DISTRICT OF GUAM BANKRUPTCY DIVISION

In re:) Chapter 11 Proceedings
TITAN IMPORTS, INC.,) Case No.: 22-00007
Debtor.) UNDER ADVISEMENT ORDER CONCERNING CLAIMED RETROACTIVE APPLICATION OF GUAM'S WHISTLEBLOWER STATUTE [NOT FOR PUBLICATION]

Before this bankruptcy case was filed, John Ryan ("Ryan") brought a Guam Superior Court ("Superior Court") Qui Tam action against Titan Imports, Inc. ("Debtor") pursuant to the Territory of Guam's ("Guam) False Claims and Whistleblower Act¹ seeking recovery of alcohol and beverage taxes ("ABC Taxes") allegedly owed by Debtor to Guam from as far back as 2011. Guam's Department of Revenue and Taxation ("DRT") chose not to intervene, thereby consenting to Ryan's pursuit of the ABC Taxes. When Debtor filed its Sub Chapter V Chapter 11 petition, Ryan filed claim #2 on account of ABC Taxes he claimed were owed by the Debtor in the amount of \$2,644,847. Trouble ensued when DRT filed claim #7 in the amount of \$2,399,537 based on the same ABC Taxes. The parties all recognize DRT is a real party in interest and that Debtor is only liable once on the ABC Taxes, but Ryan and DRT both contend they alone have standing to pursue the vast majority of the ABC Taxes against this bankruptcy estate.

¹ 5 G.C.A. § 37101 et seq. ("Whistleblower Statute").

² See 5 G.C.A. § 37103.

⁴ See 5 G.C.A. § 37202.

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⁵ See Exhibit A attached hereto.

⁶ "Petition Date."

The sole issue for this Court to decide is whether Ryan is barred from pursuing in the Bankruptcy Court ABC Taxes which are owed by the Debtor for time periods prior to Guam's enactment of the Whistleblower Statute. This Court finds Ryan is not barred from prosecuting such claims and that Ryan alone has standing to press the ABC Taxes claim in this bankruptcy case.

I. BACKGROUND

Guam enacted the Whistleblower Statute on August 24, 2018. In doing so, Guam sought to empower individuals with the authority to pursue moneys owed to Guam where Guam itself either did not know it had such claims or had chosen to not pursue those claims. Under the Whistleblower Statute, the relator (whistleblower) may be entitled to fees and costs in pursuing the claims plus up to 30% of the amount recovered for Guam.² Guam, in turn, would receive no less than 70% of the amount recovered by the whistleblower.

Ryan filed a complaint in the Superior Court³ on November 5, 2019, seeking to recover the ABC Taxes allegedly owed by Debtor to Guam's DRT. As required by the Whistleblower Statute, Ryan filed his complaint under seal and then served it upon DRT so DRT could then decide whether it wished to pursue the ABC Taxes itself or permit Ryan to pursue the claims on DRT's behalf.⁴ On January 6, 2020, DRT filed its notice that it would not intervene in the Qui Tam Action.⁵ From that point forward, Ryan conducted exhaustive (and presumably expensive) discovery against Debtor. Ryan's dogged pursuit of the ABC Taxes eventually drove Debtor to file its chapter 11, Sub V petition on March 25, 2022,⁶ over two years after DRT consented to Ryan's pursuit of the ABC Taxes against Debtor.

³ Guam Superior Court Case No. CV1278-19 (the "Qui Tam Action"). The term "Qui Tam" is a shorthand reference

to the Latin phrase "qui tam pro domino rege quam pro se ipso in hac parte sequitur," which translates as "who as

well for the King for himself sues in the matter." See Black's Law Dictionary 1368 (9th ed. 2009).

