

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF MAINE**

In re:

MONTREAL MAINE & ATLANTIC
RAILWAY, LTD.

Debtor.

Bk. No. 13-10670

Chapter 11

**OBJECTION TO PROOF OF CLAIM FILED BY
CITY OF SAINTE-HYACINTHE ON THE BASIS THAT
SUCH CLAIM IS UNENFORCEABLE AGAINST THE DEBTOR**

Robert J. Keach, the estate representative (the “Estate Representative”) of the post-effective date estate of Montreal Maine & Atlantic Railway, Ltd. (“MMA” or the “Debtor”),¹ hereby objects (the “Objection”) to Proof of Claim No. 71 (the “Claim”) filed by City of Sainte-Hyacinthe (“Sainte-Hyacinthe”). As set forth below, the Estate Representative objects to the Claim on the basis that such Claim must be disallowed as unenforceable against the Debtor under the Bankruptcy Code. In support of this Objection, the Estate Representative states as follows:

JURISDICTION AND VENUE

1. The United States District Court for the District of Maine (the “District Court”) has original, but not exclusive, jurisdiction over this chapter 11 case pursuant to 28 U.S.C. § 1334(a) and over this Objection pursuant to 28 U.S.C. § 1334(b). Pursuant to 28 U.S.C. § 157(a) and Rule 83.6 of the District Court’s local rules, the District Court has authority to refer and has referred this chapter 11 case, and, accordingly, this Objection, to this Court.

¹ In accordance with the *Trustee’s Chapter 11 Plan of Liquidation, dated July 15, 2015 (As Amended on October 8, 2015)* [D.E. 1822] (the “Plan”), upon the Effective Date of the Plan (which occurred on December 22, 2015, *see* D.E. 1927), Robert J. Keach is 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).

2. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2) and the Court has constitutional authority to enter judgment in this action.

3. Venue over this chapter 11 case is proper in this district pursuant to 28 U.S.C. § 1408, and venue over this proceeding is proper in this district pursuant to 28 U.S.C. § 1409.

4. The relief sought in this Objection is predicated upon section 502(b)(1) of title 11 of the United States Code (the “Bankruptcy Code”), Rules 3001 and 3007 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) and Rule 3007-1 of the Local Rules for the United States Bankruptcy Court for the District of Maine (the “Local Rules”).

BACKGROUND

A. The Derailment and the Debtor’s Bankruptcy Filing

5. On July 6, 2013, an unmanned eastbound MMA train with 72 carloads of crude oil, a buffer car, and 5 locomotive units derailed in Lac-Mégantic, Québec (the “Derailment”). The transportation of the crude oil had begun in New Town, North Dakota by the Canadian Pacific Railway (“CP”) and the Debtor’s wholly owned subsidiary, Montreal Maine & Atlantic Canada Co. (“MMA Canada”),² later accepted the rail cars from CP at Saint-Jean, Québec. The crude oil was to be transported via the Saint-Jean-Lac-Mégantic line through Maine to its ultimate destination in Saint John, New Brunswick.

6. The Derailment set off several massive explosions, destroyed part of downtown Lac-Mégantic, and is presumed to have killed 47 people. A large quantity of oil was released into the environment, necessitating an extensive cleanup effort. As a result of the Derailment and the related injuries, deaths, and property damage, lawsuits were filed against the Debtor in both the United States and Canada. After the Derailment, Canadian train activity was temporarily halted between Maine and Québec on the MMA Canada line, resulting in the

² MMA Canada is an unlimited liability company organized under the laws of the Canadian province of Nova Scotia.

Debtor losing much of its freight business. These effects of the Derailment caused the Debtor's aggregate gross revenues to fall drastically to approximately \$1 million per month.

7. On August 7, 2013, the Debtor filed a voluntary petition for relief commencing a case under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Maine (the "Case"). Simultaneously, MMA Canada filed for protection under Canada's Companies' Creditors Arrangement Act (Court File No. 450-11-000167-134). On August 21, 2013, the Office of the United States Trustee (the "U.S. Trustee") appointed Robert J. Keach as chapter 11 trustee in the Debtor's Case pursuant to 11 U.S.C. § 1163 [D.E. No. 64].

