

Nos. 10-1175, 10-1201, 10-1352

DISH Network Corp. v. DBSD North America, Inc., Sprint Nextel Corp. v. DBSD North America, Inc.

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

August Term, 2009

(Argued: August 5, 2010 Decided: December 6, 2010 Opinion filed: February 7, 2011)

Docket Nos. 10-1175, 10-1201, 10-1352

(Consolidated for disposition)

IN RE: DBSD NORTH AMERICA, INCORPORATED,

Debtor.

DISH NETWORK CORPORATION,

Creditor-Appellant,

— v. —

DBSD NORTH AMERICA, INCORPORATED,

Debtor-Appellee,

AD HOC COMMITTEE OF SENIOR NOTEHOLDERS, OFFICIAL COMMITTEE OF UNSECURED
CREDITORS,

Creditors-Appellees.

SPRINT NEXTEL CORPORATION,

Appellant,

— v. —

DBSD NORTH AMERICA, INC., AD HOC COMMITTEE OF SENIOR NOTEHOLDERS, OFFICIAL
COMMITTEE OF UNSECURED CREDITORS,

Appellees.

B e f o r e:

POOLER, RAGGI, and LYNCH, *Circuit Judges.*

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2 Appeals from a memorandum decision and order of the United States District
3 Court for the Southern District of New York (Lewis A. Kaplan, *Judge*), affirming orders
4 of the United States Bankruptcy Court for the Southern District of the United States
5 (Robert E. Gerber, *Bankruptcy Judge*), that confirmed a plan of reorganization under 11
6 U.S.C. § 1129 and designated the votes of DISH Network Corporation as “not in good
7 faith” under 11 U.S.C. § 1126(e).

8 AFFIRMED in part and REVERSED in part.

9 Judge Pooler concurs in part and dissents in part in a separate opinion.

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23 _____
24 GERARD E. LYNCH, *Circuit Judge*:

25 These consolidated appeals arise out of the bankruptcy of DBSD North America,
26 Incorporated and its various subsidiaries (together, “DBSD”). The bankruptcy court
27 confirmed a plan of reorganization for DBSD over the objections of the two appellants
28 here, Sprint Nextel Corporation (“Sprint”) and DISH Network Corporation (“DISH”).

29 Before us, Sprint argues that the plan improperly gave shares and warrants to
30 DBSD’s owner – whose interest lies below Sprint’s in priority – in violation of the

1 absolute priority rule of 11 U.S.C. § 1129(b)(2)(B). DISH, meanwhile, argues that the
2 bankruptcy court erred when it found DISH did not vote “in good faith” under 11 U.S.C.
3 § 1126(e) and when, because of the § 1126(e) ruling, it disregarded DISH’s class for the
4 purposes of counting votes under 11 U.S.C. § 1129(a)(8). DISH also argues that the
5 bankruptcy court should not have confirmed the plan because the plan was not feasible.
6 See 11 U.S.C. § 1129(a)(11).

7 On Sprint’s appeal, we conclude (1) that Sprint has standing to appeal and (2) that
8 the plan violated the absolute priority rule. On DISH’s appeal we find no error, and
9 conclude (1) that the bankruptcy court did not err in designating DISH’s vote, (2) that,
10 after designating DISH’s vote, the bankruptcy court properly disregarded DISH’s class
11 for voting purposes, and (3) that the bankruptcy court did not err in finding the
12 reorganization feasible. We therefore affirm in part, reverse in part, and remand for
13 further proceedings.

14 BACKGROUND

15 The reader may find the full facts of this case in the decisions of both the
16 bankruptcy court, In re DBSD North America, Inc. (“DBSD I”), 419 B.R. 179 (Bankr.
17 S.D.N.Y. 2009); In re DBSD North America, Inc. (“DBSD II”) 421 B.R. 133 (Bankr.
18 S.D.N.Y. 2009), and the district court, In re DBSD North America, Inc. (“DBSD III”),
19 Nos. 09-cv-10156 (LAK), 09-cv-10372 (LAK), 09-cv-10373 (LAK), 2010 WL 1223109
20 (S.D.N.Y. Mar. 24, 2010); see also In re DBSD North America, Inc. (“DBSD IV”), 427

1 B.R. 245 (S.D.N.Y. 2010) (affirming bankruptcy court's treatment of Sprint's claim). We
2 therefore focus only on the facts most pertinent to these appeals.

3 ICO Global Communications founded DBSD in 2004 to develop a mobile
4 communications network that would use both satellites and land-based transmission
5 towers. In its first five years, DBSD made progress toward this goal, successfully
6 launching a satellite and obtaining certain spectrum licenses from the FCC, but it also
7 accumulated a large amount of debt. Because its network remained in the developmental
8 stage and had not become operational, DBSD had little if any revenue to offset its
9 mounting obligations.

10 On May 15, 2009, DBSD (but not its parent ICO Global), filed a voluntary petition
11 in the United States Bankruptcy Court for the Southern District of New York, listing
12 liabilities of \$813 million against assets with a book value of \$627 million. Of the
13 various claims against DBSD, three have particular relevance here:

- 14 1. *The First Lien Debt*: a \$40 million revolving credit facility that
15 DBSD obtained in early 2008 to support its operations, with a first-
16 priority security interest in substantially all of DBSD's assets. It
17 bore an initial interest rate of 12.5%.
- 18 2. *The Second Lien Debt*: \$650 million in 7.5% convertible senior
19 secured notes that DISH issued in August 2005, due August 2009.
20 These notes hold a second-priority security interest in substantially

1 all of DBSD's assets. At the time of filing, the Second Lien Debt
2 had grown to approximately \$740 million. It constitutes the bulk of
3 DBSD's indebtedness.

- 4 3. *Sprint's Claim*: an unliquidated, unsecured claim based on a lawsuit
5 against a DBSD subsidiary. Sprint had sued seeking reimbursement
6 for DBSD's share of certain spectrum relocation expenses under an
7 FCC order. At the time of DBSD's filing, that litigation was pending
8 in the United States District Court for the Eastern District of Virginia
9 and before the FCC. In the bankruptcy case, Sprint filed a claim
10 against each of the DBSD entities jointly and severally, seeking \$211
11 million. The bankruptcy court temporarily allowed Sprint's claim in
12 the amount of \$2 million for voting purposes.¹

13 After negotiations with various parties, DBSD proposed a plan of reorganization
14 which, as amended, provided for "substantial de-leveraging," a renewed focus on "core
15 operations," and a "continued path as a development-stage enterprise." The plan
16 provided that the holders of the First Lien Debt would receive new obligations with a
17 four-year maturity date and the same 12.5% interest rate, but with interest to be paid in

¹ The bankruptcy court allowed Sprint's claim against only one of the several DBSD entities. See DBSD IV, 427 B.R. at 249-50. The court did not decide whether it mattered that Sprint's claim was allowed against only one subsidiary among several, see DBSD I, 419 B.R. at 210, and no party argues here that it makes any difference. We therefore do not reach the issue.

1 kind (“PIK”), meaning that for the first four years the owners of the new obligations
2 would receive as interest more debt from DBSD rather than cash. The holders of the
3 Second Lien Debt would receive the bulk of the shares of the reorganized entity, which
4 the bankruptcy court estimated would be worth between 51% and 73% of their original
5 claims. The holders of unsecured claims, such as Sprint, would receive shares estimated
6 as worth between 4% and 46% of their original claims. Finally, the existing shareholder
7 (effectively just ICO Global, which owned 99.8% of DBSD) would receive shares and
8 warrants in the reorganized entity.

9 Sprint objected to the plan, arguing among other things that the plan violates the
10 absolute priority rule of 11 U.S.C. § 1129(b)(2)(B). That rule requires that, if a class of
11 senior claim-holders will not receive the full value of their claims under the plan and the
12 class does not accept the plan, no junior claim- or interest-holder may receive “any
13 property” “under the plan on account of such junior claim or interest.” *Id.* In making its
14 objection, Sprint noted that the plan provided for the existing shareholder, whose interest
15 is junior to Sprint’s class of general unsecured claims, to receive substantial quantities of
16 shares and warrants under the plan – in fact, much more than all the unsecured creditors
17 received together. Sprint argued that “[b]ecause the Plan fails to satisfy” the absolute
18 priority rule, “it cannot be confirmed.”

19 The bankruptcy court disagreed. It characterized the existing shareholder’s receipt
20 of shares and warrants as a “gift” from the holders of the Second Lien Debt, who are

1 senior to Sprint in priority yet who were themselves not receiving the full value of their
2 claims, and who may therefore “voluntarily offer a portion of their recovered property to
3 junior stakeholders” without violating the absolute priority rule. DBSD I, 419 B.R. at
4 210. It held that it would permit such gifting “at least where, as here, the gift comes from
5 secured creditors, there is no doubt as to their secured creditor status, where there are
6 understandable reasons for the gift, where there are no ulterior, improper ends . . . and
7 where the complaining creditor would get no more if the gift had not been made.” Id. at
8 212 (footnotes and quotation marks omitted).

9 Meanwhile, DISH, although not a creditor of DBSD before its filing, had
10 purchased the claims of various creditors with an eye toward DBSD’s spectrum rights.
11 As a provider of satellite television, DISH has launched a number of its own satellites,
12 and it also has a significant investment in TerreStar Corporation, a direct competitor of
13 DSDB’s in the developing field of hybrid satellite/terrestrial mobile communications.
14 DISH desired to “reach some sort of transaction with [DBSD] in the future if [DBSD’s]
15 spectrum could be useful in our business.”

16 Shortly after DBSD filed its plan disclosure, DISH purchased all of the First Lien
17 Debt at its full face value of \$40 million, with an agreement that the sellers would make
18 objections to the plan that DISH could adopt after the sale. As DISH admitted, it bought
19 the First Lien Debt not just to acquire a “market piece of paper” but also to “be in a
20 position to take advantage of [its claim] if things didn’t go well in a restructuring.”