In Debtor's bankruptcy, Ryan filed Claim #2 on April 14, 2022 and amended that 1 claim on June 8, 2022. DRT filed Claim #7 on May 27, 2022. Not wanting to either pay 2 the ABC Taxes twice or to wrestle with both DRT and Ryan over the ABC Taxes, Debtor 3 brought its quandary to this Court at a hearing on July 6, 2022. The Court directed Debtor 4 to file its objection to DRT's claim, for DRT to respond, and for Ryan to reply. The Court 5 further directed Debtor to file its replies. This matter then came before this Court for oral 6 argument on July 26, 2022, after which the Court took under advisement the narrow issue 7 of who has standing to pursue the ABC Taxes in this Court or, more specifically, whether 8 Ryan is barred from pursuing that portion of the ABC Taxes from time periods prior to 9 Guam's enactment of the Whistleblower Statute. 8 Many other issues have been raised by 10 the parties, especially by Ryan, but this Order goes to the heart of who has standing to 11 pursue the very claims which drove Debtor to file its bankruptcy case and which the 12 Debtor's chapter 11 plan⁹ seeks to address. 13

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II. JURISDICTION

This Court has jurisdiction over this case and the ABC Taxes claims pursuant to 28 U.S.C. §§ 1334 and 157(B)(2).

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III. ARGUMENTS OF THE PARTIES

To very briefly summarize, DRT contends the Whistleblower Statute did not explicitly provide for retroactive application of the 2018 law so Ryan cannot pursue any ABC Taxes which are from time periods prior to the enactment of the Whistleblower Statute. DRT argues its position is consistent with the Guam Superior Court case of Government of Guam by Guam Housing and Urban Renewal Authority ("GHURA") v.

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⁷ Debtor's objection to Claim #7 was filed on July 9, 2022 at DE 87. DRT filed its response on July 18, 2022, at DE 90. Ryan filed his reply on July 23, 2022, at DE 91. Debtor filed its reply on July 23, 2022, at DE 94.

⁸ Significantly, DRT claims all but \$99 of the ABC Taxes were on account of taxes prior to the effective date of the Whistleblower Statute.

⁹ See the plan filed on June 23, 2022, at DE 77.

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¹⁰ Guam Superior Court Case CV0298-21, hereinafter the "Rodriguez Case."

Rodriguez. 10 Ryan contends the Whistleblower Statute is not violated by Ryan pursuing all of the ABC Taxes because his complaint is a procedural matter which does not give rise to any new liability or claims against Debtor. Moreover, Ryan contends that, having refused to intervene in the Qui Tam Action, DRT now has no standing to interfere with Ryan's management of the Qui Tam Action or the claims now being pursued by Ryan in Debtor's bankruptcy proceedings.

IV. **ANALYSIS**

The Rodriguez Case Α.

DRT finds support for its retroactivity argument in the *Rodriguez* Case. There, Guam Superior Court Judge Dana Guitierrez thoroughly and thoughtfully reviewed the question of circumstances under which a new statute may permissibly be applied retroactively. Judge Guitierrez noted "1 G.C.A. provides that: 'No part of this Code is retroactive unless expressly so declared" and that "the Whistleblower Statute . . . does not contain a retroactivity clause . . . "11 Because the Whistleblower Statute does not explicitly declare it is to be applied retroactively, Judge Guitierrez reviewed considerations where a Guam statute may nevertheless be applied retroactively. Judge Guitierrez found those

> considerations include: 1) whether the legislature followed the model of other jurisdictions which contained retroactivity clause in that state's equivalent for the statute; 2) the legislative history of the statute; and 3) whether prospective application would render the statute ineffective. 12

The Court persuasively reviewed why the first and second considerations were not satisfied by the Whistleblower Statute so this Court shall not review one or two here. Judge Gutierrez went on to state that the third consideration "is only overcome by 'necessary

¹¹ See Judge Guitierrez's March 11, 2022 Decision and Order Granting Plaintiff's Motion ot Dismiss at page 5 (the "Guitierrez Opinion").

¹² Guitierrez Opinion at 9.