B. The Debtor's Schedules, the Bar Date Order, the Filing of the Claim and

8. On September 11, 2013, the Debtor filed its schedule of assets and liabilities and statement of financial affairs [D.E. 216] (collectively, the "Schedules"). The Schedules listed Sainte-Hyacinthe as having a contingent, unliquidated and disputed general unsecured claim *against MMA Canada* in the amount of \$8,192.55. See Schedule F (Creditors Holding Unsecured Nonpriority Claims), p. 192 of 244.

9. On January 24, 2014, the Court entered an order approving the sale of substantially all the Debtor's assets pursuant to Bankruptcy Code section 363 (the "Sale") to Railroad Acquisition Holdings LLC (the "Purchaser"). See D.E. 594 (the "Sale Order").

10. On March 20, 2014, the Court entered the *Order Pursuant to 11 U.S.C. Sections 105(a) and 502(b)(9), Fed. R. Bankr. P. 3002 and 3003(c)(3), and D. Me. LBR 3003-1 Establishing Deadline for Filing Proofs of Claim and Procedures Relating Thereto and Approving Form and Manner of Notice Thereof* [D.E. 783] (the "Bar Date Order"). The Bar Date Order set certain rules for filing proofs of claim, including that claims be in English. See Bar Date Order at ¶ 2(b).

11. On April 18, 2014, Sainte-Hyacinthe filed Claim 71 pursuant to Bankruptcy Code section 502(a). The Claim asserts a priority claim against the Debtor in the amount of \$11,897.00. While the Claim asserts on its face that it is entitled to priority status pursuant to Bankruptcy Code section 507(a)(8), the supporting invoices indicate no claims (entitled to priority status or otherwise) against MMA—each invoice is issued to MMA Canada.

12. The Sale closed on May 15, 2014 and upon final regulatory approval, the sale of MMA Canada’s assets closed on June 30, 2014. *See* D.E. 1535, at 38. In connection with closing of the Sale, MMA Canada paid all Canadian municipalities—including Sainte-Hyacinthe—the full amount of taxes owed. In particular, Sainte-Hyacinthe was paid \$16,566.71, comprising (a) \$13,475.72 in municipal taxes and (b) \$3,090.99 in school taxes.

13. The Claim was never amended to reflect that it was satisfied in connection with the closing of the Sale.

RELIEF REQUESTED

14. By this Objection, the Estate Representative requests entry of an order, pursuant to section 502 of the Bankruptcy Code, Bankruptcy Rules 3001 and 3007, and Local Rule 3007-1, (a) sustaining the Objection, (b) disallowing the Claim in its entirety, and (c) granting such other and further relief as this Court deems just and equitable.

BASIS FOR RELIEF

A. The Legal Standard

15. Section 502(a) provides that “[a] claim or interest, proof of which is filed under section 501 of this title, is deemed allowed, unless a party in interest . . . objects.” 11 U.S.C. § 502(a). When the claim at issue is asserted to be a priority claim (as opposed to a general unsecured claim), the claimant bears the burden of showing entitlement to priority status. In re

Trentadue, 527 B.R. 328, 332 (Bankr. E.D. Wis.) *aff'd sub nom. Trentadue v. Gay*, 538 B.R. 770 (E.D. Wis. 2015).³

16. Bankruptcy Code section 502(b)(1) provides that if an objection to a claim is filed, the court, after notice and a hearing, “shall allow such claim . . . except to the extent that—(1) such claim is unenforceable against the debtor and property of the debtor” 11 U.S.C. § 502(b)(1). The Bankruptcy Code defines a “claim” as a “right to payment,” 11 U.S.C. § 101(5)(A), “usually referring to a right to payment recognized under state law,” In re Hann, 476 B.R. 344, 354 (B.A.P. 1st Cir. 2013), *aff'd*, 711 F.3d 235 (1st Cir. 2013) (quoting Travelers Cas. and Sur. Co. of America v. Pac. Gas and Elec. Co., 549 U.S. 443, 451 (2007)). Because a “right to payment” constitutes a claim, “the first step in the claims [allowance] process is always to determine whether there *is* a right to payment.” In re Taylor, 289 B.R. 379, 383 (Bankr. N. D. Ind. 2003) (emphasis added). A claim with “no basis in fact or law” must be disallowed. Hann, 476 B.R. at 354.