1 Internal DISH communications also promoted an “opportunity to obtain a blocking
2 position in the [Second Lien Debt] and control the bankruptcy process for this potentially
3 strategic asset.” In the end, DISH (through a subsidiary) purchased only \$111 million of
4 the Second Lien Debt – not nearly enough to control that class – with the small size of its
5 stake due in part to DISH’s unwillingness to buy any claims whose prior owners had
6 already entered into an agreement to support the plan.

7 In addition to voting its claims against confirmation, DISH reasserted the
8 objections that the sellers of those claims had made pursuant to the transfer agreement,
9 arguing, among other things, that the plan was not feasible under 11 U.S.C. § 1129(a)(11)
10 and that the plan did not give DISH the “indubitable equivalent” of its First Lien Debt as
11 required to cram down a dissenting class of secured creditors under 11 U.S.C.
12 § 1129(b)(2)(A). Separately, DISH proposed to enter into a strategic transaction with
13 DBSD, and requested permission to propose its own competing plan (a request it later
14 withdrew).

15 DBSD responded by moving for the court to designate that DISH’s “rejection of
16 [the] plan was not in good faith.” 11 U.S.C. § 1126(e). The bankruptcy court agreed,
17 finding that DISH, a competitor to DBSD, was voting against the plan “not as a
18 traditional creditor seeking to maximize its return on the debt it holds, but . . . ‘to
19 establish control over this strategic asset.’” DBSD II, 421 B.R. at 137 (quoting DISH’s
20 own internal presentation slides). The bankruptcy court therefore designated DISH’s vote

1 and disregarded DISH's wholly-owned class of First Lien Debt for the purposes of
2 determining plan acceptance under 11 U.S.C. § 1129(a)(8). Id. at 143; DBSD I, 419 B.R.
3 at 206.² The court also rejected DISH's objections to the plan, finding that the plan was
4 feasible and that, even assuming that DISH's vote counted, the plan gave DISH the
5 "indubitable equivalent" of its First Lien Debt claim and could thus be crammed down
6 over DISH's dissent. DBSD I, 419 B.R. at 203, 208-09.

7 After designating DISH's vote and rejecting all objections, the bankruptcy court
8 confirmed the plan. See id. at 221. The district court affirmed, see DBSD III, 2010 WL
9 1223109, and DISH and Sprint appealed to this Court. After oral argument, DBSD
10 received approval from the FCC to transfer its spectrum rights to the reorganized entity –
11 the last hurdle before consummation of the reorganization. We subsequently stayed
12 consummation of the plan and then, on December 6, 2010, issued an order disposing of
13 the case and vacating our stay so that the proceedings could continue below without
14 further delay, indicating that an opinion would follow. See In re DBSD North America,
15 Inc., 627 F.3d 496 (2d Cir. 2010). This is that opinion.

16 DISCUSSION

17 I. Sprint's Appeal

18 Sprint raises only one issue on appeal: it asserts that the plan improperly gives

² The court did not designate DISH's vote on its Second Lien Debt claims, because DISH's stake in that class was too small to make any difference. See DBSD II, 421 B.R. at 137 n.12.

1 property to DBSD's shareholder without fully satisfying Sprint's senior claim, in
2 violation of the absolute priority rule. See 11 U.S.C. § 1129(b)(2)(B). That rule provides
3 that a reorganization plan may not give "property" to the holders of any junior claims or
4 interests "on account of" those claims or interests, unless all classes of senior claims
5 either receive the full value of their claims or give their consent. Id.; see In re Coltex
6 Loop Cent. Three Partners, L.P., 138 F.3d 39, 42 (2d Cir. 1998); see also In re Armstrong
7 World Indus., Inc., 432 F.3d 507, 512 (3d Cir. 2005). Because the existing shareholder
8 received shares and warrants on account of its junior interest, Sprint argues, Sprint's class
9 of general unsecured creditors had a right to receive "full satisfaction of their claims" or
10 at least "an amount sufficient to obtain approval from the class." But the plan provided
11 neither, and so Sprint asks us to vacate the order confirming it or to provide other relief
12 that would satisfy Sprint's claim.

13 **A. Sprint's Standing to Appeal**

14 Before we can address the merits of Sprint's appeal, we must decide whether
15 Sprint has standing to bring it. The current Bankruptcy Code prescribes no limits on
16 standing beyond those implicit in Article III of the United States Constitution. See In re
17 Gucci, 126 F.3d 380, 388 (2d Cir. 1997). Congress has given us jurisdiction over "all
18 final decisions, judgments, orders, and decrees" of the district courts in bankruptcy cases,
19 28 U.S.C. § 158(d)(1), which courts in turn have jurisdiction to review all "final
20 judgments, orders, and decrees" of the bankruptcy courts, id. § 158(a)(1). Nevertheless,

1 for practical reasons this Court and others have “adopted the general rule, loosely
2 modeled on the former Bankruptcy Act, that in order to have standing to appeal from a
3 bankruptcy court ruling, an appellant must be ‘a person aggrieved’ – a person ‘directly
4 and adversely affected pecuniarily’ by the challenged order of the bankruptcy court.”³
5 Int’l Trade Admin. v. Rensselaer Polytechnic Inst., 936 F.2d 744, 747 (2d Cir. 1991)
6 (citation omitted). An appellant like Sprint, therefore, must show not only “injury in fact”
7 under Article III but also that the injury is “direct[]” and “financial.” Kane v. Johns-
8 Manville Corp., 843 F.2d 636, 642 & n.2 (2d Cir. 1988).

9 “As a general rule,” we grant standing to “creditors . . . appeal[ing] orders of the
10 bankruptcy court disposing of property of the estate because such orders directly affect
11 the creditors’ ability to receive payment of their claims.” Id. at 642; see In re Gucci, 126
12 F.3d at 388. In Kane, for instance, we did not hesitate to grant standing to an asbestos-
13 injury claimant who appealed the confirmation of a plan of reorganization. The plan in
14 that case was even more generous to the appellant than the plan in this case, since it
15 promised him “the full amount of whatever compensatory damages he is awarded.”

³ “While the ‘pecuniary interest’ formulation is an often used and often useful test of standing in the bankruptcy context, it ‘is not the only test.’” In re Zarnel, 619 F.3d 156, 162 (2d Cir. 2010), quoting In re Revco D.S., Inc., 898 F.2d 498, 499 (6th Cir. 1990). The “*public* interest” may also provide standing to appeal, as in the case of a United States Trustee, id. (emphasis in original), or the Securities and Exchange Commission, see SEC v. U.S. Realty & Improvement Co., 310 U.S. 434, 459-60 (1940). The parties here do not argue that the public interest test, or any other test besides the pecuniary interest test, is relevant to this case, so we address standing under that test alone.

1 Kane, 843 F.2d at 640. The Court, however, held that Kane was an aggrieved party
2 entitled to appeal: as “a creditor, [he had] economic interests . . . directly impaired by the
3 Plan” because the plan limited his recourse to the courts, eliminated the possibility of
4 punitive damages, and made his recovery “subject to the Trust’s being fully funded.” Id.
5 at 642. Other courts have generally found standing for impaired creditors⁴ when their
6 “interests are directly and pecuniarily affected by the order of the Bankruptcy Court.” In
7 re Combustion Eng’g, Inc., 391 F.3d 190, 223-24 (3d Cir. 2004); see also In re P.R.T.C.,
8 Inc., 177 F.3d 774, 778 (9th Cir. 1999) (noting that creditors “have a direct pecuniary
9 interest in a bankruptcy court’s order transferring the assets of the estate”).

10 We likewise hold that Sprint has standing to appeal the confirmation of the plan in
11 this case. Before confirmation, Sprint had a claim that the bankruptcy court valued at \$2
12 million for voting purposes.⁵ After confirmation, however, Sprint stood to receive
13 property worth less than half (between 4% and 46%) of that amount. Therefore,
14 confirmation of the plan affected Sprint “directly” and “financially.”

15 The appellees challenge the above analysis from two different perspectives,
16 looking both at the confirmation of the plan as a whole and at the gifting provision that

⁴ The Code treats a claim as impaired unless the plan leaves in place all rights to which the claim entitles its holder, except for certain rights to accelerate payments after default. See 11 U.S.C. § 1124.

⁵ Sprint’s lawsuit against a DBSD entity has not yet been resolved. The claim therefore could turn out to be worth as much as \$211 million or as little as nothing, but we follow the bankruptcy court’s tentative valuation for the purposes of this appeal.

1 Sprint protests. First, and more broadly, they argue that confirmation could not have
2 harmed Sprint's interests because those interests were already worthless: with insufficient
3 value in DBSD to pay off the secured creditors, Sprint's unsecured claim entitled it to
4 nothing. Second, and more narrowly, they argue that the gift to the existing shareholder
5 did not harm Sprint's interests because the absolute priority rule requires *either* that the
6 objecting class receive the full value of its claim (which would more than double Sprint's
7 recovery) *or* that junior classes receive nothing (which could lead to a reduced recovery
8 for Sprint), so even a strict interpretation of that rule would not guarantee any benefit for
9 Sprint. None of our cases directly address the level of generality at which we should
10 consider standing; because we reject the appellees' analysis at both levels, however, we
11 need not decide whether either perspective is generally preferable.

12 Taking the broader perspective first, we decline to withhold standing merely
13 because the bankruptcy court's valuation of DBSD put Sprint's claim under water. By
14 the bankruptcy court's estimate – which we accept for purposes of this appeal – DBSD is
15 not worth enough to cover even the Second Lien Debt, much less the claims of unsecured
16 creditors like Sprint who stand several rungs lower on the ladder of priority. But none of
17 our prior appellate standing decisions – at least none involving creditors – have turned on
18 estimations of valuation, or on whether a creditor was in the money or out of the money.
19 We have never demanded more to accord a creditor standing than that it has a valid and
20 impaired claim.