13 Citing Landgraf v USI Film Products, 511 U.S. 244 at 286 (1994).

implication' of retroactivity when the statute 'must be understood to operate retroactively because a contrary reading would render it ineffective." ¹³

Judge Guitierrez relied heavily on an analysis supplied by the New Jersey Court of Appeals. ¹⁴ In doing so, she held that a retroactive interpretation of the Guam Whistleblower Statute is not necessary to make the Whistleblower Statute viable or sensible. Specifically, Judge Guitierrez found that the Whistleblower Statute need not be retroactively applied by "necessary implication" for the 2018 law to be effective.

The Guitierrez Opinion discussed the fact that GHURA's complaint against Rodriguez alleged that all of the violations by Rodriguez occurred before enactment of the Guam Whistleblower Statute. Judge Guitierrez found GHURA's whistleblower action was entirely barred because it violated Guam law by retroactively applying that statute.

The Guitierrez Opinion was issued on March 11, 2022. On April 11, 2022, GHURA sought reconsideration of the Guitierrez Opinion. That matter is set for hearing on August 31, 2022. ¹⁵ At least one other separate but factually similar Guam whistleblower action (GHURA v Van Nichols ¹⁶) has been put on hold until Judge Guitierrez resolves GHURA's reconsideration request in *Rodriguez*.

This Court discerns several crucial distinguishing features between *the Rodriguez* Case and the case at bar. First, in the *Rodriguez* Case it was the target of the whistleblower action (Rodriguez) who sought dismissal of the whistleblower action instituted by GHURA (the relator or whistleblower) against her. Here, it is DRT who seeks to take the Qui Tam Action out of the hands of the whistleblower (Ryan), presumably so DRT may itself alone reap the benefits of the Qui Tam Action long pursued by Ryan. Unlike the *Rodriguez* Case, much water passed under the bridge before this controversy landed in the Bankruptcy Court. Second, the Gutierrez Opinion did not explicitly consider whether the

¹⁴ State Ex Rel. Hayling v. Correctional Medical Services, Inc., 28 A.3d 1246 (N.J. Super. Ct. App. Div. 2011).

¹⁵ See Exhibit B attached hereto.

¹⁶ See the article by John O'Connor, *Judge: Guam False Claims Act Not Retroactive; Delegate and His Dad Await Court Decisions*, The Guam Daily Post, June 21, 2022.

Whistleblower Statute was not actually retroactively applied where the events in question arose prior to enactment of the Whistleblower Statute, and where Guam chose not to intervene. This Court addresses each of these issues in turn.

B. DRT is Barred from Wresting the Qui Tam Action Away From Ryan.

1. <u>Circumvention of 5 G.C.A. § 37203(c)(2).</u>

When Ryan filed his complaint in the Qui Tam Action, DRT knew or should have known Ryan was pursuing ABC Taxes for time periods prior to August 24, 2018. DRT knew as of December 2019, that it may have claims against Debtor based on falsely filed tax returns of the Debtor. DRT chose to allow Ryan to pursue those claims. DRT cannot now intervene in the Qui Tam Action. 17 Should DRT be granted standing to now pursue the ABC Taxes, DRT may be met with a successful motion from this Debtor to dismiss DRT's claim as barred by 5 G.C.A. § 37203(c)(2). 18 The Guam legislature could not possibly have intended for a taxpayer to escape payment on false tax returns where DRT reconsiders the prudence of its decision years earlier to elect to allow a whistleblower to carry its water on unpaid tax claims. This Court will not help create the prospect of such an unjust and unanticipated result by now permitting DRT to gain standing to pursue ABC Taxes owed by Debtor. Moreover, if DRT cannot now intervene in the Superior Court's Qui Tam Action, the Whistleblower Statute would effectively be circumvented or violated if this Court permits DRT to pursue the ABC Taxes in the Bankruptcy Court.

2. <u>Judicial Estoppel.</u>

Judicial estoppel generally prevents a party from prevailing in one phase of a case on an argument and then relying on a contradictory argument to prevail in another phase. ¹⁹ The U.S. Supreme Court has noted that

¹⁷ See 5 G.C.A. § 37203(c)(2).

¹⁸ Additionally, DRT may also be barred by an applicable statute of limitations. This Court expresses no opinion in this regard.

