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OF THE NINTH CIRCUIT

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UNITED STATES BANKRUPTCY APPELLATE PANEL
OF THE NINTH CIRCUIT

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In re:)	BAP No. CC-11-1008-DMkKi
)	
GEORGES MARCIANO,)	Bk. No. SV 11-10426-VK
)	
Debtor.)	
_____)	
)	
GEORGES MARCIANO,)	
)	
Appellant,)	
)	
v.)	
)	
JOSEPH FAHS, STEVEN CHAPNICK,)	O P I N I O N
and ELIZABETH TAGLE,)	
)	
Appellees.)	
_____)	

Argued and Submitted on June 17, 2011
at Pasadena, California

Filed - September 15, 2011

Appeal from the United States Bankruptcy Court
for the Central District of California

Hon. Victoria Kaufman, Bankruptcy Judge, Presiding.

Appearances: Daniel J. McCarthy for the Appellant. Bradley E.
Brook for the Appellees.

Before: DUNN, MARKELL, and KIRSCHER, Bankruptcy Judges.

1 DUNN, Bankruptcy Judge:

2
3 The bankruptcy court adopted a per se rule that, even though
4 they were on appeal, unstayed California judgments entered against
5 the alleged debtor following terminating sanctions for discovery
6 abuses in state court litigation constituted claims that were not
7 subject to bona fide dispute for purposes of entering an order for
8 relief under § 303.¹ Accordingly, the judgment creditors were not
9 precluded from filing an involuntary bankruptcy petition against the
10 judgment debtor. Further, the bankruptcy court declined to stay the
11 proceedings on the involuntary chapter 11 petition pursuant to
12 § 305(a) pending resolution of the alleged debtor's state court
13 appeals. We AFFIRM.

14 I. SUMMARY OF FACTS²

15 Vanderbilt once telegraphed to some double crossing
16 partners: "Gentlemen you have undertaken to cheat me. I
17 will not sue you, for the law takes too long. I will ruin
18 you." He did.³

19 ¹ Unless otherwise specified, all chapter and section
20 references are to the Bankruptcy Code, 11 U.S.C. §§ 101-1532, and
21 all "Rule" references are to the Federal Rules of Bankruptcy
22 Procedure, Rules 1001-9037. The Federal Rules of Civil Procedure
23 are referred to as "Civil Rules."

24 ² The underlying facts relating to the state court litigation
25 are set out in detail in the bankruptcy court's published opinion:
26 In re Marciano, 446 B.R. 407 (Bankr. C.D. Cal. 2010). We have
limited the facts in this section to an outline of the proceedings
before the bankruptcy court. We include a more complete development
of further facts as relevant in the Discussion section of this
Opinion.

³ Order Determining Liability Issues on the Complaint of
(continued...)

1 On August 24, 2006, Georges Marciano sent an e-mail
2 which included the above language to his accountant and other
3 long-term employees. This e-mail was the opening salvo in a
4 course of conduct that ultimately led to the entry of six
5 California state court judgments against Mr. Marciano in the
6 aggregate amount of \$260.3 million for libel, defamation, and
7 intentional infliction of emotional distress.

8 The judgments were entered after the state court entered
9 terminating sanctions against Mr. Marciano following repeated
10 violations of the discovery process, which the trial court
11 characterized as "demonstrating a consistent pattern of
12 discovery abuses. . . ." The terminating sanctions dismissed
13 Mr. Marciano's claims against the judgment creditors and struck
14 his answers to their cross claims.

15 Mr. Marciano appealed all six judgments, but he could
16 not afford to post a bond to stay the judgments pending the
17 appeals, and his requests for a stay pending appeal were denied
18 by the trial court and by the state Court of Appeal. As a
19 result, the judgment creditors initiated various collection
20 efforts. On July 31, 2009, two judgment creditors, Camille
21 Abat and Miriam Choi, obtained an order for Mr. Marciano's
22 judgment debtor examination. Under California law, service of
23 the order created a lien on Mr. Marciano's assets. See C.C.P.
24 § 708.110(d).

25
26 ³(...continued)
Plaintiffs Gary Iskowitz, Carolyn Malkus, and Theresa Iskowitz
Against Defendant Georges Marciano at 2:17-19.

1 On October 27, 2009, 88 days after the creation of this
2 lien, judgment creditors Joseph Fahs, Steven Chapnick and
3 Elizabeth Tagle (collectively, the "Petitioning Creditors")
4 filed an involuntary Chapter 11 petition ("Involuntary
5 Petition") in accordance with § 303 for the purpose of
6 preserving the right to avoid this lien pursuant to § 547 in
7 order to allow all judgment creditors to participate equally in
8 any distribution of Mr. Marciano's assets. Mr. Marciano
9 rejects the notion that in filing the Involuntary Petition, the
10 Petitioning Creditors were acting other than in bad faith.