1 Cosmopolitan Aviation, the primary decision on which the appellees rely for their
2 broader argument, is easily distinguishable. See In re Cosmopolitan Aviation Corp., 763
3 F.2d 507, 513 (2d Cir. 1985), abrogated on other grounds by Pioneer Inv. Servs. Co. v.
4 Brunswick Assocs. Ltd. P’ship, 507 U.S. 380 (1993). In that case, a state court had held
5 that a debtor’s lease had expired before it filed for bankruptcy. Id. at 511. The
6 bankruptcy court found that the debtor was hopelessly insolvent, with or without the
7 lease, and ordered the debtor’s liquidation. Id. The debtor did not then appeal. It
8 appealed only a later order to turn over the land – apparently solely for purposes of delay.
9 Id. at 512-13. We held that, because the debtor could no longer contest the first two
10 rulings, it no longer had any interest in the land or even any right to “continued
11 existence,” and therefore would suffer no injury from the turn-over. Id. at 513.
12 Cosmopolitan Aviation is thus a far cry from this case, where the bankruptcy court
13 provisionally allowed Sprint’s claim against the debtor, where the plan already gives
14 Sprint some recovery, and where Sprint has appealed the adverse order directly.

15 The only case the appellees cite that comes close to denying a creditor standing is
16 In re Ashford Hotels, Ltd., 235 B.R. 734 (S.D.N.Y. 1999). But in that case the district
17 court never accepted the appellants’ attempts to characterize themselves as creditors. Id.
18 at 738. The so-called creditors had sued the debtor in state court, not to win any damages
19 but to rescind a contract under which *they* were liable to the debtor. Id. at 736. In the
20 bankruptcy proceeding, they sought to stop funding the defense against their lawsuit and,

1 after losing that attempt, they appealed. Id. at 737-38. The district court found that the
2 appellants had no interest in the debtor besides their desire to stop the defense of the
3 rescission lawsuit and thereby thwart the debtor from collecting against them. Id. at 738.
4 Noting that other courts had found no standing where “a party’s interest in a Bankruptcy
5 Court appeal is (only) that of a potential defendant to another lawsuit,” the district court
6 likewise denied standing to the appellants in that case, because they were not “‘directly
7 and adversely affected pecuniarily’ by the Bankruptcy Court’s order except as adversaries
8 to the Debtor’s estate in other litigations.” Id. at 739. That case is therefore nothing like
9 this one, where Sprint is clearly a creditor (albeit one with an unliquidated claim) and
10 where Sprint appeals seeking to enlarge its recovery, not to head off the collection of
11 debts against it.

12 The three additional district court decisions cited by the dissent are equally
13 distinguishable. The first two do not involve creditors. In one, In re Taylor, the appellant
14 was a chapter 7 debtor, see No. 00 Civ. 5021 (VM), 2000 WL 1634371, at *1-2
15 (S.D.N.Y. Oct. 30, 2000), a member of a class that often lacks standing in the bankruptcy
16 court as well as on appeal, see In re 60 E. 80th St. Equities, Inc., 218 F.3d 109, 115-16
17 (2d Cir. 2000). In the other, Freeman v. Journal Register Co., it was a shareholder of the
18 debtor who appealed. See No. 09 Civ. 7296 (JGK), 2010 WL 768942, at *3 (S.D.N.Y.
19 Mar. 8, 2010). Although this case does not require us to address shareholder standing in
20 bankruptcy cases, we note that some courts have been more cautious in granting standing

1 to shareholders than to creditors. See In re Troutman Enters., Inc., 286 F.3d 359, 364-65
2 (6th Cir. 2002). Finally, in the third case, Bartel v. Bar Harbor Airways, Inc., the
3 appellant was a creditor, but a creditor whose claim the bankruptcy court disallowed
4 because the debtor had already settled it. See 196 B.R. 268, 271-72 (S.D.N.Y. 1996).
5 There is all the difference in the world between a claim that has already been disallowed
6 by the bankruptcy court, as in Bartel, and one like Sprint's that remains allowed and
7 pending, whatever appellate judges might guess about its chances of success. None of
8 these decisions have any bearing on the case before us.

9 We think it plain that we should not forbid all appeals by out-of-the-money
10 creditors. Such a rule would bar a large percentage of creditors in bankruptcy court,
11 perhaps a majority of them, from ever reaching the district court or this Court, however
12 erroneous the orders of the bankruptcy court might be. In this case, for instance,
13 members of only two classes could appeal under the appellees' proposed rule – the
14 holders of the First Lien Debt and Second Lien Debt – even though the plan involved
15 twenty-six classes of claims and interests in ten different levels. The other twenty-four
16 classes would have to be satisfied with whatever the plan awarded them. This would
17 remain true, under the appellees' theory, even if the bankruptcy court had committed a
18 fundamental error such as not allowing the out-of-the-money creditors to vote or not
19 following another of the numerous requirements of § 1129. Such a result might benefit
20 this Court's docket, but would disserve the protection of the parties' rights and the

1 development of the law. We should not raise the standing bar so high, especially when it
2 is a bar of our own creation and not one required by the language of the Code, which
3 “does not contain any express restrictions on appellate standing.” Kane, 843 F.2d at 642.

4 The appellees try to soften the negative consequences of their proposed rule by
5 positing that a creditor in Sprint’s position may appeal if it at least argues – as Sprint did
6 in the district court but does not in this Court – that the bankruptcy court undervalued the
7 estate and that, under a true valuation, there was enough to cover its claim. But that rule
8 would not separate appropriate from inappropriate appeals by creditors; it would only
9 increase the number of appeals involving frivolous valuation arguments. It would turn an
10 extremely harsh rule into an easily-evaded one. We decline either variation of the
11 proposed rule.

12 Even taking the narrower perspective, focusing not on the plan’s confirmation
13 overall but only on the “gift” to the existing shareholder that Sprint challenges under the
14 absolute priority rule, we still find standing. Sprint argues that the absolute priority rule
15 entitled it to the full value of its claim before the plan could give any equity to the
16 existing shareholder. A plan like this one that gives property to a junior interest-holder
17 (the existing shareholder) must provide the senior claim-holder (Sprint) with “property of
18 a value . . . equal to the amount of [its] claim.” 11 U.S.C. § 1129(b)(2)(B). When the law
19 requires full payment, getting less than full payment surely constitutes “direct” and
20 “financial” injury.

1 The appellees respond that Sprint is entitled to nothing under the priority rules and
2 only receives anything because it itself is the beneficiary of a gift under the plan.
3 Rejecting this plan would not give anything to Sprint, they argue: although an alternative
4 plan might give Sprint the full value of its claim in order to maintain the gift to the
5 existing shareholder, an alternative plan might well cut out both Sprint and the
6 shareholder entirely. But we rejected just such an argument in Kane. In that case, we
7 accepted the possibility that the appellant, Kane, actually benefitted from the plan he was
8 challenging and could have fared worse under alternative plans. 843 F.2d at 642. We
9 refused, however, to allow this possibility to defeat Kane’s appellate standing:

10 Kane might receive more under this Plan than he would
11 receive in liquidation. However, he might do better still under
12 alternative plans. Since the . . . Plan gives Kane less than
13 what he might have received, he is directly and adversely
14 affected pecuniarily by it, and he therefore has standing to
15 challenge it on appeal.

16
17 Id. at 642. We did not investigate any particular alternative plan or estimate the
18 likelihood that a plan more advantageous to Kane would actually be adopted if the
19 existing plan were rejected; rather, we found it sufficient for appellate standing that Kane
20 “might” receive more under a different plan.

21 Here, too, Sprint “might do better still under alternative plans.” Id. As the
22 bankruptcy court found, “there were good business reasons for the . . . gifts” to the
23 existing shareholder, DBSD I, 419 B.R. at 212 n.140, and those reasons might well lead
24 the secured creditors to support the gift even at the price of sufficiently favorable

1 treatment for Sprint to secure its support. Put another way, if the absolute priority rule
2 applies, Sprint may use its unsecured claim as leverage to increase its share in the
3 reorganized entity if the “good business reasons” for the gift to the existing shareholder
4 are still worth the cost. By rejecting the absolute priority rule, however, the bankruptcy
5 court eliminated Sprint’s leverage and reduced its potential financial recovery. To be
6 sure, enforcing the absolute priority rule in this case would make the gift to the existing
7 shareholder more costly to the plan proponents, who would have to pay more to Sprint in
8 order to maintain that gift. Sprint therefore risks receiving nothing by enforcing the
9 absolute priority rule because, if its demands outweigh the gift’s perceived benefits to the
10 senior creditors, the latter may cut out the junior classes entirely and leave nothing for
11 Sprint. Whether such a risk is in Sprint’s best interests, however, is not the issue here.
12 See Norwest Bank Worthington v. Ahlers, 485 U.S. 197, 207 (1989) (“[I]t is up to the
13 creditors – and not the courts – to accept or reject a reorganization plan which fails . . . to
14 honor the absolute priority rule.”) For Sprint to have standing, we need only determine
15 that, whatever the exact odds may be, Sprint at very least stands a reasonable chance of
16 improving its position below. From whatever angle we look at the issue, therefore, we
17 reject the appellees’ challenge to Sprint’s standing.

18 Like the appellees, our dissenting colleague does not argue that all out-of-the-
19 money creditors lack standing to challenge a plan for violating the absolute priority rule.
20 See Dissent. Op. at 60. Rather, adopting an approach not argued by appellees, Judge

1 Pooler finds that Sprint lacks standing because it is not only out of the money but has an
2 unliquidated claim that might turn out to be valueless on its own merits. We do not find
3 the ultimate merits of Sprint's claim against DBSD relevant. Standing to appeal "in no
4 way depends on the merits" of the issue appealed, Warth v. Seldin, 422 U.S. 490, 500
5 (1975), and certainly cannot depend on the merits of an issue that is not before us at all.
6 Here, the bankruptcy court allowed Sprint's claim against a DBSD entity for voting
7 purposes, see Fed. R. Bankr. P. 3018(a), which are the only purposes that matter at this
8 stage. The plan's supporters did not object to this ruling, did not appeal it, and do not
9 argue that any uncertainty about the merits of Sprint's underlying claim against the debtor
10 should deny Sprint standing. They have good reason for their silence before us, as the
11 dissent cites no decision where standing turned on the unliquidated status of a creditor's
12 claim, or on an appellate court's assessment of the likely merits of such a claim.

