

The Virgin Islands Consortium

Firms Involved In Prosser-Innovative Bankruptcies Made Over \$405 Million, Fail To Pay Taxes

Business / **Published On January 21, 2015 02:50 PM /**

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When Jeffery Prosser, the former owner of then-Innovative Communications Corporation (ICC), lost the company in bankruptcy to Rural Telephone Finance Cooperative (RTFC) in 2008, a number of firms and persons connected with the bankruptcy proceedings received millions of dollars for their work. However, these parties, eight in total, have not paid taxes owed to the Government of the Virgin Islands.

Court documents obtained by *VI Consortium* revealed the names and earnings of the companies and persons involved in the bankruptcy process, with parties receiving payments ranging from \$500,000 to \$312 million. They are:

- Rural Telephone Finance Cooperative - \$312 million
- Vinson & Elkins - \$28 million
- Greenlight – \$27.5 million
- Alvarez and Marsal - \$17 million
- Fox Rothschild - \$8 million
- Stan Springel - \$2.5 million
- Christies Auction House - \$1.5 million
- James P. Carroll - \$500,000

RTFC is a firm that provides loans to telephone companies. Innovative and RTFC had a longstanding relationship dating back to 1999. The \$312 million RTFC received from Innovative from 1999 to 2007 was accrued on interest.

According to court documents, James P. Carroll, the Chapter 7 trustee of ICC, was paid for selling Prosser's assets. A percentage of the sales would go directly to Carroll every time assets were sold; the Fox Rothschild law firm provided legal services to the bankruptcy estates of Prosser; RTFC paid New York-based Greenlight to become its



Inside the Innovative building on St. Croix

Christies Auction House, also based in New York, was hired to sell the property of the estates, including furniture, jewelry and other items. Stan Springel was the Chapter 11 trustee; Vinson & Elkins provided legal services to Springel, and Alvarez & Marsal was the consulting/accounting firm hired by Springel to perform accounting work on the bankruptcies.

Court documents show that the parties were paid a combined total of more than \$405 million issued in U.S. Virgin Islands checks from either VITELCO or ICC. Local gross receipt taxes are at 5 percent, while corporate income tax at this level would be 35 percent with a 10 percent surcharge.

Without accounting for interest and other taxes, the government's coffers could gain \$175 million if the owed taxes are paid. Even if there were to be a settlement between the government and the parties involved, where half of the monies owed the government were to be paid, the government would still be due \$87.5 million.

Two whistle blowers filed suit with the Virgin Islands Bureau of Internal Revenue (BIR) and the Internal Revenue Service (IRS) against the companies on June 10, 2013--over a year and a half ago--however, although the BIR has been moving on the case, it has been slow in taking action against the parties involved. The IRS interests are with issues of failure to file and non-payment of taxes.

Government Budget Deficits

Former Governor John P. de Jongh, Jr., in June of 2014, proposed legislation that would authorize the V.I. Public Finance Authority to issue more than \$100 million in new bond debt to aid in plugging a then \$30 million budget shortfall, pay utility bills and fix roads, among other pressing initiatives.

These budget issues, which have been ongoing before 2011, ballooned after HOVENSA's closure in early 2012. The effects of the closure have been felt throughout the territory, as other businesses linked to the refinery, either directly or indirectly, also shuttered.

That, coupled with the high prices of fuel only exacerbated the problem, as families were forced to cut back on leisure spending, causing other sectors of the economy to also feel the pinch.

On July 5, 2011, de Jongh signed the Virgin Islands Economic Stability Act of 2011, which cut the salaries of all government employees by 8 percent. The bill was the 29th Legislature's response to threats made by de Jongh to layoff 600 government employees in order to close a \$17.4 million budget shortfall for Fiscal Year 2011.

The 8 percent salary cut was restored two years after it was initiated, in line with a clause in the legislation. According to the law, the pay cut was to be fully restored by July 2013.

The complete breakdown of payments received by the firms and persons involved in the Prosser-Innovative bankruptcy cases can be seen [here](#). ICC interest payments to RTFC are [here](#), and other related documents can be viewed [here](#), [here](#) and [here](#).

Innovative is now owned by RTFC after the company gained ownership of the local telecommunications giant during the bankruptcy bidding process in 2008, which RTFC won. RTFC was the main financial backer of Innovative, providing a stream of cash to the business for its other companies that were spread across the Caribbean, including firms in Guadeloupe, Martinique, St. Marten and the BVI, as well as in Belize and France.