

Hueston Trustee in Morgan Drexen BK

LAW: Shift to Chapter 11 brings on trial lawyer for reorganization

■ By JANE YU

The Office of the U.S. Trustee has appointed trial lawyer **John Hueston** as trustee of the Chapter 11 bankruptcy case of Costa Mesa-based **Morgan Drexen Inc.**, which has been converted from Chapter 7 liquidation.

Hueston is founding partner of litigation firm **Hueston Hennigan LLP**, which launched this year and has offices in Newport Beach and Los Angeles. He previously was chair of **Irell & Manella LLP**'s business trial and crisis management practice.



Hueston: return of assets “changed the scenario where a reorganization now seemed possible”

Hueston last week filed a proposal with the bankruptcy court to retain and employ Hueston Hennigan as litigation counsel to represent the bankruptcy estate and to carry out investigation of the legality of Morgan Drexen's operations, among other reviews.

Hueston said Costa Mesa-based **Greenberg Gross LLP** is part of the case as bankruptcy counsel.

The conversion from Chapter 7 liquidation bankruptcy to Chapter 11 reorganization provides the potential for Morgan Drexen to re-

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structure the business. Morgan Drexen provided "back-office paralegal and paraprofessional services" to law firms before it filed a voluntary bankruptcy petition on April 30, a move that followed nearly two years of dispute with the Consumer Financial Protection Bureau.

Lawsuit

The bureau filed a lawsuit in August 2013

alleging that Morgan Drexen charged illegal upfront fees and made false claims to consumers. Morgan Drexen's bankruptcy filing came just before a ruling in May by a federal appeals court that rejected the company's challenge to the bureau, bringing a default judgment to the case.

Attorney **Jeffrey Golden**, who was initially named trustee of the Morgan Drexen estate, determined that there had been "fraudulent transfers" from Morgan Drexen to a number of entities under the control of company insiders over a few months last year, according to a court document.

"The initial trustee determined that there had been inappropriate distributions of assets, which then had been recovered to the company," Hueston said. "Upon return of the assets, that changed the scenario where a reorganization now seemed possible."

Hueston, who was lead prosecutor in the trial of **Enron Corp.** executives in 2006, last year secured a \$5.15 billion settlement after trial for the Tronox Trust in litigation against **Anadarko Petroleum Co.** and **Kerr McGee Corp.** for environmental liabilities.

He said the "ultimate purpose" of the Mor-

gan Drexen bankruptcy case is "to preserve value for the creditors."

"It's also to try to determine if there are potential buyers, and thirdly to try to reduce costs and issues so that you can continue to preserve value," he said. "And finally, in this instance, to determine whether the business is operating legally, or if there are questionable practices, where those can be clipped, and to determine whether there is a core viable business that can be salvaged. That process can take weeks if not several months, with the hope of keeping the timeline as short as possible." ■