13 Even if it were appropriate for us to consider the merits or ultimate worth of
14 Sprint's claim, we would have no way to make that determination, lacking any briefing
15 from the parties or much information in the record on appeal regarding the merits of that
16 claim, which will turn not only on the potential offset of its obligations to the government
17 (as the dissent recognizes) but also on the date that the relevant DBSD subsidiary
18 occupied a specific band of the transmission spectrum. See DBSD IV, 427 B.R. at 249
19 n.4. Because the parties do not brief the issue and did not raise it below, moreover, our
20 evaluation of Sprint's claim would require piecing together the evidence without a guide.

1 A rule that would turn a claimant's standing to appeal a bankruptcy court's ruling
2 on the as-yet-undetermined merits of the claimant's underlying claim would unduly
3 complicate the standing determination, and require district and circuit courts prematurely
4 to address the merits of issues the bankruptcy court has not yet addressed. We see no
5 need for such an inquiry. The bankruptcy court's temporary allowance of Sprint's claim
6 for voting purposes was enough to allow it to object below, where no one argues that
7 Sprint lacked standing. The ultimate merits of that claim should not determine standing
8 here, where we have less ability than the bankruptcy court to decide those merits.

9 Accordingly, we conclude that Sprint has standing to appeal the denial of its
10 objection to the confirmation of the reorganization plan. We therefore turn to the merits
11 of that objection.

12 **B. Gifting and the Absolute Priority Rule**

13 Sprint argues that the plan violated the absolute priority rule by giving shares and
14 warrants to a junior class (the existing shareholder) although a more senior class (Sprint's
15 class) neither approved the plan nor received the full value of its claims. See 11 U.S.C.
16 § 1129(b)(2)(B). The appellees respond, and the courts below held, that the holders of the
17 Second Lien Debt, who are senior to Sprint and whom the bankruptcy court found to be
18 undersecured, were entitled to the full residual value of the debtor and were therefore free
19 to "gift" some of that value to the existing shareholder if they chose to. DBSD I, 419
20 B.R. at 210; DBSD III, 2010 WL 1223109, at *4. We recently avoided deciding the

1 viability of this “gifting doctrine” in a similar context, see In re Iridium Operating LLC,
2 478 F.3d 452, 460-61 (2d Cir. 2007), but we now face the question squarely. We look
3 through the district court to the bankruptcy court’s decision, and review its analysis of
4 law *de novo*. See In re Baker, 604 F.3d 727, 729 (2d Cir. 2010).

5 Long before anyone had imagined such a thing as Chapter 11 bankruptcy, it was
6 already “well settled that stockholders are not entitled to any share of the capital stock nor
7 to any dividend of the profits until all the debts of the corporation are paid.” Chi., Rock
8 Island & Pac. R.R. v. Howard, 74 U.S. (7 Wall) 392, 409-10 (1868). In the days of the
9 railroad barons, however, parties observed this rule in the breach. Senior creditors and
10 original shareholders often cooperated to control the reorganization of a failed company,
11 sometimes to make the process go smoothly – to encourage the old shareholders to
12 provide new capital for the reorganization or to keep them from engaging in costly and
13 delaying litigation – or sometimes simply because the senior creditors and the old
14 shareholders were the same parties. For their cooperation, the old owners would often
15 receive or retain some stake in whatever entity arose from the reorganization. Junior
16 creditors, however, often received little or nothing even though they technically stood
17 above the old shareholders in priority. See John D. Ayer, Rethinking Absolute Priority
18 After Ahlers, 87 Mich. L. Rev. 963, 970-71 (1989).

19 In response to this practice, the Supreme Court developed a “fixed principle” for
20 reorganizations: that all “creditors were entitled to be paid before the stockholders could

1 retain [shares] for any purpose whatever.” N. Pac. Ry. Co. v. Boyd, 228 U.S. 482, 507-08
2 (1913). “[A] plan of reorganization,” the Court later stated, “would not be fair and
3 equitable which . . . admitted the stockholders to participation, unless” at very least “the
4 stockholders made a fresh contribution in money or in money’s worth in return for ‘a
5 participation reasonably equivalent to their contribution.’” Marine Harbor Props., Inc. v.
6 Mfrs. Trust Co., 317 U.S. 78, 85 (1942), quoting Case v. L.A. Lumber Prods. Co., 308
7 U.S. 106, 121 (1939). Courts came to call this the “absolute priority rule.” Ecker v. W.
8 Pac. R.R. Corp., 318 U.S. 448, 484 (1943).

9 The Bankruptcy Code incorporates a form of the absolute priority rule in its
10 provisions for confirming a Chapter 11 plan of reorganization. For a district court to
11 confirm a plan over the vote of a dissenting class of claims, the Code demands that the
12 plan be “fair and equitable, with respect to each class of claims . . . that is impaired under,
13 and has not accepted, the plan.” 11 U.S.C. § 1129(b)(1). The Code does not define the
14 full extent of “fair and equitable,” but it includes a form of the absolute priority rule as a
15 prerequisite. According to the Code, a plan is not “fair and equitable” unless:

16 With respect to a class of unsecured claims –

17
18 (i) the plan provides that each holder of a claim of such
19 class receive or retain on account of such claim
20 property of a value, as of the effective date of the plan,
21 equal to the allowed amount of such claim; or

22
23 (ii) the holder of any claim or interest that is junior to
24 the claims of such class will not receive or retain under
25 the plan on account of such junior claim or interest any

1 property

2

3 Id. § 1129(b)(2)(B). Absent the consent of all impaired classes of unsecured claimants,
4 therefore, a confirmable plan must ensure either (i) that the dissenting class receives the
5 full value of its claim, or (ii) that no classes junior to that class receive any property under
6 the plan on account of their junior claims or interests.

7 Under the plan in this case, Sprint does not receive “property of a value . . . equal
8 to the allowed amount” of its claim. Rather, Sprint gets less than half the value of its
9 claim. The plan may be confirmed, therefore, only if the existing shareholder, whose
10 interest is junior to Sprint’s, does “not receive or retain” “any property” “under the plan
11 on account of such junior . . . interest.” We hold that the existing shareholder did receive
12 property under the plan on account of its interest, and that the bankruptcy court therefore
13 should not have confirmed the plan.

14 First, under the challenged plan, the existing shareholder receives “property” in the
15 form of shares and warrants in the reorganized entity. The term “property” in
16 § 1129(b)(2)(B) is meant to be interpreted broadly. See Ahlers, 485 U.S. at 208. But
17 even if it were not, there is no doubt that “any property” includes shares and warrants like
18 these.

19 Second, the existing shareholder receives that property “under the plan.” The
20 disclosure statement for the second amended plan, under the heading “ARTICLE IV:
21 THE JOINT PLAN,” states:

Class 9 – Existing Stockholder Interests

. . . . In full and final satisfaction, settlement, release, and discharge of each Existing Stockholder Interest, and on account of all valuable consideration provided by the Existing Stockholder, including, without limitation, certain consideration provided in the Support Agreement, . . . *the Holder of such Class 9 Existing Stockholder Interest shall receive the Existing Stockholder Shares and the Warrants.*

(emphasis added). We need not decide whether the Code would allow the existing shareholder and Senior Noteholders to agree to transfer shares outside of the plan, for, on the present record, the existing shareholder clearly receives these shares and warrants “under the plan.”

Finally, the existing shareholder receives its shares and warrants “on account of” its junior interest. The Supreme Court has noted that “on account of” could take one of several interpretations. See Bank of Am. Nat’l Trust & Sav. Ass’n v. 203 N. LaSalle St. P’ship, 526 U.S. 434, 449 (1999). The interpretation most friendly to old equity – which the Supreme Court rejected as “beset with troubles . . . exceedingly odd . . . [and] unlikely” – reads “on account of” as “in exchange for.” Id. at 449-50. Even under this generous test, the existing shareholder here receives property “on account of” its prior junior interest because it receives new shares and warrants at least partially “in exchange for” its old ones. The passage from the plan quoted above states as much: the existing shareholder receives shares and warrants “[i]n full and final satisfaction, settlement, release, and discharge of each Existing Stockholder Interest.”

The gift here even more easily satisfies the two less restrictive tests the Supreme

1 Court examined (and viewed more favorably) in 203 North LaSalle, both of which read
2 “on account of” to mean some form of “because of.” Id. at 450. The existing shareholder
3 received its property “because of,” and thus “on account of,” its prior interest, for the
4 same reasons set forth above.⁶

5 This conclusion is not undermined by the fact that the disclosure statement recites,
6 and the district court found, additional reasons why the existing shareholder merited
7 receiving the shares and warrants. First, a transfer *partly* on account of factors other than
8 the prior interest is still partly “on account of” that interest. “If Congress had intended to
9 modify [‘on account of’] with the addition of the words ‘only,’ ‘solely,’ or even
10 ‘primarily,’ it would have done so.” In re Coltex Loop, 138 F.3d at 43. Upholding this
11 principle in 203 North LaSalle, the Supreme Court refused to characterize a benefit given
12 to existing shareholders “merely as a detail of the broader transaction” in which those
13 shareholders also contributed new capital. 526 U.S. at 456. Instead, receipt of property
14 partly on account of the existing interest was enough for the absolute priority rule to bar

⁶ We note that not all distributions of property to a junior class are necessarily “on account of” the junior claims or interests. For example, the Supreme Court has left open the possibility that old equity could take under a plan if it invests new value in the reorganized entity, at least as long as a “market valuation” tests the adequacy of its contribution. 203 North LaSalle, 526 U.S. at 458. In such a situation, the party receiving the property may argue – though we do not now decide the correctness of such an argument – that it does not receive anything “on account of” its interest but only on account of its new investment. For another example, our decision does not stop a senior claim-holder from receiving property on account of its senior claim just because the claim-holder also happens to hold a junior claim on account of which it receives nothing. See id. at 452 n.24. There may well be other examples.

1 confirmation of the plan. See id. at 456-58.