11 Rather than file an answer, Mr. Marciano invoked the
12 procedure available to him under Civil Rule 12(b), applicable
13 pursuant to Rule 1011(b), and filed a motion to dismiss the
14 Involuntary Petition ("First Dismissal Motion"). In the First
15 Dismissal Motion, Mr. Marciano asserted that he had not been
16 properly served with the summons and Involuntary Petition;
17 alternatively, he sought to have the summons quashed. He also
18 asserted in the First Dismissal Motion that the Involuntary
19 Petition was facially unconstitutional where it had been filed
20 to initiate a Chapter 11 case against an individual. The
21 bankruptcy court issued its oral ruling denying the First
22 Dismissal Motion at its hearing held on January 13, 2010
23 ("January 13 Hearing"). The order denying the First Dismissal
24 Motion was entered May 28, 2010.

25 Although Mr. Marciano filed his answer to the
26 Involuntary Petition on February 1, 2010, adjudication of the

1 Involuntary Petition moved slowly. Following a status hearing
2 on April 8, 2010, the bankruptcy court entered a scheduling
3 order ("Scheduling Order"), which identified the agreed facts
4 relating to adjudication of the Involuntary Petition pursuant
5 to § 303, and which invited the filing of a motion for summary
6 judgment on those agreed facts.

7 Thereafter, a dispute arose regarding whether
8 Mr. Marciano should be allowed to proceed with discovery, inter
9 alia, on the issue of whether the Petitioning Creditors' filing
10 of the Involuntary Petition constituted "bad faith." In the
11 course of resolving the dispute, the bankruptcy court entered
12 an order ("Marciano Sanctions Order") which denied
13 Mr. Marciano's request that terminating sanctions be entered
14 against the Petitioning Creditors based upon their alleged
15 failures to respond to his discovery requests. The bankruptcy
16 court also entered a protective order ("Protective Order"),
17 which deferred discovery until after the determination of
18 whether it was appropriate to enter an order for relief in the
19 case.

20 On April 26, 2010, Mr. Marciano filed a motion to
21 dismiss or suspend the proceedings pursuant to § 305(a)
22 ("Second Dismissal Motion"), which the bankruptcy court denied
23 by its order entered July 2, 2010. The bankruptcy court also
24 denied two motions filed by Mr. Marciano in which he requested
25 that the bankruptcy court reconsider its denial of a "stay"
26 under § 305(a) until the state court appeals had been resolved.

1 Ultimately, on July 14, 2010, the Petitioning Creditors
2 filed their motion for summary judgment ("Summary Judgment
3 Motion"), seeking a determination from the bankruptcy court
4 that they were entitled to entry of an order for relief on the
5 Involuntary Petition pursuant to § 303. In response, Mr.
6 Marciano filed his cross-motion for summary judgment ("Summary
7 Judgment Cross-Motion"). On December 28, 2010, the bankruptcy
8 court entered its order ("Summary Judgment Order"), granting
9 the Summary Judgment Motion and denying the Summary Judgment
10 Cross-Motion, and an order for relief ("Order for Relief") in
11 the case.

12 Mr. Marciano promptly filed his notice of appeal. He
13 also requested reconsideration of the bankruptcy court's
14 Summary Judgment Order, which the bankruptcy court denied
15 without a hearing. In addition, Mr. Marciano filed an
16 application for a temporary stay of the Order for Relief, and
17 an emergency motion for a temporary stay and for a stay pending
18 appeal. The bankruptcy court entered a 30-day temporary stay
19 of the Chapter 11 case to allow Mr. Marciano to seek a stay
20 pending appeal from this Panel ("Temporary Stay Order").

21 Our motions panel denied Mr. Marciano's motion for stay
22 pending appeal; the Ninth Circuit thereafter dismissed
23 Mr. Marciano's appeal of our order denying the stay pending
24 appeal.

25 The following ten orders of the bankruptcy court are
26 included in this appeal:

1 4. Whether the bankruptcy court abused its discretion
2 when it denied the Second Dismissal Motion and the related
3 motions for reconsideration.

4 5. Whether the bankruptcy court erred when it granted
5 the Summary Judgment Motion.

6 6. Whether the bankruptcy court erred when it adopted a
7 per se rule that the unstayed judgments held by the Petitioning
8 Creditors were not subject to bona fide dispute.