17. Bankruptcy Rule 3001(c)(1) requires that “when a claim . . . is based on a writing, a copy of the writing shall be filed with the proof of claim.” Fed. R. Bankr. P. 3001(c)(1). Significantly, “[w]hen a claimant fails to comply with the Rule 3001 documentation requirements, the claimant is not entitled to prima facie validity of the claim.” In re Residential Capital, LLC, No. 12-12020 (MG), 2013 WL 6227582, at *5 (Bankr. S.D.N.Y. Nov. 27, 2013) (internal citations omitted).

³ See also In re Micek, 473 B.R. 185, 188 (Bankr. E.D. Ky. 2012) (same); In re Clark, 441 B.R. 752, 755 (Bankr. M.D.N.C. 2011) (same); cf. In re PMC Mktg. Corp., 517 B.R. 386, 391 (B.A.P. 1st Cir. 2014) (“An administrative expense claimant bears the burden of establishing that its claim qualifies for priority status.”) (internal citations omitted).

B. The Claim is Unenforceable Against the Debtor

i. The Claim Was Satisfied in Connection with the Closing of the Sale

18. As an initial matter, as set forth above, the Claim was satisfied in full in connection with closing of the Sale, and the Claim should thus be disallowed. In particular, MMA Canada paid Sainte-Hyacinthe the full amount of taxes owed: \$16,566.71. The Claim must thus be disallowed in its entirety as having been fully satisfied.

ii. In any Event, the Claim Fails to Comply with the Bankruptcy Code and the Bankruptcy Rules

19. Moreover, Sainte-Hyacinthe has demonstrated no entitlement to priority status with respect to the Claim, and thus that Claim must be disallowed pursuant to Bankruptcy Code section 502(b)(1). As an initial matter, Sainte-Hyacinthe has failed to carry its burden in establishing entitlement to priority status. While on the face of the Claim Sainte-Hyacinthe has indicated that the Claim is entitled to priority status, that assertion is not supported in the documentation underlying the Claim, and it is the claimant's burden to establish its entitlement to priority status. *See Trentadue*, 527 B.R. at 332. In particular, each supporting invoice was issued to MMA Canada; Sainte-Hyacinthe has thus asserted no claim *against MMA* at all—whether entitled to the priority afforded under Bankruptcy Code section 507(a)(8) or otherwise. For this reason, Sainte-Hyacinthe has failed to assert *any* claim that is “[e]nforceable against the debtor” because it has failed prove its “right to payment” from the Debtor. *See* 11 U.S.C. § 502(b)(1); *Taylor*, 289 B.R. at 383. Accordingly, the Claim should be disallowed in its entirety.

20. In addition, the Claim is defective because its supporting documentation is in French, in violation of the Bar Date Order. The Bar Date Order requires that: “Proofs of Claim, other than Derailment Claims[. . .], must: (i) be written in the English language; . . .” *See* Bar

Date Order, ¶ 2(b).⁴ This is for good reason: the Estate Representative cannot evaluate the sufficiency of the supporting documentation or reconcile any amounts set forth therein when such supporting documentation is in a foreign language. Accordingly, for the additional reason that the Claim was submitted not in compliance with the Bar Date Order, the Estate Representative submits that it should be disallowed.

RESERVATION OF RIGHTS

21. Nothing contained herein is or should be construed as: (i) an admission as to the validity of any claim against the Debtor, (ii) a waiver of the Estate Representative's right to dispute any claim on any grounds, or (iii) a promise to pay any claim.

NOTICE

22. Notice of this Objection was served on the following parties on the date and in the manner set forth in the certificate of service: (a) Debtor's counsel; (b) U.S. Trustee; and (c) counsel to Sainte-Hyacinthe. The Estate Representative submits that no other or further notice need be provided.

⁴ The Claim is not a Derailment Claim.

CONCLUSION

WHEREFORE, for the reasons set forth herein, the Estate Representative requests that the Court enter an order, substantially in the form annexed hereto, pursuant to section 502 of the Bankruptcy Code, Bankruptcy Rules 3001 and 3007 and Local Rule 3007-1, (i) sustaining this Objection; (ii) disallowing the Claim in its entirety, and (iii) granting such other and further relief as may be just.

Dated: February 22, 2016

**ROBERT J. KEACH, ESTATE
REPRESENTATIVE OF THE POST-
EFFECTIVE DATE ESTATE OF MONTREAL
MAINE & ATLANTIC RAILWAY, LTD.**

By his attorneys:

/s/ Sam Anderson

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