2 Second, the other reasons that the appellees assert drove the award of warrants and
3 shares to old equity here are themselves “on account of” the existing shareholder’s prior
4 interest. The existing shareholder did not contribute additional capital to the reorganized
5 entity, see, e.g., id. at 443 (suggesting uncertainty about whether even new capital may
6 suffice); rather, as the bankruptcy court explained, the gift aimed to ensure the existing
7 shareholder’s “continued cooperation and assistance” in the reorganization, DBSD I, 419
8 B.R. at 212 n.140. The “continued cooperation” of the existing shareholder was useful
9 only because of the shareholder’s position as equity holder and “the rights emanating
10 from that position,” In re Coltex Loop, 138 F.3d at 43; an unrelated third party’s
11 cooperation would not have been useful. And “assistance” sounds like the sort of “future
12 labor, management, or expertise” that the Supreme Court has held insufficient to avoid
13 falling under the prohibition of the absolute priority rule. Ahlers, 485 U.S. at 204. Thus,
14 notwithstanding the various economic reasons that may have contributed to the decision
15 to award property to old equity here, it is clear that the existing shareholder “could not
16 have gained [its] new position but for [its] prior equity position.” In re Coltex Loop, 138
17 F.3d at 44.

18 In sum, we conclude that the existing shareholder received “property,” that it did
19 so “under the plan,” and that it did so “on account of” its prior, junior interest.

20 The Supreme Court’s interpretations of § 1129(b)(2)(B) give us confidence in

1 ours. Although that Court has not addressed the exact scenario presented here under the
2 codified absolute priority rule, its two post-Code cases on the rule are instructive. In both
3 cases, the prior owners tried to avoid the absolute priority rule by arguing that they
4 received distributions not on account of their prior interests but rather on account of the
5 new value that they would contribute to the entity. See 203 N. LaSalle, 526 U.S. at 437;
6 Ahlers, 485 U.S. at 199. In both cases, the Supreme Court rejected those arguments.
7 Although dictum in an earlier case had suggested that contributing new value could allow
8 prior shareholders to participate in the reorganized entity, see Case, 308 U.S. at 121, the
9 Court refused to decide whether § 1129(b)(2)(B) permitted such new-value exchanges.
10 Instead, the Court held that neither “future labor, experience and expertise,” Ahlers, 485
11 U.S. at 199 (quotation marks omitted), nor capital contributions “without benefit of
12 market valuation,” 203 N. LaSalle, 526 U.S. at 458, could suffice to escape the absolute
13 priority rule, even assuming the ongoing validity of the Case dictum.

14 203 North LaSalle and Ahlers indicate a preference for reading the rule strictly.

15 Given that the Supreme Court has hesitated to allow old owners to receive new ownership
16 interests even when contributing new value, it is doubtful the Court would allow old
17 owners to receive new ownership without contributing any new value, as in this case. As
18 the Court explained in Ahlers, “the statutory language and the legislative history of
19 § 1129(b) clearly bar any expansion of any exception to the absolute priority rule beyond
20 that recognized in our cases at the time Congress enacted the 1978 Bankruptcy Code.”

1 Ahlers, 485 U.S. at 206. The Supreme Court has never suggested any exception that
2 would cover a case like this one.

3 The appellees, unsurprisingly, see the case in a different light. They contend that,
4 under the “gifting doctrine,” the shares and warrants rightfully belonged to the secured
5 creditors, who were entitled to share them with the existing shareholder as they saw fit.
6 Citing In re SPM Manufacturing Corp., 984 F.2d 1305 (1st Cir. 1993), the appellees
7 argue that, until the debts of the secured creditors “are paid in full, the Bankruptcy Code’s
8 distributional priority scheme, as embodied in the absolute priority rule, is not
9 implicated.” DBSD was not worth enough, according to the bankruptcy court’s
10 valuation, to cover even the secured lenders’ claims, much less those of unsecured
11 creditors like Sprint. Therefore, as the bankruptcy court stated in ruling for the appellees,
12 “the ‘Gifting’ Doctrine – under which senior secured creditors voluntarily offer a portion
13 of their recovered property to junior stakeholders (as the Senior Noteholders did here) –
14 defeats Sprint’s Absolute Priority Rule objection.” DBSD I, 419 B.R. at 210. We
15 disagree.

16 Most fatally, this interpretation does not square with the text of the Bankruptcy
17 Code. The Code extends the absolute priority rule to “any property,” 11 U.S.C.
18 § 1129(b)(2)(B)(ii), not “any property not covered by a senior creditor’s lien.” The Code
19 focuses entirely on who “receive[s]” or “retain[s]” the property “under the plan,” id., not
20 on who *would* receive it under a liquidation plan. And it applies the rule to any

1 distribution “under the plan on account of” a junior interest, id., regardless of whether the
2 distribution could have been made outside the plan, and regardless of whether other
3 reasons might support the distribution in addition to the junior interest.

4 We distinguish this case from In re SPM on several grounds. In that case, a
5 secured creditor and the general unsecured creditors agreed to seek liquidation of the
6 debtor and to share the proceeds from the liquidation. 984 F.2d at 1307-08. The
7 bankruptcy court granted relief from the automatic stay and converted the case from
8 Chapter 11 to a Chapter 7 liquidation. Id. at 1309. The bankruptcy court refused,
9 however, to allow the unsecured creditors to receive their share under the agreement with
10 the secured creditor, ordering instead that the unsecured creditors’ share go to a priority
11 creditor in between those two classes. Id. at 1310. The district court affirmed, but the
12 First Circuit reversed, holding that nothing in the Code barred the secured creditors from
13 sharing their proceeds in a Chapter 7 liquidation with unsecured creditors, even at the
14 expense of a creditor who would otherwise take priority over those unsecured creditors.
15 Id. at 1312-19.

16 The first and most important distinction is that In re SPM involved Chapter 7, not
17 Chapter 11, and thus involved a liquidation of the debtor, not a reorganization. Id. at
18 1309. Chapter 7 does not include the rigid absolute priority rule of § 1129(b)(2)(B). See
19 In re Armstrong, 432 F.3d at 514. As the First Circuit noted, “the distribution scheme” of
20 Chapter 7 “does not come into play until all valid liens on the property are satisfied.” In

1 re SPM, 984 F.2d at 1312; see 11 U.S.C. § 726(a); Hartford Underwriters Ins. Co. v.
2 Union Planters Bank, N.A., 530 U.S. 1, 5 (2000). In re SPM repeatedly emphasized the
3 “lack[]” of “statutory support” for the argument against gifting in the Chapter 7 context.
4 984 F.2d at 1313; see id. at 1313-14 (finding “no support in the Code for” rejecting
5 gifting). Under Chapter 11, in contrast, § 1129(b)(2)(B) provides clear “statutory
6 support” to reject gifting in this case, and the distribution scheme of Chapter 11 ordinarily
7 distributes *all* property in the estate (as it does here), including property subject to
8 security interests, see 11 U.S.C. § 1129(b)(2)(A).

9 Furthermore, the bankruptcy court in In re SPM had granted the secured creditor
10 relief from the automatic stay, 984 F.2d at 1309, and treated the property in question as
11 no longer part of the estate, id. at 1313. In a very real sense, the property belonged to the
12 secured creditor alone, and the secured creditor could do what it pleased with it. Here,
13 however, the relevant property has remained in the estate throughout, and has never
14 belonged to the secured creditors outright. See United States v. Whiting Pools, Inc., 462
15 U.S. 198, 203-04 (1983). For these reasons, therefore, assuming without deciding that the
16 First Circuit’s approach was correct in the context of Chapter 7 – a question not before us
17 – we do not find it relevant to this case. See In re Armstrong, 432 F.3d at 514 (similarly
18 distinguishing In re SPM).

19 Even if the text of § 1129(b)(2)(B) left any room for the appellees’ view of the
20 case, we would hesitate to accept it in light of the Supreme Court’s long history of

1 rejecting such views. That history begins at least as early as 1868, in Howard, 74 U.S. (7
2 Wall) 392. In that case, the stockholders and mortgagees of a failing railroad agreed to
3 foreclose on the railroad and convey its property to a new corporation, with the old
4 stockholders receiving some of the new shares. Id. at 408-09. The agreement gave
5 nothing, however, to certain intermediate creditors, who sought a share of the distribution
6 in the courts. Id. at 408.

7 The stockholders defended their agreement with nearly the exact logic the
8 appellees employ here:

9 The road was mortgaged for near three times its value If,
10 then, these stockholders have got anything, it must be because
11 the bondholders have *surrendered* a part of *their* fund to
12 them. If the fund belonged to the bondholders, they had a
13 right so to surrender a part or a whole of it. And if the
14 bondholders did so surrender their own property to the
15 stockholders, it became the private property of these last; a
16 gift, or, if you please, a transfer for consideration from the
17 bondholders What right have these complainants to
18 *such* property in the hands of the stockholders?
19

20 Id. at 400. Even in 1868, however, the Supreme Court found that “[e]xtended discussion
21 of that proposition is not necessary.” Id. at 414. “Holders of bonds secured by mortgages
22 as in this case,” the Court noted, “may exact the whole amount of the bonds, principal and
23 interest, or they may, if they see fit, accept a percentage as a compromise in full discharge
24 of their respective claims, but whenever their lien is legally discharged, the property
25 embraced in the mortgage, or whatever remains of it, belongs to the corporation” for
26 distribution to other creditors. Id. Similarly, in this case, the secured creditors could have

1 demanded a plan in which they received all of the reorganized corporation, but, having
2 chosen not to, they may not “surrender” part of the value of the estate for distribution “to
3 the stockholder[,]” as “a gift.” Id. at 400. Whatever the secured creditors here did not
4 take remains in the estate for the benefit of other claim-holders.

5 As the Court built upon Howard to develop the absolute priority rule, it continued
6 to reject arguments similar to the ones the appellees make before us. For example, in
7 Louisville Trust Co. v. Louisville, New Albany & Chicago Railway Co., the Court noted
8 that “if the bondholder wishes to foreclose and exclude inferior lienholders or general
9 unsecured creditors and stockholders, he may do so; but a foreclosure which attempts to
10 preserve any interest or right of the mortgagor in the property after the sale must
11 necessarily secure and preserve the prior rights of general creditors thereof.” 174 U.S.
12 674, 683-84 (1899). The Court rejected another similar argument in 1913 in Boyd, where
13 it finally set down the “fixed principle” that we now call the absolute priority rule. 228
14 U.S. at 507.