¹⁹ Pegram v. Herdrich, 530 U.S. 211, 227, n. 8, 120 S. Ct. 2143 (2000).

several factors typically inform the decision whether to apply the doctrine in a particular case: First, a party's later position must be clearly inconsistent with its earlier position. Second, courts regularly inquire whether the party has succeeded in persuading a court to accept that party's earlier position ... A third consideration is whether the party seeking to assert an inconsistent position would derive an unfair advantage or impose an unfair detriment on the opposing party if it is not estopped.²⁰

Here, DRT's claimed standing to pursue the ABC Taxes in the Bankruptcy Court is clearly inconsistent with its position in the Qui Tam Action where it elected to not intervene in that matter and where the Whistleblower Statute now bars it from doing so in the Qui Tam Action. DRT persuaded the Superior Court (and Ryan) that Ryan was free to pursue the Debtor on claimed liability for the ABC Taxes. Ryan justifiably relied upon DRT's decision to not intervene in the Qui Tam Action. Ryan has presumably spent considerable time, effort, and treasure to bring Debtor to the point of significant payments towards the ABC Taxes for Guam's (and Ryan's) benefit. Ryan would be materially harmed if DRT were now permitted to waltz into a position of standing to pursue the ABC Taxes. DRT would derive an unfair advantage over Ryan (and the Debtor) and Ryan would suffer an unfair detriment if DRT is recognized by this Court as now having standing to pursue the ABC Taxes in this Bankruptcy proceeding. This Court finds DRT is judicially estopped from arguing that DRT alone has standing to pursue in this Court the ABC Taxes allegedly owed by the Debtor for time periods prior to enactment of the Whistleblower Statute.

3. Waiver.

This Court also finds DRT has waived it standing to pursue the ABC Taxes. Waiver occurs when a party intentionally relinquishes a known right.²¹ Here, DRT knew it had

²⁰ Zedner v. United States, 547 U.S. 489 (2006) citing New Hampshire v. Maine, 532 U.S. 742, 749, 121 S. Ct. 1808 (2001). See also United Steelworkers of America v. Retirement Income Plan For Hourly-Rated Employees of Asarco, Inc., 512 F.3d 555 (9th Cir. 2008);

²¹ Alocozy v. U.S. Citizenship & Immigration Servs., 704 F. 3d 795, 797 (9th Cir. 2012).

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the right to litigate the Qui Tam Action. DRT filed its intent to relinquish its standing to do so. DRT has waived its standing to now pursue the ABC Taxes in this Bankruptcy case.

4. <u>Equitable Estoppel.</u>

The 9th Circuit Court of Appeals tells us

[e]quitable estoppel applies if the party to be estopped knew the facts and intended for his conduct to be acted on, and if the party asserting estoppel was ignorant of the true facts and relied on the other party's conduct to her injury.²²

DRT knew the general facts alleged in the Qui Tam Action and intended that Ryan act upon DRT's decision to decline to intervene in the Qui Tam Action. Ryan relied upon DRT's declination and had no knowledge that DRT would years later arrive on the scene seeking to scoop the Qui Tam Action away from Ryan. Ryan would be injured should this Court acknowledge DRT has standing to pursue the ABC Taxes in these Bankruptcy proceedings. DRT is barred by principles of equitable estoppel from asserting standing to pursue in this Bankruptcy Court the ABC Taxes allegedly owed by Debtor.

Principles of judicial estoppel, equitable estoppel and waiver alone constitute grounds for this Court to deny DRT standing to pursue the ABC taxes. However, there are additional grounds upon which the Court finds support for its Order.

5. Ryan Has Effectively Been Irrevocably Appointed as DRT's Quasi-

Guam's Whistleblower Statute empowers a whistleblower to effectively serve as Guam's quasi-agent to pursue Guam's claims. When Guam decides to not itself prosecute those claims, the quasi-agent/whistleblower is granted irrevocable standing to act as Guam's quasi-agent. The irrevocable nature of this quasi-agency appointment is found in the fact that DRT is barred from now intervening in the Qui Tam Action. This Court cannot and will not disturb that quasi-agency appointment conferred upon Ryan by the

²² Wong v. Flynn-Kerper, 999 F. 3d 1205 (9th Cir. 2021).