9 7. Whether the bankruptcy court erred when it entered
10 the Order for Relief.

11 8. Whether the bankruptcy court abused its discretion
12 when it denied a stay of the Chapter 11 proceedings while the
13 Order for Relief was on appeal.

14 IV. STANDARDS OF REVIEW

15 A. General Standards of Review.

16 De novo means review is independent, with no deference
17 given to the trial court's conclusion. See First Ave. West
18 Bldg., LLC v. James (In re Onecast Media, Inc.), 439 F.3d 558,
19 561 (9th Cir. 2006).

20 We apply a two-part test to determine whether the
21 bankruptcy court abused its discretion. United States v.
22 Hinkson, 585 F.3d 1247, 1261-62 (9th Cir. 2009). First, we
23 consider de novo whether the bankruptcy court applied the
24 correct legal standard to the relief requested. Id. Then, we
25 review the bankruptcy court's fact findings for clear error.
26 Id. at 1262 & n.20. We must affirm the bankruptcy court's fact

1 findings unless we conclude that they are "(1) 'illogical,' (2)
2 'implausible,' or (3) without 'support in inferences that may
3 be drawn from the facts in the record.'" Id.

4 We may affirm the bankruptcy court's ruling on any basis
5 supported by the record. See, e.g., Heilman v. Heilman (In re
6 Heilman), 430 B.R. 213, 216 (9th Cir. BAP 2010); FDIC v.
7 Kipperman (In re Commercial Money Center, Inc.), 392 B.R. 814,
8 826-27 (9th Cir. BAP 2008); see also McSherry v. City of Long
9 Beach, 584 F.3d 1129, 1135 (9th Cir. 2009).

10 B. Standards of Review Relating to the First Dismissal
11 Motion.

12 The existence of the bankruptcy court's jurisdiction is
13 a question of law subject to de novo review. See Reebok Int'l,
14 Ltd. v. Marnatech Enters., 970 F.2d 552, 554 (9th Cir. 1992).
15 "We review de novo the determination that service of process
16 was sufficient." Rubin v. Pringle (In re Focus Media, Inc.),
17 387 F.3d 1077, 1081 (9th Cir. 2004).

18 Ripeness is a question of law reviewed de novo. See
19 Chang v. United States, 327 F.3d 911, 921 (9th Cir. 2003);
20 Nat'l Audubon Soc'y, Inc. v. Davis, 307 F.3d 835, 849 (9th
21 Cir.), amended by 312 F.3d 416 (9th Cir. 2002).

22 C. Standards of Review Relating to the Discovery Orders on
23 Appeal.

24 "We owe substantial deference to the bankruptcy court's
25 interpretation of its own orders and will not overturn that
26 interpretation unless we are convinced that it amounts to an

1 abuse of discretion.” Illinois Inv. Trust No. 92-7163 v.
2 Allied Waste Indus., Inc. (In re Resource Tech. Corp.), 624
3 F.3d 376, 386 (7th Cir. 2010); see also Bass v. First Pacific
4 Networks, Inc., 79 F.3d 1152 at *1 n.1 (9th Cir. 1996)
5 (unpublished decision); Rogers v. Alaska Steamship Co., 290
6 F.2d 116, 123 (1961).

7 We review the refusal to impose discovery sanctions for
8 an abuse of discretion. See Avery Dennison Corp. v. Allendale
9 Mut. Ins. Co., 310 F.3d 1114, 1117 (9th Cir. 2002).

10 We review the bankruptcy court’s refusal to permit
11 further discovery before ruling on a summary judgment motion
12 for an abuse of discretion. Mackey v. Pioneer Nat’l Bank, 867
13 F.2d 520, 523 (9th Cir. 1989); see also Higgins v. Vortex
14 Fishing Sys., Inc., 379 F.3d 701, 705 (9th Cir. 2004). We
15 review the bankruptcy court’s decision whether to grant a
16 protective order for an abuse of discretion. See Foltz v.
17 State Farm Mut. Auto. Ins. Co., 331 F.3d 1122, 1130 (9th Cir.
18 2003).

19 D. Standards of Review Relating to the Second Dismissal
20 Order.

21 We review issues of federal statutory construction,
22 including interpretation of provisions of the Bankruptcy Code,
23 de novo. Einstein/Noah Bagel Corp. v. Smith (In re BCE W.,
24 L.P.), 319 F.3d 1166, 1170 (9th Cir. 2003); Greenpoint Mortgage
25 Funding, Inc. v. Herrera (In re Herrera), 422 B.R. 698, 709
26 (9th Cir. BAP 2010).