15 Those cases dealt with facts much like the facts of this one: an over-leveraged
16 corporation whose undersecured senior lenders agree to give shares to prior shareholders
17 while intermediate lenders receive less than the value of their claim. See Douglas G.
18 Baird & Thomas H. Jackson, Bargaining After the Fall and the Contours of the Absolute
19 Priority Rule, 55 U. Chi. L. Rev. 738, 739-44 (1988). And it was on the basis of those
20 facts that the Supreme Court developed the absolute priority rule, with the aim of

1 stopping the very sort of transaction that the appellees propose here. See In re Iridium,
2 478 F.3d at 463 n.17. These old cases do not bind us directly, given that Congress has
3 now codified the absolute priority rule. But if courts will not infer statutory abrogation of
4 the common law without evidence that Congress intended such abrogation, see United
5 States v. Texas, 507 U.S. 529, 534 (1993), it would be even less appropriate to conclude
6 that Congress abrogated the more-than-a-century-old core of the absolute priority rule by
7 passing a statute whose language explicitly adopts it.

8 We recognize the policy arguments against the absolute priority rule. Gifting may
9 be a “powerful tool in accelerating an efficient and non-adversarial . . . chapter 11
10 proceeding,” Leah M. Eisenberg, Gifts and Asset Reallocation in Chapter 11
11 Proceedings: A Synthesized Approach, 29 Am. Bankr. Inst. J. 50, 50 (2010), and no
12 doubt the parties intended the gift to have such an effect here. See DBSD I, 419 B.R. at
13 214. As one witness testified below, “where . . . the equity sponsor is out of the money,
14 . . . a tip is common to [e]nsure a consensual bankruptcy rather than a contested one.”
15 Enforcing the absolute priority rule, by contrast, “may encourage hold-out behavior by
16 objecting creditors . . . even though the transfer has no direct effect on the value to be
17 received by the objecting creditors.” Harvey R. Miller & Ronit J. Berkovich, The
18 Implications of the Third Circuit’s Armstrong Decision on Creative Corporate
19 Restructuring: Will Strict Construction of the Absolute Priority Rule Make Chapter 11
20 Consensus Less Likely?, 55 Am. U. L. Rev. 1345, 1349 (2006).

1 It deserves noting, however, that there are substantial policy arguments in favor of
2 the rule. Shareholders retain substantial control over the Chapter 11 process, and with
3 that control comes significant opportunity for self-enrichment at the expense of creditors.
4 See, e.g., 11 U.S.C. § 1121(b) (giving debtor, which is usually controlled by old
5 shareholders, exclusive 120-day period in which to propose plan). This case provides a
6 nice example. Although no one alleges any untoward conduct here, it is noticeable how
7 much larger a distribution the existing shareholder will receive under this plan (4.99% of
8 all equity in the reorganized entity) than the general unsecured creditors put together
9 (0.15% of all equity), despite the latter's technical seniority. Indeed, based on the
10 debtor's estimate that the reorganized entity would be worth approximately \$572 million,
11 the existing shareholder will receive approximately \$28.5 million worth of equity under
12 the plan while the unsecured creditors must share only \$850,000. And if the parties here
13 were less scrupulous or the bankruptcy court less vigilant, a weakened absolute priority
14 rule could allow for serious mischief between senior creditors and existing shareholders.

15 Whatever the policy merits of the absolute priority rule, however, Congress was
16 well aware of both its benefits and disadvantages when it codified the rule in the
17 Bankruptcy Code. The policy objections to the rule are not new ones; the rule has
18 attracted controversy from its early days. Four Justices dissented from the Supreme
19 Court's 1913 holding in Boyd, see 228 U.S. at 511, and that decision "was received by
20 the reorganization bar and bankers with something akin to horror," James N. Rosenberg,

1 Reorganization – The Next Step, 22 Colum. L. Rev. 14, 14 (1922). The Commission
2 charged with reviewing the bankruptcy laws in the lead-up to the enactment of the
3 Bankruptcy Code suggested loosening the absolute priority rule to allow greater
4 participation by equity owners. See Bruce A. Markell, Owners, Auctions, and Absolute
5 Priority in Bankruptcy Reorganizations, 44 Stan. L. Rev. 70, 87-89 & n.117 (1991). Yet,
6 although Congress did soften the absolute priority rule in some ways,⁷ it did not create
7 any exception for “gifts” like the one at issue here. See also H.R. Rep. 95-595, 1978
8 U.S.C.C.A.N. 5963, 6372 (1977) (noting that absolute priority rule was “designed to
9 prevent a senior class from giving up consideration to a junior class unless every
10 intermediate class consents, is paid in full, or is unimpaired”).⁸ We therefore hold that the
11 bankruptcy court erred in confirming the plan of reorganization.

12 II. **DISH’s Appeal**

13 DISH raises different objections to the bankruptcy court’s order.⁹ First, DISH

⁷ Most importantly, the Code now determines objections on a class-by-class basis, not creditor-by-creditor. See 11 U.S.C. § 1129(b)(2)(B); Markell, 44 Stan. L. Rev. at 88.

⁸ This House Report references an earlier version of the bill, as the House Committee on the Judiciary reported it to the full House on September 8, 1977. See B Collier on Bankruptcy App. Pt. 4(d) at 4-873, 4-988 (15th ed. 2009). Section 1129(b)(2) received several largely stylistic changes between that version and its eventual passage, but none altered the operation of the absolute priority rule in any way relevant here.

⁹ Our conclusion with respect to Sprint’s appeal in itself requires reversal of the district court’s order and vacation of the bankruptcy court’s confirmation of the reorganization plan. It remains appropriate to consider DISH’s appeal, however, because

1 contends that the bankruptcy court should not have designated its vote as “not in good
2 faith,” 11 U.S.C. § 1126(e), and that, even after the designation, the bankruptcy court
3 should not have disregarded the entire class that DISH’s claim comprised. Second, DISH
4 argues that the plan should have been rejected in its entirety as not feasible. We address
5 these arguments in turn.

6 **A. The Treatment of DISH’s Vote**

7 1. Designating DISH’s Vote as “Not in Good Faith”

8 To confirm a plan of reorganization, Chapter 11 generally requires a vote of all
9 holders of claims or interests impaired by that plan. See 11 U.S.C. §§ 1126, 1129(a)(8).
10 This voting requirement has exceptions, however, including one that allows a bankruptcy
11 court to designate (in effect, to disregard) the votes of “any entity whose acceptance or
12 rejection of such plan was not in good faith.” Id. § 1126(e).

13 The Code provides no guidance about what constitutes a bad faith vote to accept or
14 reject a plan. Rather, § 1126(e)’s “good faith” test effectively delegates to the courts the
15 task of deciding when a party steps over the boundary. See In re Figter Ltd., 118 F.3d
16 635, 638 (9th Cir. 1997); see also Revision of the Bankruptcy Act: Hearing on H.R. 6439
17 Before the House Comm. on the Judiciary, 75th Cong. 181 (1937) [“1937 Hearing”]
18 (statement of Jacob Weinstein) (describing “good faith” test of predecessor to § 1126(e))

DISH raises distinct objections to the plan that, if accepted, would require revision of different aspects of the plan.

1 as delegation to the courts). Case by case, courts have taken up this responsibility. No
2 circuit court has ever dealt with a case like this one, however, and neither we nor the
3 Supreme Court have many precedents on the “good faith” voting requirement in any
4 context; the most recent cases from both courts are now more than 65 years old and
5 address § 1126(e)’s predecessor, § 203 of the Bankruptcy Act. See Young v. Higbee Co.,
6 324 U.S. 204 (1945); In re P-R Holding Corp., 147 F.2d 895 (2d Cir. 1945).
7 Nevertheless, these cases, cases from other jurisdictions, legislative history, and the
8 purposes of the good-faith requirement give us confidence in affirming the bankruptcy
9 court’s decision to designate DISH’s vote in this case.

10 We start with general principles that neither side disputes. Bankruptcy courts
11 should employ § 1126(e) designation sparingly, as “the exception, not the rule.” In re
12 Adelphia Commc’ns Corp., 359 B.R. 54, 61 (Bankr. S.D.N.Y. 2006). For this reason, a
13 party seeking to designate another’s vote bears the burden of proving that it was not cast
14 in good faith. See id. Merely purchasing claims in bankruptcy “for the purpose of
15 securing the approval or rejection of a plan does not of itself amount to ‘bad faith.’” In re
16 P-R Holding, 147 F.2d at 897; see In re 255 Park Plaza Assocs. Ltd. P’ship, 100 F.3d
17 1214, 1219 (6th Cir. 1996). Nor will selfishness alone defeat a creditor’s good faith; the
18 Code assumes that parties will act in their own self interest and allows them to do so.
19 See In re Figter, 118 F.3d at 639.

20 Section 1126(e) comes into play when voters venture beyond mere self-interested

1 promotion of their claims. “[T]he section was intended to apply to those who were not
2 attempting to protect their own proper interests, but who were, instead, attempting to
3 obtain some benefit to which they were not entitled.” In re Figter, 118 F.3d at 638. A
4 bankruptcy court may, therefore, designate the vote of a party who votes “in the hope that
5 someone would pay them more than the ratable equivalent of their proportionate part of
6 the bankrupt assets,” Young, 324 U.S. at 211, or one who votes with an “ulterior motive,”
7 1937 Hearing, supra, at 180 (statement of SEC Commissioner William O. Douglas), that
8 is, with “an interest other than an interest as a creditor,” In re P-R Holding, 147 F.2d at
9 897.

10 Here, the debate centers on what sort of “ulterior motives” may trigger designation
11 under § 1126(e), and whether DISH voted with such an impermissible motive. The first
12 question is a question of law that we review *de novo*, and the second a question of fact
13 that we review for clear error, see In re Baker, 604 F.3d at 729, recognizing that “a
14 decision that someone did or did not act in good faith” hinges on “an essentially factual
15 inquiry and is driven by the data of practical human experience,” In re Figter, 118 F.3d at
16 638 (quotation marks omitted).