Whistleblower Statute and by Guam's consent to permit Ryan to continue in that capacity.

C. The Whistleblower Statute's Definition of "Claim" Permits Ryan's Pursuit of Events Which Pre-Date the Whistleblower Statute.

Guam's Whistleblower Statute permits individuals like Ryan to pursue claims on behalf of DRT where DRT is not otherwise doing so. The very first thing the Whistleblower Statute does is define the term "claim." It does so as follows:

- 1(a) the term 'claim'
- (1) means any request or demand, whether under a contract or otherwise, for money or property and whether or not the government of Guam has title to the money or property, that:
- (A) is presented to an officer, employee, or agent of the government of Guam; or
- (B) is made to a contractor, grantee, or other recipient, if the money or property is to be spent or used on the government of Guam's behalf or to advance a government of Guam program or interest, and if the government of Guam:
- (i) provides or has provided any portion of the money or property requested or demanded; or
- (ii) will reimburse such contractor, grantee, or other recipient for any portion of the money or property which is requested or demanded; and
- (2) does not include requests or demands for money or property that the government of Guam has paid to an individual as compensation for employment or as an income subsidy with no restrictions on that individual's use of the money or property;²³

Nowhere in the definition of "claim" does the Whistleblower Statute intimate that there is a time limitation or parameter to a "claim." This is not surprising because, in enacting the Whistleblower Statute, Guam sought to increase its revenues by encouraging whistleblowers to pursue monies owed to Guam where Guam itself was not otherwise

²³ 5 G.C.A. § 37101.

pursuing amounts owed to it. If a whistleblower could only pursue claims that arose after the enactment of this Statute, Guam would conceivably lose out on significant recoveries that whistleblowers might realize for Guam. The Whistleblower Statute's definition of "claim" and the policy behind that law supports this Court's interpretation of that law.²⁴ If Guam did not wish to reach back in time to enable a whistleblower to recover claims that arose prior to enactment of the Whistleblower Statute, Guam's legislature could easily have expressed this intent in the definition of "claims." It did not and this Court will not do so by re-writing the Whistleblower Statute's definition of "claim."

D. Concerns of Retroactive Application of the Whistleblower Statute Are Not Present in this Matter.

Guam's stated rule that legislation must not be applied retroactively (unless explicitly stated by the legislation) is rooted in good policy. Where a new cause of action or directive is created by the legislature it would be unjust to capture actions that were legal, permissible and unactionable prior to enactment of the new law. For example, if a new law were enacted to provide a cause of action to a basketball referee should a player, coach or fan complain about the referee's call or failure to make a call, years of unruly player, coach and fan behavior would suddenly (and surprisingly) become actionable. A new law may seek to modify future behavior of players, coaches, and fans but what transpired before enactment could not and should not be corrected by new legislation. That bell had been rung and cannot be unrung. Retroactive application of that new law would be unjust.

Here, however, it was always impermissible for the Debtor to file false tax returns with DRT. No new liability was placed on the Debtor's shoulders when Guam's legislature passed the 2018 Whistleblower Statute. The new statute enabled whistleblowers to pursue those claims which Guam itself had not pursued. Guam itself

²⁴ Nobody has suggested to this Court that any of the ABC Taxes cannot be pursued because of an applicable statute of limitations. This Order does not suggest that there is no statute of limitations that may be pertinent to the ABC Taxes.

was the beneficiary of the Whistleblower Statute but a whistleblower's target (the Debtor) did not suffer a new regulation on its activity or a new harm or burden because of this new law. A significant basis for applying a new law only prospectively is not present in the Qui Tam Action because nothing about the Whistleblower Statute is designed to capture lawful activity that occurred prior to the enactment of this statute. There is no prejudice to the Debtor where Ryan is conferred standing by the Whistleblower Statute to pursue preenactment wrongful conduct by the Debtor. The Whistleblower Statute empowered a new plaintiff but not a new cause of action. This statute is a procedural device, not a new substantive claim. Importantly (and unlike in the *Rodriguez* Case), the defendant in the Qui Tam Action (Debtor) is not complaining about Ryan's pursuit of the ABC Taxes. The Debtor presumably knows it has some liability for some portion of the ABC Taxes but wants to fight (or negotiate) with only one plaintiff.

