.gov
aty Michael K. Martin, Esq. mmartin@pmhlegal.com
aty Mitchell A. Toups matoups@wgttlaw.com
aty Nathaniel R. Hull, Esq. nhull@verrilldana.com
aty Patrick C. Maxcy, Esq. patrick.maxcy@dentons.com
aty Paul Joseph Hemming phemming@briggs.com
aty Peter J. Flowers pjf@meyers-flowers.com
aty Renee D. Smith renee.smith@kirkland.com
aty Richard Silver, Esq. rsilver@lanhamblackwell.com
aty Richard P. Olson, Esq. rolson@perkinsolson.com
aty Richard Paul Campbell rpcampbell@campbell-trial-lawyers.com
aty Robert J. Keach, Esq. rkeach@bernsteinshur.com
aty Roger A. Clement, Jr., Esq. rclement@verrilldana.com

aty Roma N. Desai, Esq. rdesai@bernsteinshur.com
 aty Ronald Stephen Louis Molteni, Esq. moltenir@stb.dot.gov
 aty Seth S. Holbrook holbrook_murphy@msn.com
 aty Stephen G. Morrell, Esq. stephen.g.morrell@usdoj.gov
 aty Steven E. Cope, Esq. scope@copelegal.com
 aty Susan N.K. Gummow, Esq. sgummow@fgppr.com
 aty Taruna Garg, Esq. tgarg@murthalaw.com
 aty Timothy H. Norton, Esq. tnorton@krz.com
 aty Timothy J. McKeon, Esq. tmckeon@bernsteinshur.com
 aty Timothy R. Thornton pvolk@briggs.com
 aty Tracie J. Renfroe, Esq. trenfroe@kslaw.com
 aty William C. Price wprice@clarkhill.com
 aty William H. Welte, Esq. wwelte@weltelaw.com

TOTAL: 74

Recipients submitted to the BNC (Bankruptcy Noticing Center):