1 A bankruptcy court's decision to deny a motion for
2 additional findings, reconsideration or an amended order or
3 judgment is reviewed for abuse of discretion. Weiner v. Perry,
4 Settles & Lawson, Inc. (In re Weiner), 161 F.3d 1216, 1217 (9th
5 Cir. 1998); Hopkins v. Cerchione (In re Cerchione), 414 B.R.
6 540, 545 (9th Cir. BAP 2009).

7 E. Standards of Review Relating to the Summary Judgment
8 Order and the Order for Relief

9 Whether there is a "bona fide dispute" for the purposes
10 of § 303 is a question of fact reviewed for clear error.

11 Liberty Tool & Mfg. v. Vortex Fishing Systems, Inc. (In re
12 Vortex Fishing Systems, Inc.), 277 F.3d 1057, 1064 (9th Cir.
13 2002). However "[f]indings of fact made in summary judgment
14 proceedings are not entitled to the 'clearly erroneous'
15 standard of review because the trial court has not weighed the
16 evidence in the conventional sense." C.H. Rider & Family v.
17 Wyle (In re United Energy Corp.), 102 B.R. 757, 760 (9th Cir.
18 BAP 1989), 51 B.R. 591, 594-95 (9th Cir. BAP 1985)). Rather,
19 the reviewing court must stand in the same position as the
20 court below and apply the standards set forth in Civil Rule
21 56(c). Thus, we review de novo a bankruptcy court's decision
22 to grant summary judgment. Wood v. Stratos Product Dev. (In re
23 Ahaza Sys., Inc.), 482 F.3d 1118, 1123 (9th Cir. 2007) (stating
24 that both the Court of Appeals and the BAP apply de novo review
25 to a bankruptcy court's grant of summary judgment).
26 Accordingly, when the determination that there is no bona fide

1 dispute for purposes of § 303 is made in the context of a
2 summary judgment analysis, our review is de novo rather than
3 applying a clearly erroneous standard. In the context of
4 determining whether there is a bona fide dispute for purposes
5 of § 303, “[a] bankruptcy court is not asked to evaluate the
6 potential outcome of a dispute, but merely to determine whether
7 there are facts that give rise to a legitimate disagreement
8 over whether money is owed, or, in certain cases, how much.”
9 Vortex Fishing, 277 F.3d at 1064.

10 We review a bankruptcy court’s interpretation of state
11 law de novo. Rabkin v. Ore. Health Sciences Univ., 350 F.3d
12 967, 970 (9th Cir. 2003).

13 V. DISCUSSION

14 A. Ten Orders, One Appeal.

15 Generally, “a party is entitled to a single appeal, to
16 be deferred until final judgment has been entered, in which
17 claims of [trial court] error at any stage of the litigation
18 may be ventilated.” Digital Equip. Corp. v. Desktop Direct,
19 Inc., 511 U.S. 863, 868 (1994). An “order for relief” is such
20 a final judgment or order. Accordingly, the appeal is timely
21 as to each of the orders on appeal that were entered prior to
22 entry of the Order for Relief.

23 B. The Bankruptcy Court Properly Exercised Jurisdiction 24 Over Mr. Marciano and the Involuntary Petition.

25 This appeal is all about delay. The Involuntary
26 Petition was filed on October 27, 2009, and the Order for

1 Relief was not entered until December 28, 2010.

2 Section 303(b) establishes the procedure for commencing
3 an involuntary bankruptcy case. As relevant to this appeal,
4 § 303(b) provides:

5 An involuntary case against a person is commenced by
6 the filing with the bankruptcy court of a petition
under chapter 7 or 11 of this title -

7 (1) by three or more entities, each of
8 which is either a holder of a claim against
9 such person that is not contingent as to
10 liability or the subject of a bona fide
11 dispute as to liability or amount . . . if such
noncontingent, undisputed claims aggregate at
least \$13,475 more than the value of any lien on
property of the debtor securing such claims held
by the holders of such claims

12 Rule 1010 provides:

13 On the filing of an involuntary petition . . . , the
14 clerk shall forthwith issue a summons for service.
15 When an involuntary petition is filed, service shall be
16 made on the debtor. . . . **The summons shall be served
with a copy of the petition in the manner provided for
service of a summons and complaint by Rule 7004(a) or
(b).** If service cannot be so made, the court may order
17 that the summons and petition be served by mailing
18 copies to the party's last known address, and by at
19 least one publication in a manner and form directed by
the court. The summons and petition may be served on
the party anywhere. Rule 7004(e) and [Civil Rule 4(1)]
apply when service is made or attempted under this
rule.

20
21 (Emphasis added.)