17 Clearly, not just any ulterior motive constitutes the sort of improper motive that
18 will support a finding of bad faith. After all, most creditors have interests beyond their
19 claim against a particular debtor, and those other interests will inevitably affect how they
20 vote the claim. For instance, trade creditors who do regular business with a debtor may

1 vote in the way most likely to allow them to continue to do business with the debtor after
2 reorganization. See John Hancock Mut. Life Ins. Co. v. Route 37 Bus. Park Assocs., 987
3 F.2d 154, 161-62 (3d Cir. 1993). And, as interest rates change, a fully secured creditor
4 may seek liquidation to allow money once invested at unfavorable rates to be invested
5 more favorably elsewhere. See In re Landing Assocs., Ltd., 157 B.R. 791, 807 (Bankr.
6 W.D. Tex. 1993). We do not purport to decide here the propriety of either of these
7 motives, but they at least demonstrate that allowing the disqualification of votes on
8 account of *any* ulterior motive could have far-reaching consequences and might leave few
9 votes upheld.

10 The sort of ulterior motive that § 1126(e) targets is illustrated by the case that
11 motivated the creation of the “good faith” rule in the first place, Texas Hotel Securities
12 Corp. v. Waco Development Co., 87 F.2d 395 (5th Cir. 1936). In that case, Conrad
13 Hilton purchased claims of a debtor to block a plan of reorganization that would have
14 given a lease on the debtor’s property – once held by Hilton’s company, later cancelled –
15 to a third party. Id. at 397-99. Hilton and his partners sought, by buying and voting the
16 claims, to “force [a plan] that would give them again the operation of the hotel or
17 otherwise reestablish an interest that they felt they justly had in the property.” Id. at 398.
18 The district court refused to count Hilton’s vote, but the court of appeals reversed, seeing
19 no authority in the Bankruptcy Act for looking into the motives of creditors voting against
20 a plan. Id. at 400.

1 That case spurred Congress to require good faith in voting claims. As the Supreme
2 Court has noted, the legislative history of the predecessor to § 1126(e) “make[s] clear the
3 purpose of the [House] Committee [on the Judiciary] to pass legislation which would bar
4 creditors from a vote who were prompted by such a purpose” as Hilton’s. Young, 324
5 U.S. at 211 n.10. As then-SEC Commissioner Douglas explained to the House
6 Committee:

7 We envisage that “good faith” clause to enable the courts to
8 affirm a plan over the opposition of a minority attempting to
9 block the adoption of a plan merely for selfish purposes. The
10 Waco case . . . was such a situation. If my memory does not
11 serve me wrong it was a case where a minority group of
12 security holders refused to vote in favor of the plan unless that
13 group were given some particular preferential treatment, such
14 as the management of the company. That is, there were
15 ulterior reasons for their actions.

16
17 1937 Hearing, supra, at 181-82.¹⁰ One year after Commissioner Douglas’s testimony, and
18 two years after the Waco case, Congress enacted the proposed good faith clause as part of
19 the Chandler Act of 1938. Pub. L. 75-575, § 203, 52 Stat. 840, 894. The Bankruptcy
20 Code of 1978 preserved this good faith requirement, with some rewording, as 11 U.S.C.

¹⁰ Commissioner Douglas also described the Hilton claim-holders telling the other parties, in effect, “For a price you can have our vote.” 1937 Hearing, supra, at 182. In this respect, Douglas’s memory may have served him wrong, since at least the opinion of the court of appeals records nothing along these lines, unless one interprets “a price” broadly to include reinstatement of a lease or reassignment of management rights.

1 § 1126(e).¹¹

2 Modern cases have found “ulterior motives” in a variety of situations. In perhaps
3 the most famous case, and one on which the bankruptcy court in our case relied heavily, a
4 court found bad faith because a party bought a blocking position in several classes after
5 the debtor proposed a plan of reorganization, and then sought to defeat that plan and to
6 promote its own plan that would have given it control over the debtor. See In re
7 Allegheny Int’l, Inc., 118 B.R. 282, 289-90 (Bankr. W.D. Pa. 1990). In another case, the
8 court designated the votes of parties affiliated with a competitor who bought their claims
9 in an attempt to obstruct the debtor’s reorganization and thereby to further the interests of
10 their own business. See In re MacLeod Co., 63 B.R. 654, 655-56 (Bankr. S.D. Ohio
11 1986). In a third case, the court found bad faith where an affiliate of the debtor purchased
12 claims not for the purpose of collecting on those claims but to prevent confirmation of a
13 competing plan. See In re Applegate Prop., Ltd., 133 B.R. 827, 833-35 (Bankr. W.D.

¹¹ Based on a House committee report, some have cited a further case, Aladdin Hotel Co. v. Bloom, 200 F.2d 627 (8th Cir. 1953), as an example of what the authors of the 1978 Code meant to overrule when they reenacted the good faith requirement as § 1126(e). See, e.g., In re Pleasant Hill Partners, L.P., 163 B.R. 388, 392-93 (Bankr. N.D. Ga. 1994), quoting H.R. Rep. No. 95-595, at 411 (1977). But the committee actually intended a different provision (originally designated § 1126(e), hence the confusion) to overrule Aladdin Hotel, not the good faith provision (which was originally designated § 1126(f)). When Congress removed the former provision, the latter became § 1126(e) in its place. See In re Dune Deck Owners Corp., 175 B.R. 839, 845 n.13 (Bankr. S.D.N.Y. 1995). The relevant committee report provides no insight into the good faith provision that began as § 1126(f) and became § 1126(e), instead merely paraphrasing the statutory language. H.R. Rep. No. 95-595, at 411 (1977).

1 Tex. 1991).

2 Although we express no view on the correctness of the specific findings of bad
3 faith of the parties in those specific cases, we think that this case fits in the general
4 constellation they form. As the bankruptcy court found, DISH, as an indirect competitor
5 of DBSD and part-owner of a direct competitor, bought a blocking position in (and in fact
6 the entirety of) a class of claims, after a plan had been proposed, with the intention not to
7 maximize its return on the debt but to enter a strategic transaction with DBSD and “to use
8 status as a creditor to provide advantages over proposing a plan as an outsider, or making
9 a traditional bid for the company or its assets.” DBSD II, 421 B.R. at 139-40. In effect,
10 DISH purchased the claims as votes it could use as levers to bend the bankruptcy process
11 toward its own strategic objective of acquiring DBSD’s spectrum rights, not toward
12 protecting its claim.

13 We conclude that the bankruptcy court permissibly designated DISH’s vote based
14 on the facts above. This case echoes the Waco case that motivated Congress to impose
15 the good faith requirement in the first place. In that case, a competitor bought claims with
16 the intent of voting against any plan that did not give it a lease in or management of the
17 debtor’s property. 87 F.2d at 397-99. In this case, a competitor bought claims with the
18 intent of voting against any plan that did not give it a strategic interest in the reorganized
19 company. The purchasing party in both cases was less interested in maximizing the
20 return on its claim than in diverting the progress of the proceedings to achieve an outside

1 benefit. In 1936, no authority allowed disregarding votes in such a situation, but
2 Congress created that authority two years later with cases like Waco in mind. We
3 therefore hold that a court may designate a creditor's vote in these circumstances.

4 We also find that, just as the law supports the bankruptcy court's legal conclusion,
5 so the evidence supports its relevant factual findings. DISH's motive – the most
6 controversial finding – is evinced by DISH's own admissions in court, by its position as a
7 competitor to DBSD,¹² by its willingness to overpay for the claims it bought,¹³ by its
8 attempt to propose its own plan, and especially by its internal communications, which,
9 although addressing the Second Lien Debt rather than the First Lien Debt at issue here,
10 nevertheless showed a desire to “to obtain a blocking position” and “control the

¹² Courts have been especially wary of the good faith of parties who purchase claims against their competitors. See In re MacLeod, 63 B.R. at 655; see also In re Figter, 118 F.3d at 640 (finding no bad faith in part because party was not competitor); In re 255 Park Plaza Assocs., 100 F.3d at 1219 (same); In re Pine Hill Collieries Co., 46 F. Supp. 669, 672 (E.D. Pa. 1942) (finding no bad faith even for a competitor, but only because competitor had a prior interest in the debtor).

¹³ The fact that DISH bought the First Lien Debt at par is circumstantial evidence of its intent, though we do not put as much weight on the price as the bankruptcy court did. See DBSD II, 421 B.R. at 140. It is certainly true, as the Loan Syndications and Trading Association points out in an *amicus* brief, that purchasers may have many good business reasons for buying debt at par, especially when, as in this case, the debt is well secured and interest rates dropped between the original issuance of the debt and its purchase. Buying claims at or above par therefore could not provide the sole basis for designating a creditor's vote. Nevertheless, a willingness to pay high prices may tend to show that the purchaser is interested in more than the claim for its own sake. The weight to be given to such evidence is primarily an issue for the finder of fact, and we see no clear error in the bankruptcy court's reliance on the factor in this case.

1 bankruptcy process for this potentially strategic asset.”

2 The Loan Syndications and Trading Association (LSTA), as *amicus curiae*, argues
3 that courts should encourage acquisitions and other strategic transactions because such
4 transactions can benefit all parties in bankruptcy. We agree. But our holding does not
5 “shut[] the door to strategic transactions,” as the LSTA suggests. Rather, it simply limits
6 the methods by which parties may pursue them. DISH had every right to propose for
7 consideration whatever strategic transaction it wanted – a right it took advantage of here –
8 and DISH still retained this right even after it purchased its claims. All that the
9 bankruptcy court stopped DISH from doing here was using the votes it had bought to
10 secure an advantage in pursuing that strategic transaction.