db Montreal Maine & Atlantic Railway Ltd. 15 Iron Road Hermon, ME 04401
 cr Maine Department of Transportation c/o Victoria Morales 16 State House Station Augusta, ME
 04333
 cr Eastern Maine Railway Company c/o Alan Lepene 3900 Key Center 127 Public
 Square Cleveland, OH 44114-1291
 cr Maine Northern Railway Company c/o Alan Lepene 3900 Key Center 127 Public
 Square Cleveland, OH 44114-1291
 cr New Brunswick Southern Railway Company c/o Alan R. Lepene 3900 Key Center 127 Public
 Square Cleveland, OH 44114-1291
 cr Bangor Savings Bank P.O.Box 930 Bangor, ME 04402-0930
 cr United States of America c/o Department of Justice, Civil Divisio 1100 L Street, N.W. Room
 10052 Washington, DC 20005
 ea Robert J. Keach Bernstein Shur Sawyer & Nelson 100 Middle Street P.O. Box 9729 Portland,
 ME 04104
 cr Estates of Marie Alliance, et al c/o Murtha Cullina LLP 99 High Street Boston, ME 02110
 cr Estates of Stephanie Bolduc c/o Meyers & Flowers, LLC 3 North Second Street, Suite 300 St.
 Charles, IL 60174
 aty Bernstein, Shur, Sawyer & Nelson 100 Middle Street 6th Floor PO Box 9729 Portland, ME
 04104-5029
 intp Surface Transportation Board 395 E Street, S.W. Washington, DC 20423
 intp J.D. Irving, Limited c/o Pierce Atwood LLP 254 Commercial Street Portland, ME 04101
 intp Irving Pulp & Paper, Limited c/o Pierce Atwood LLP Attn: Keith J. Cunningham 254 Commercial
 Street Portland, ME 04101
 intp Irving Paper Limited c/o Pierce Atwood LLP Attn: Keith J. Cunningham 254 Commercial
 Street Portland, ME 04101
 cr GNP Maine Holdings, LLC 50 Main Street East Millinocket, ME 04430
 cr First Union Rail c/o Curtis Kimball, Esq. P.O. Box 1401 Bangor, ME 04401
 cr Center Beam Flat Car Company, Inc. c/o Curtis Kimball, Esq. P.O. Box 1401 Bangor, ME 04401
 cr Real Custeau Claimants et al c/o Mitchell A. Toups, Esq. PO Box 350 Beaumont, TX 77704
 aty Verrill Dana LLP One Portland Square P.O. Box 586 Portland, ME 04112-0586
 cr Frederick J. Williams 74 Bellevue Street Compton, QU J0B 1L0 CANADA
 cr Daniel Aube 308 St-Lambert Street Sherbrooke, QU J1C0N9 CANADA
 cr Robert D. Thomas 49 Park Street Dexter, ME 04930
 cr Fred's Plumbing & Heating, Inc. 328 Main Street Derby, VT 05829
 cr Clean Harbors 42 Lonwater Dr. Norwell, MA 02061
 cr Union Tank Car Company c/o Regan M. Haines PO Box 7320 Portland, ME 04112-7320
 cr Shell Oil Company c/o Jessica Lewis Molleur Law Office 95 Main Street Auburn, ME 04210
 fa Development Specialists, Inc. Fred Caruso Suite 2300 70 West Madison Street Chicago, IL
 60602
 intp Oasis Petroleum, Inc. c/o Timothy H. Norton, Esq. P.O. Box 597 Portland, ME 04112
 cr Stephen C. Currie 17 Dodlin Road Enfield, ME 04493
 cr Jeffrey C. Durant 1029 Main Rd. Brownville, ME 04414
 cr Lexington Insurance Company c/o Marcus A. Helt, Esq. Gardere Wynne Sewell LLP 1601 Elm St
 Ste 3000 Dallas, TX 75201
 cr Sierra Liquidity Fund, LLC 19772 MacArthur Blvd. # 200 Irvine, CA 92612
 cr General Electric Railcar Services Corporation c/o Pierce Atwood LLP Attn: Keith J.
 Cunningham 254 Commercial Street Portland, ME 04101
 cr Trinity Rail Leasing 2012 LLC c/o One City Center Portland, ME 04101
 cr Trinity Tank Car, Inc. c/o One City Center Portland, ME 04101
 cr Trinity Industries Leasing, Inc. c/o One City Center Portland, ME 04101
 cr Trinity Industries, Inc. c/o One City Center Portland, ME 04101
 intp William R. Moorman, Jr. Partridge Snow & Hahn, LLP 30 Federal Street Boston, MA 02110
 sp Kugler Kandestin LLP c/o Gerald F. Kandestin 1 Place Ville-Marie Suite 2101 Montreal, QB
 H3B 2C6 CANADA
 aty Covington & Burling LLP One City Center 850 Tenth Street, N.W. Washington, DC 20001-4956
 acc Baker Newman & Noyes, LLC c/o Gregory Sanborn 280 Fore Street Portland, ME 04101
 aty Shaw Fishman Glantz & Towbin LLC 321 N. Clark Street Suite 800 Chicago, IL 60657
 op Prime Clerk LLC c/o Adam M. Adler 830 Third Avenue 9th Floor New York, NY 10022
 aty Paul Hastings LLP 75 East 55th St. New York, NY 10022
 aty Shaw Fishman Glantz & Towbin LLC 321 N. Clark Street, Suite 800 Chicago, IL 60654