22 Rule 7004(a)(1) makes applicable Civil Rule 4(c)(1), which
23 requires that the summons be served with the Involuntary Petition.
24 Rule 7004(b)(1) authorizes service of the summons and Involuntary
25 Petition by first class mail:

26 Upon an individual other than an infant or incompetent,
by mailing a copy of the summons and [involuntary

1 petition] to the individual's dwelling house or usual
2 place of abode or to the place where the individual
regularly conducts a business or profession.

3 Rule 7004(f) provides:

4 If the exercise of jurisdiction is consistent with the
5 Constitution and laws of the United States, serving a
6 summons . . . in accordance with this rule or the
7 subdivisions of [Civil Rule 4] made applicable by these
8 rules is effective to establish personal jurisdiction
over the person of any [involuntary debtor] with
respect to a case under the Code or a civil proceeding
arising under the Code, or arising in or related to a
case under the Code.

9 Under Rule 7004(f), the bankruptcy court had personal jurisdiction
10 over Mr. Marciano if three requirements were met:

11 (1) service of process has been made in accordance with
12 [] Rule 7004 or Civil Rule 4; (2) the court has subject
13 matter jurisdiction under section 1334 of the Code; and
(3) exercise of jurisdiction is consistent with the
Constitution and laws of the United States.

14 10 COLLIER ON BANKRUPTCY ¶ 7004.07 (Alan N. Resnick & Henry J.
15 Sommer, eds., 16th ed. 2010), citing In re Tipton, 257 B.R. 865, 870
16 (Bankr. E.D. Tenn. 2000).

17 1. The Petitioning Creditors Properly Served Mr. Marciano In
18 Accordance With Rule 7004(b)(1).

19 As his first issue on appeal, Mr. Marciano asserts that the
20 bankruptcy court erred when it failed to dismiss the Involuntary
21 Petition based upon defective service. Under the facts of this
22 case, we agree with the bankruptcy court that service of the summons
23 and Involuntary Petition was sufficient to create personal
24 jurisdiction over Mr. Marciano for purposes of adjudicating the
25 Involuntary Petition.

26 On October 31, 2009, the Petitioning Creditors served the

1 Involuntary Petition and summons on Mr. Marciano by U.S. Mail at two
2 addresses: 1000 N. Crescent Drive in Beverly Hills ("Beverly Hills
3 Address"), and 2121 Avenue of the Stars, 24th Floor, in Los Angeles
4 ("Los Angeles Address"). In his First Dismissal Motion, Mr.
5 Marciano asserted that the Involuntary Petition should be dismissed
6 because he had not been properly served with the Involuntary
7 Petition and summons.⁴ He supported the First Dismissal Motion with
8 a declaration, in which he averred that the Beverly Hills Address
9 was his residential address until August 2009, but since that time,
10 he had left California and had not returned; since early September
11 2009 he had been outside of the United States continuously; and as

13 ⁴ Notwithstanding Mr. Marciano's vigorous and sustained
14 efforts to contest the involuntary bankruptcy proceedings, his first
15 action after the filing of the Involuntary Petition, taken even
16 before service of the Involuntary Petition and summons, was to file
in the State Court Litigation a "Notice of Automatic Stay," which is
set forth below in its entirety:

17 PLEASE TAKE NOTICE that all actions against Georges
18 Marciano in the above-captioned action, including any
19 efforts to collect upon the judgments entered against
20 Georges Marciano in the matters scheduled for hearing
and the examinations scheduled for November 17 and 23,
2009, and for December 7 and 9, 2009, before this
21 Court, are stayed in their entirety based upon the
automatic stay that was effectuated under 11 U.S.C.
22 § 362(a)(1) pursuant to an involuntary Chapter 11
petition that was filed against defendant Georges
23 Marciano in the United States Bankruptcy Court, Central
24 District of California, Los Angeles Division, on
October 27, 2009, commencing case no. 2:09-bk-39630-VK.
25 A true and correct copy of the involuntary petition is
attached hereto as Exhibit A.
26

1 of the date of the declaration, November 19, 2009, he had not
2 reentered the United States. He further averred that the Los
3 Angeles Address is the address of the law firm of Browne, Woods &
4 George, "which is and has been my counsel in the [state court
5 litigation]." He declared that the use of the Los Angeles Address
6 as his address on pleadings filed "in pro per" in the state court
7 litigation was done fraudulently and without his knowledge, that he
8 had never regularly conducted any of his own business activities at
9 the Los Angeles Address, and that he does not receive mail at the
10 Los Angeles Address. See Declaration of Georges Marciano, dated
11 November 19, 2009.