V. ORDER

Based on the foregoing, the Court finds Ryan alone has standing in this Court to pursue the ABC Taxes against Debtor. DRT has no standing to pursue such claims in this Court. DRT's claim #7 is hereby denied.

DATED: August 22, 2022.

DANIEL P. COLLINS
U.S. Bankruptcy Judge

EXHIBIT A



SUPLIFIED COURT

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CLERA ME COURT

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Date: 622 Time: 621 By:

IN THE SUPERIOR COURT OF GUAM TERRITORY, GUAM

TERRITORY OF GUAM EX REL JOHN RYAN,) Civil Case No. CV1278-19			
Plaintiff-Relator,	GOVERNMENT OF GUAM'S NOTIFICATION OF DECLINATION TO INTERVENE; REQUEST FOR			
TITAN IMPORTS, INC., JOHN DOES 1-4,	SERVICE OF PLEADINGS			
Defendants.))			

COMES NOW the GOVERNMENT OF GUAM, pursuant to 5 GCA § 37202(d)(2), to notify the Court that the GOVERNMENT OF GUAM hereby declines to intervene in the above-captioned action. Further, pursuant to 5 GCA § 37203(c)(1), the GOVERNMENT OF GUAM hereby requests service of copies of all pleadings and papers filed in the above-captioned action to be perfected upon the Office of the Attorney General of Guam. Additionally per 5 GCA § 37203(c)(1), the GOVERNMENT OF GUAM hereby requests that it be notified of and afforded

the opportunity to elect to be supplied with copies of any and all deposition transcripts in the abovecaptioned action, to be delivered to the Office of the Attorney General of Guam at the expense of the Government of Guam if the Office of the Attorney General of Guam so elects to be supplied with said copies.

Dated this 3rd day of January, 2020.

OFFICE OF THE ATTORNEY GENERAL

Leevin Taitano Camacho, Attorney General

By:

JAMES L. CANTO II

Deputy Attorney General

EXHIBIT B

2022 AUG -3 PM 3: 25

CLERK OF COURT

IN THE SUPERIOR COURT OF GUAM

Superior Court Case No. CV0298-21

GOVERNMENT OF GUAM BY GUAM HOUSING AND URBAN RENEWAL AUTHORITY, A Public Body Corporate and Politic

Plaintiff,

VS.

NOTICE OF RESCHEDULED HEARING

ANTOINETTE S. RODRIGUEZ

Defendant.

RUSH

To: McDonald Law Office, LLC Blair Sterling Johnson & Martinez

You are hereby notified that the above-captioned case is scheduled before the Honorable Dana A. Gutierrez, by remote appearance on:

TIME:

DATE:

PURPOSE OF HEARING:

2:00 p.m.

August 31, 2022

Motion for Reconsideration of the Court's Order Dismissing Counts Alleging False Claims

REMARKS: The August 9, 2022 Motion Hearing has been rescheduled to the above date due to an expedited Petition for Habeas Corpus.

See below for Zoom information. **

Date: August 3, 2022

SERVICE VI. I acknowledge that an elect-

copy of the original was e-mailed to

Joseph Bamba, Jr.

Deputy Clerk, Superior Court of Guam

DANIELLE T. ROSETE

Clerk of Court, Superior Court of Guam

By:

Pauline I. Untalan

Courtroom/Chamber Clerk

**To appear, go to https://guamcourts-org.zoom.us; enter the Meeting ID: 839 7874 0380 and Passcode: 189701. For technical assistance, you may call into the courtroom at 671-475-3207, at least five minutes prior to the designated hearing time.