11 DISH argues that, if we uphold the decision below, “future creditors looking for
12 potential strategic transactions with chapter 11 debtors will be deterred from exploring
13 such deals for fear of forfeiting their rights as creditors.” But our ruling today should
14 deter only attempts to “*obtain* a blocking position” and thereby “control the bankruptcy
15 process for [a] potentially strategic asset” (as DISH’s own internal documents stated).
16 We leave for another day the situation in which a *preexisting* creditor votes with strategic
17 intentions. Cf. In re Pine Hill Collieries Co., 46 F. Supp. 669, 672 (E.D. Pa. 1942). We
18 emphasize, moreover, that our opinion imposes no categorical prohibition on purchasing
19 claims with acquisitive or other strategic intentions. On other facts, such purchases may
20 be appropriate. Whether a vote has been properly designated is a fact-intensive question

1 that must be based on the totality of the circumstances, according considerable deference
2 to the expertise of bankruptcy judges. Having reviewed the careful and fact-specific
3 decision of the bankruptcy court here, we find no error in its decision to designate DISH's
4 vote as not having been cast in good faith.

5 2. Disregarding DISH's Class for Voting Purposes

6 DISH next argues that the bankruptcy court erred when, after designating DISH's
7 vote, it disregarded the entire class of the First Lien Debt for the purpose of determining
8 plan acceptance under 11 U.S.C. § 1129(a)(8). Section 1129(a)(8) provides that each
9 impaired class must vote in favor of a plan for the bankruptcy court to confirm it without
10 resorting to the (more arduous) cram-down standards of § 1129(b). Faced with a class
11 that effectively contained zero claims – because DISH's claim had been designated – the
12 bankruptcy court concluded that “[t]he most appropriate way to deal with that [situation]
13 is by disregarding [DISH's class] for the purposes of section 1129(a)(8).” DBSD I, 419
14 B.R. at 206. We agree with the bankruptcy court. Common sense demands this result,
15 which is consistent with (if not explicitly demanded by) the text of the Bankruptcy Code.

16 The Code measures the acceptance of a plan not creditor-by-creditor or claim-by-
17 claim, but class-by-class. The relevant provision explains how to tally acceptances within
18 a class of claims to arrive at the vote of the overall class:

19 A class of claims has accepted a plan if such plan has been
20 accepted by creditors, *other than any entity designated under*
21 *subsection (e) of this section*, that hold at least two-thirds in
22 amount and more than one-half in number of the allowed

1 claims of such class held by creditors, *other than any entity*
2 *designated under subsection (e) of this section*, that have
3 accepted or rejected such plan.
4

5 11 U.S.C. § 1126(c) (emphasis added). For each class, then, the bankruptcy court must
6 calculate two fractions based on the non-designated, allowed claims in the class. To
7 arrive at the first fraction, the court divides the value of such claims that vote to accept the
8 plan by the value of all claims that vote either way. For the second fraction, the court
9 uses the number of claims rather than their value. If the first fraction equals two-thirds or
10 more, and the second fraction more than one-half, then the class as a whole votes to
11 accept the plan.

12 The arithmetic breaks down in cases like this one. Because the only claim in
13 DISH's class belongs to DISH, whose vote the court designated, each fraction ends up as
14 zero divided by zero. In this case, the plain meaning of the statute and common sense
15 lead clearly to one answer: just as a bankruptcy court properly ignores designated *claims*
16 when calculating the vote of a class, see 11 U.S.C. § 1126(e), so it should ignore a wholly
17 designated *class* when deciding to confirm a plan under § 1129(a)(8).¹⁴ We agree with
18 the bankruptcy court that any other rule “would make [the] designation ruling

¹⁴ We state no conclusion on whether the same result is appropriate for other tests that the Code imposes, such as in §§ 1129(a)(7) and 1129(a)(10). We likewise do not decide how the bankruptcy court should treat classes in which no creditor files a timely vote. Compare In re Ruti-Sweetwater, Inc., 836 F.2d 1263, 1266 (10th Cir. 1988) (holding that debtor's “inaction constituted an acceptance of the Plan”), with In re M. Long Arabians, 103 B.R. 211, 215-16 (B.A.P. 9th Cir. 1989) (holding that “[t]he holder of a claim must affirmatively accept the plan”).

1 meaningless” in this context. DBSD I, 419 B.R. at 206.¹⁵ We therefore affirm the
2 bankruptcy court’s treatment of DISH’s class.

3 3. Indubitable Equivalence

4 Finally, because we affirm the bankruptcy court’s treatment of both DISH’s vote
5 and its class’s vote, we do not reach that court’s alternative theory that it could cram the
6 plan down over DISH’s objection because DISH realized “the indubitable equivalent” of
7 its First Lien Debt under the plan. 11 U.S.C. § 1129(b)(2)(A)(iii).

8 **B. The Feasibility of the Plan**

9 To confirm a plan under Chapter 11, a bankruptcy court must find that the plan is
10 feasible, or, more precisely, that “[c]onfirmation of the plan is not likely to be followed
11 by the liquidation, or the need for further financial reorganization, of the debtor . . . unless
12 such liquidation or reorganization is proposed in the plan.” 11 U.S.C. § 1129(a)(11).
13 DISH argues that the feasibility of this plan is “purely speculative” and that the
14 bankruptcy court therefore should not have confirmed it. We review a finding of
15 feasibility only for clear error, see In re Webb, 932 F.2d 155, 158 (2d Cir. 1991), and we
16 find none here.

¹⁵ DISH argues that “[t]he plain language of section 1126(c) dictates that in order for a class to be deemed to have accepted a plan of reorganization, it must have actively voted in favor of the plan,” and that, because “the votes of any entity designated . . . are excluded from both the numerator and denominator in determining whether a class has accepted a plan,” DISH’s class cannot be found to have voted in favor of the plan. This makes no sense. A class with no qualifying members cannot be required to accept a plan by an affirmative vote.

1 For a plan to be feasible, it must “offer[] a reasonable assurance of success,” but it
2 need not “guarantee[]” success. Kane, 843 F.2d at 649. Some possibility of liquidation
3 or further reorganization is acceptable and often unavoidable. The bankruptcy court
4 applied this standard and found this plan feasible based primarily on four factors. DBSD
5 I, 419 B.R. at 201-03.

6 First, the plan “dramatically deleverage[s]” DBSD. Id. at 202; see In re Piece
7 Goods Shops Co., 188 B.R. 778, 798 (Bankr. M.D.N.C. 1995). Before bankruptcy,
8 DBSD owed over \$800 million; the projected debt of the reformed DBSD would be as
9 low as \$260 million as late as 2013. Given the bankruptcy court’s valuation of a
10 reorganized DBSD as worth between \$492 million and \$692 million, this debt reduction
11 makes a big difference.

12 Second, the court found it likely that DBSD would be able to obtain the capital it
13 needs. DBSD has already received commitments for a credit facility to provide working
14 capital for the first two years. DBSD I, 419 B.R. at 203. After two years, DBSD would
15 need further capital, but the court found “very reasonable” the possibility that DBSD will
16 be able to secure either more financing or a strategic investor. Id. As evidence of this
17 possibility, the court pointed to expert testimony, actual offers that had been made
18 (including DISH’s own offer), and the ability of similar companies to access the capital
19 markets. The court also noted the likely attractiveness to future investors of DBSD’s
20 control over 20MHz of prime bandwidth, a “finite” and “very valuable” resource. Id. at

1 194.

2 Third, the court found little risk of default on DBSD's secured obligations to
3 DISH, and still less risk that any such default would lead to the liquidation or financial
4 reorganization that § 1129(a)(11) seeks to avert. Id. at 203. The plan makes the interest
5 on DISH's First Lien Debt, which had been payable in cash, payable only in kind, with no
6 cash due for four years. This feature buys DBSD breathing room to shore up its position
7 before it becomes necessary to secure significant additional capital, as described above.

8 Fourth, and finally, the bankruptcy court noted that general credit markets at the
9 time of its decision in October 2009 had improved from their low a year before. Id.
10 Although no one can predict market conditions two or four years down the road, the
11 improvement the bankruptcy court noted was real, and increased the likelihood that
12 DBSD will be able to repay its creditors.

13 Based on all of these factors, the bankruptcy court found the plan of reorganization
14 feasible. Id. We find the bankruptcy court's analysis thorough and persuasive. DISH's
15 arguments to the contrary do not successfully identify any clear error in it.

16 First, DISH argues that the bankruptcy court employed the wrong legal standard.
17 DISH claims that a bankruptcy court cannot confirm a plan unless the proponents prove
18 "specifics . . . as to how the Debtors would be able to meet their repayment obligations at
19 the end of the Plan period." That is true at some level of generality, but exactly how
20 specific those "specifics" must be depends on the circumstances. In most situations, the

1 time immediately following bankruptcy will call for fairly specific proof of the
2 company's ability to meet its obligations – as here, where it was “undisputed that the
3 Debtors have commitments for working capital financing for the next two years.” DBSD
4 I, 419 B.R. at 203. As one moves further away from the time of confirmation, however,
5 the proof will necessarily become less and less specific. Had DBSD's plan called for the
6 issuance of 20-year notes, for instance, no one would expect specifics about the sort of
7 financing it might get in year 19. When a court is dealing with an intermediate time
8 frame like the four years after which the balloon payment comes due in this case, the level
9 of proof required will be somewhere in the middle. In this context, the bankruptcy court
10 based its feasibility finding on sufficiently specific proof to conclude that DBSD would
11 be likely to avoid reorganization or liquidation even after four years. Overall, the
12 bankruptcy court both stated and applied the correct standard in this case, dooming
13 DISH's legal challenge.

14 Second, DISH argues that the district court clearly erred in its fact-finding. At
15 most, DISH's arguments on this front demonstrate that there is some chance that DBSD
16 might eventually face liquidation or further reorganization. But that small chance does
17 not change the feasibility analysis, which requires only a “reasonable assurance of
18 success,” not an absolute “guarantee[.]” Kane, 843 F.2d at 649. A small or even
19 moderate chance of failure does not mean that the plan is “*likely* to be followed by the
20 liquidation, or the need for further financial reorganization, of the debtor.” 11 U.S.C.

1 § 1129(a)(11) (emphasis added). We therefore uphold the bankruptcy court's feasibility
2 determination.

3 **CONCLUSION**

4 For the reasons set forth above, we REVERSE the order of confirmation on
5 absolute-priority grounds, AFFIRM on all other grounds, and REMAND for further
6 proceedings consistent with this opinion.

7