12 The bankruptcy court, noting that Mr. Marciano had not been
13 subject to any cross examination, was not present at the court
14 hearing on the First Dismissal Motion, and had not filed "one piece
15 of paper that indicates tangibly that he moved out" of the Beverly
16 Hills Address, determined that Mr. Marciano's declaration was not
17 sufficient to establish that the Beverly Hills Address was not his
18 dwelling house or usual place of abode. Tr. of Jan. 13, 2010 H'ring
19 at 34:14-24. Relying on the analysis of the court in Garcia v.
20 Cantu, 363 B.R. 503, 511-15 (Bankr. W.D. Tex. 2006), the bankruptcy
21 court found that Mr. Marciano had presented no evidence that he had
22 abandoned the Beverly Hills Address as his residence. Id. at 36:6-
23 12. We agree.

24 We also find persuasive the discussion in Garcia v. Cantu of
25 the "Adverse Inference Rule." If Mr. Marciano had actual
26 documentary evidence that he had abandoned the Beverly Hills Address

1 as his dwelling place or usual place of abode, he should have
2 provided it. Instead, Mr. Marciano prepared a self-serving
3 declaration in which he coyly avoided any disclosure of the
4 proximate, let alone exact, location of his alleged new residence.
5 The bankruptcy court was allowed to draw the inference that
6 documentary evidence of Mr. Marciano's current residence would have
7 harmed his assertion that the Beverly Hills Address was not his
8 dwelling place or usual place of abode for purposes of service under
9 Rule 7004(b)(1).

10 The bankruptcy court further determined that current filings
11 with the California Secretary of State evidence that Mr. Marciano
12 was regularly conducting business at the Beverly Hills Address,
13 where Mr. Marciano was listed as the agent for four separate
14 entities,⁵ and where his address set forth in those filings was the
15 Beverly Hills Address. Id. at 34:25-35:9. Finally, the bankruptcy
16 court found significant the fact that the website Mr. Marciano used
17 to promote his candidacy for the office of governor of the State of
18 California used the Beverly Hills Address as the address at which he
19 could be contacted.⁶ Id. at 37:1-9.

20 Based on these findings, the bankruptcy court properly
21 determined that service of the Involuntary Petition and summons on
22

23 ⁵ The relevant filings are included as Ex. 2 to the
24 Petitioning Creditors' request for judicial notice filed in support
of their opposition to the First Dismissal Motion.

25 ⁶ A copy of the relevant website text is included as Ex. 3 to
26 the Petitioning Creditors' request for judicial notice filed in
support of their opposition to the First Dismissal Motion.

1 Mr. Marciano was sufficient to preclude dismissal of the Involuntary
2 Petition for insufficiency of service. Id. at 34:25-35:9.

3 2. The Bankruptcy Court's Exercise of Jurisdiction In
4 Adjudicating the Involuntary Petition Was Consistent With
5 the Constitution

6 In addition to personal jurisdiction over Mr. Marciano, the
7 bankruptcy court had subject matter jurisdiction over the
8 involuntary proceedings pursuant to 28 U.S.C. § 1334(a), which
9 provides in relevant part: ". . . the district courts shall have
10 original and exclusive jurisdiction of all cases under title 11,"
11 and pursuant to 28 U.S.C. § 157(a), which provides that "[e]ach
12 district court may provide that any or all cases under title
13 11 . . . shall be referred to the bankruptcy judges for the
14 district." The District Court for the Central District of
15 California entered its order of reference on August 6, 1984. We
16 previously have held that "[a]n involuntary petition that is
17 sufficient on its face and which contains the essential allegations
18 invokes the subject matter jurisdiction of the bankruptcy court."
19 Wechsler v. Macke Int'l Trade, Inc. (In re Macke Int'l Trade, Inc.),
20 370 B.R. 236, 246 (9th Cir. BAP 2007), citing Bakonyi v. Boardroom
21 Info. Sys. (In re Quality Laser Works), 211 B.R. 936, 941 (9th Cir.
22 BAP 1997), aff'd mem., 165 F.3d 37 (9th Cir. 1998). "A petition on
23 Official Form No. 5 is regular on its face if the boxes next to the
24 preprinted essential allegations are checked and if the form is
25 otherwise correctly completed." In re Kidwell, 158 B.R. 203, 209
26 (Bankr. E.D. Cal. 1993).

Mr. Marciano has not suggested, either to the bankruptcy

1 court or on appeal, that the Involuntary Petition was not sufficient
2 on its face, with the consequence that the bankruptcy court lacked
3 subject matter jurisdiction. However, Mr. Marciano contends that
4 the bankruptcy court's exercise of jurisdiction over him in this
5 case is not consistent with the Constitution.

