

In re: The Mainline Corporation

Case No.: 05-30162-BKC-PGH

Prepetition, the Jackson County Board of Supervisors (“Jackson County”) was awarded \$2,020,000.00 in damages against the Mainline Corporation (“Debtor”) in an action commenced in the Circuit Court of Jackson, Mississippi (the “State Court Judgment”). Subsequently, Debtor filed a voluntary petition under Chapter 11 of the Bankruptcy Code, and Jackson County filed its proof of claim as an unsecured nonpriority claim based upon the State Court Judgment. Debtor’s Chapter 11 Plan (the “Plan”) classified Jackson County’s claim in Class 5 separate from the other claims of general unsecured creditors who are classified in Class 4. Jackson County filed an objection to Debtor’s Disclosure Statement and the Plan, arguing that Debtor offered no legitimate business reason to separately classify Jackson County from the unsecured creditors of Class 4. Debtor contended that the unsecured creditors classified in Class 4 were trade creditors who had non-creditor interests in the viability of the reorganized Debtor, whereas Jackson County had no interest in Debtor’s continued viability. As a result, Debtor claimed that it had a legitimate business reason for separately classifying Jackson County from the other general unsecured creditors. The Court found that several of the creditors included in Class 4 were not trade vendors but law firms seeking legal fees. The Court concluded that Jackson County did not have a different stake in the future viability of Debtor from the Class 4 general unsecured creditors. Additionally, Jackson County received the same treatment in terms of the Plan distribution as the Class 4 general unsecured creditors, which suggested that Debtor’s motive in separately classifying Jackson County from Class 4 was to gerrymander the vote on the Plan. Therefore, the Court held that Debtor did not have a legitimate business reason to separately classify Jackson County from the Class 4 general unsecured creditors and ordered that Jackson County’s claim be included in Class 4.