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aty Verrill & Dana, LLP One Portland Square P.O. Box 586 Portland, ME 04112-0586
 aty Alan S. Gilbert Dentons US LLP 233 South Wacker Drive, Suite 7800 Chicago, IL 60606
 aty Allison M. Brown Weil, Gotshal & Manges LLP 301 Carnegie Center, Suite 303 Princeton, NJ
 08540
 aty Arvin Maskin Weil, Gotshal & Manges LLP 767 Fifth Avenue New York, NY 10153
 aty Bill Kroger Baker Botts 910 Louisiana Street Houston, TX 77002
 aty Blaire Cahn Weil, Gotshal & Manges, LLP 767 Fifth Avenue New York, NY 10153
 aty Christopher Fong, Esq. Paul Hastings LLP 75 East 55th St. New York, NY 10022
 aty Christopher J. Panos Partridge Snow & Hahn 30 Federal Street Boston, MA 02110
 aty Craig D. Brown Meyers & Flowers, LLC 3 North Second Street, Suite 300 St. Charles, IL 60174
 aty Deborah L. Thorne, Esq. Barnes & Thornburg LLP 1 North Wacker Drive, Suite 4400 Chicago, IL
 60606
 aty Dennis M. Ryan, Esq. Faegre Baker Daniels LLP 90 South 7th St Ste 2200 Minneapolis, MN
 55402-3901
 aty Devon H. MacWilliam Partridge Snow & Hahn, LLP 30 Federal Street Boston, MA 02110
 aty Diane P. Sullivan Weil, Gotshal & Manges LLP 301 Carnegie Center, Suite 303 Princeton, NJ
 08540
 aty Elizabeth S. Whyman Murtha Cullina LLP 99 High Street Boston, MA 02110
 aty Eric M. Hocky Clark Hill Thorp Reed 2005 Market Street Suite 1000 Philadelphia, PA 19103
 aty Isley Markman Gostin WilmerHale 1875 Pennsylvania Avenue, NW Washington, DC 20006
 aty James K. Robertson, Jr., Esq. Carmody Torrance Sandak & Hennessey 50 Leavenworth
 Street Waterbury, CT 06702
 aty Jason R. Gagnon, Esq. Carmody Torrance Sandak & Hennessey 50 Leavenworth Street Waterbury,
 CT 06702
 aty Jeffrey C. Steen, Esq. Sidley Austin LLP One South Dearborn Chicago, IL 60603
 aty Ji Eun Kim Paul Hastings, LLP 200 Park Avenue New York, NY 10166
 aty John L. Scott Reed Smith LLP 599 Lexington Avenue New York, NY 10022
 aty Joseph M Bethony Gross, Minsky & Mogul, P.A. 23 Water Street, Suite 400 PO Box
 917 Bangor, ME 04402-0917
 aty Joseph P. Rovira Andrews Kurth LP 600 Travis St., Suite 4200 Houston, TX 77002
 aty Julie Alleen Hardin Reed Smith LLP 811 Main Street, Suite 1700 Houston, TX 77002
 aty Kyle J. Ortiz, Esq. Paul Hastings LLP 75 East 55th Street New York, NY 10022
 aty Luc A. Despina Paul Hastings, LLP 75 East 55th Street New York, NY 10022
 aty Marcia L. Goldstein Weil, Gotshal & Manges LLP 767 Fifth Avenue New York, NY 10153
 aty Mark F. Rosenberg Sullivan & Cromwell LLP 125 Broad Street New York, NY 10004
 aty Mark W. Zimmerman Clausen Miller PC 10 South LaSalle Street Chicago, IL 60603
 aty Maureen Daneby Cox, Esq. Carmody Torrance Sandak & Hennessey 50 Leavenworth
 Street Waterbury, CT 06702
 aty Michael R. Enright Robinson & Cole, LLP 280 Trumbull Street Hartford, CT 06103
 aty Michael S. Wolly, Esq. Zwerdling, Paul, Kahn & Wolly, PC 1025 Connecticut Ave.,
 N.W. Washington, DC 20036
 aty Omar J. Alaniz Baker Botts 2001 Ross Avenue Dallas, TX 75201
 aty Randy L. Fairless Johanson & Fairless, LLC 1456 First Colony Blvd. Sugar Land, TX 77479
 aty Robert Jackstadt Tueth, Keeney, Cooper, Mohan & Jackstadt 101 West Vandalia, Suite
 210 Edwardsville, IL 62025
 aty Sarah R. Borders King & Spalding LLP 1180 Peachtree Street, NE Atlanta, GA 30309
 aty Stefanie Wowchuck McDonald 233 South Wacker Drive, Suite 7800 Chicago, IL 60606
 aty Stephen Wald Partridge Snow & Hahn, LLP 30 Federal Street Boston, MA 02110
 aty Stephen Edward Goldman Robinson & Cole LLP 280 Trumbull Street Hartford, CT 06103
 aty Steven J. Boyajian Robinson & Cole LLP One Financial Plaza, Suite 1430 Providence, RI 02903
 aty Terence M. Hynes, Esq. Sidley Austin LLP 1501 K. Street N.W. Washington, DC 20005
 aty Thomas A. Labuda, Jr. Sidley Austin, LLP One South Dearborn Chicago, IL 60603
 aty Timothy A. Davidson Andrews Kurth LP 600 Travis St., Suite 4200 Houston, TX 77002
 aty Victoria Morales, Esq. Maine Department of Transportation 16 State House Station Augusta, ME
 04333
 aty Victoria Vron Weil, Gotshal & Manges LLP 767 Fifth Avenue New York, NY 10153
 aty Virginia Strasser Surface Transportation Board 395 E Street, S.W. Washington, DC 20423
 aty William K. McKinley, Esq. Troubh Heisler 511 Congress Street PO Box 9711 Portland, ME
 04104-5011
 aty William R. Moorman Partridge Snow & Hahn LLP 30 Federal Street Boston, MA 02110
 aty Wystan M. Ackerman Robinson & Cole LLP 280 Trumbull Street Hartford, CT 06103
 smg State of Maine Bureau of Revenue Services Compliance Division Bankruptcy Unit P.O. Box
 1060 Augusta, ME 04332

TOTAL: 96