6 Specifically, Mr. Marciano asserts that the provisions of the
7 Bankruptcy Abuse Prevention and Consumer Protection Act of 2005
8 ("BAPCPA") which authorize the filing of an involuntary Chapter 11
9 petition against an individual debtor violate the Thirteenth
10 Amendment prohibition against involuntary servitude. Mr. Marciano
11 relies primarily on § 1115(a)(2), which includes in the definition
12 of property of the estate "earnings from services performed by the
13 debtor after the commencement of the case but before the case is
14 closed, dismissed, or converted to a case under chapter 7, 12, or
15 13, whichever occurs first;" § 1129(a)(15)(B), which requires that,
16 if the holder of an unsecured claim objects to confirmation of the
17 plan, "the value of the property to be distributed under the plan is
18 not less than the projected disposable income of the debtor" that
19 the debtor receives for a least five years; and § 1141(d)(5), which
20 precludes entry of a discharge until all payments due under the plan
21 have been completed.

22 The Petitioning Creditors responded that Mr. Marciano's own
23 declaration raised the factual possibility that he had no "earnings
24 from services performed by the debtor," which precluded
25 Mr. Marciano's facial constitutional challenge.

26 My income now and for many years primarily has been
derived from my personal efforts in investing in real

1 estate, securities, and collectibles, among other
2 things, although I believe that much of my income and
assets were stolen from me.

3 Supplemental Declaration of Georges Marciano in Support of First
4 Dismissal Motion. The Petitioning Creditors asserted that, at most,
5 Mr. Marciano could argue that the chapter 11 provisions relating to
6 commitment of post-petition earnings to creditors were
7 unconstitutional as applied. Until it was determined that an order
8 for relief would be entered in the case, Mr. Marciano's
9 constitutional challenge was premature.

10 The bankruptcy court agreed, stating that the time to
11 determine whether Mr. Marciano had "earnings from personal services"
12 that might constitute property of the estate was after an order for
13 relief was entered. Until then, § 303(f) authorized Mr. Marciano to
14 "continue to use, acquire, or dispose of property as if an
15 involuntary case had not been commenced." The bankruptcy court
16 ruled that unless and until an order for relief was entered in the
17 case, the constitutional issue raised by Mr. Marciano was not ripe.
18 The limited proceedings before the bankruptcy court required only a
19 determination as to whether the Petitioning Creditors satisfied
20 their burden of proof under § 303(b) such that entry of an order for
21 relief was appropriate. Tr. of Jan. 13, 2010 H'ring at 37:15-
22 40:25.

23 We find no error in the bankruptcy court's refusal to reach
24 the constitutional issue. "When challenging the constitutionality
25 of a statute, it is incumbent upon the challenger to show that in
26 its operation the statute is unconstitutional to him in his

1 situation.” 2A Statutes and Statutory Construction § 45:11 (7th ed.
2 2011). The provisions of Chapter 11 simply were not applicable to
3 Mr. Marciano at the time he raised the constitutional issues in the
4 First Motion to Dismiss, i.e., because no order for relief had been
5 entered. “Courts will not anticipate a constitutional issue in
6 advance of the necessity of deciding it, or accept constitutional
7 issues for adjudication when the controversy is ‘premature.’” 16
8 Am. Jur. 2d Constitutional Law § 118 (2010). Although the
9 discussion of the doctrine of constitutional avoidance set forth in
10 In re Clemente, 409 B.R. 288, 294-96 (Bankr. D.N.J. 2009), is
11 interesting, particularly where the constitutionality of
12 § 1115(a)(2) is raised, in the context of the First Motion to
13 Dismiss, the bankruptcy court correctly applied the doctrine of
14 ripeness. The ripeness doctrine “reflects the determination that
15 courts should decide only ‘a real, substantial controversy,’ not a
16 mere hypothetical question.” 13B Wright, Miller & Cooper Fed.
17 Practice & Proc. § 3532.2 (3d ed. 2008).

18 Because (1) Mr. Marciano was served in accordance with Rule
19 7004(b)(1), (2) the bankruptcy court had subject matter jurisdiction
20 to adjudicate the Involuntary Petition, and (3) the constitutional
21 issues raised by Mr. Marciano were not ripe, the bankruptcy court
22 could properly exercise personal jurisdiction over Mr. Marciano
23 pursuant to Rule 7004(f). Accordingly, the bankruptcy court did not
24 abuse its discretion when it denied the First Dismissal Motion.

25
26

1 C. The Bankruptcy Court Did Not Abuse Its Discretion When It
2 Limited Discovery Prior to Its Determination of Whether
3 Entry of An Order for Relief Was Appropriate

4 On February 1, 2010, after the bankruptcy court denied the
5 First Dismissal Motion, Mr. Marciano filed his answer, in which he
6 denied the essential allegations asserted in the Involuntary
7 Petition. His answer also contained affirmative defenses, including
8 insufficiency of process, lack of personal jurisdiction, and failure
9 to state a claim, and requested abstention. Finally, the answer
10 contained counterclaims pursuant to §§ 303(i)(1) and (2) for costs,
11 attorneys fees, damages proximately caused by the filing of the
12 Involuntary Petition, and punitive damages.

13 On April 8, 2010, the bankruptcy court held a status
14 conference with respect to the prosecution of the Involuntary
15 Petition, at which the bankruptcy court enunciated its views as to
16 the limited issues to be decided in its determination of whether it
17 was appropriate to enter an order for relief under § 303. The
18 bankruptcy court's scheduling order entered April 28, 2010
19 ("Scheduling Order"), set forth the schedule for further proceedings
20 on the Involuntary Petition, and defined the scope of those further
21 proceedings.

22 The Petitioning Creditors may file a Motion for Summary
23 Judgment (the "MSJ") regarding whether an order for relief
24 should be entered against [Mr. Marciano] in connection
25 with this involuntary proceeding. In bringing the MSJ,
26 the Petitioning Creditors may rely upon the following
27 facts which the parties have acknowledged to the Court are
28 undisputed:⁷ (1) judgments of the Los Angeles County

29 ⁷ "[T]here's no dispute as to the facts. The facts for this
30 (continued...)

1 Superior Court in an aggregate amount exceeding \$260
2 million have been entered against [Mr. Marciano] and in
3 favor of eight judgment creditors (the "Judgments"), of
4 which more than \$90 million is attributable to judgments
5 in favor of the Petitioning Creditors; (2) appeals are
6 pending with respect to the Judgments; (3) [Mr. Marciano]
7 is not paying the Judgments; and (4) except for the
8 automatic stay that arose upon the filing of the
9 involuntary petition, there was and is no stay in effect
10 preventing collection upon the Judgments. Based on these
11 undisputed facts, the MSJ will request that the Court
12 determine: (1) whether the Petitioning Creditors' claims,
13 each of which is based upon his or her own Los Angeles
14 Superior Court judgment against [Mr. Marciano], are
15 "subject to bona fide dispute as to liability or amount"
16 under 11 U.S.C. § 303(b) when Marciano has appealed each,
17 but was not voluntarily paying any of them nor was there a
18 stay in effect preventing collection upon any of them
19 prior to the automatic stay which arose when this
20 involuntary case was filed; and (2) whether [Mr. Marciano]
21 is generally not paying his debts as they become due
22 pursuant to 11 U.S.C. § 303(h) (1).

23 (Emphasis in original.)

24 Because Mr. Marciano believed that additional factual issues
25 might develop during the discovery process, the bankruptcy court
26 expressly provided in the Scheduling Order "[t]here is no stay of
any discovery which the parties may otherwise be entitled to
undertake," and advised the parties of dates the court anticipated
being available to resolve, by telephone, any discovery disputes the
parties might encounter prior to the continued status hearing
scheduled for June 3, 2010.

27 ⁷(...continued)
28 particular exercise are, yes, there are entered judgments, yes, they
29 are not stayed under state law, yes, Mr. Marciano is not paying
30 them. Let's decide whether on that basis, in and of itself, an
31 order for relief can be entered." Tr. of April 8, 2010 H'ring at
32 38:15-20.

1 Discovery disputes did in fact arise. On April 9, 2010,
2 Mr. Marciano noticed depositions for each of the Petitioning
3 Creditors, to take place April 19, April 22, and April 23, 2010. On
4 the same date, Mr. Marciano served document production requests and
5 interrogatories on the Petitioning Creditors, responses for which
6 were due by May 8, 2010. On April 14, 2010, the Petitioning
7 Creditors notified Mr. Marciano of their general opposition to the
8 discovery; on April 18, 2010, the Petitioning Creditors notified
9 Mr. Marciano of their objections to the noticed depositions.

10 In light of the discovery disputes that had developed, LBR
11 7026-1(c) imposed the requirement of filing with the bankruptcy
12 court a written stipulation of the dispute. LBR 7026-(1)(c)
13 provides in relevant part:

14 (3) Moving Papers. If counsel are unable to resolve
15 the dispute, the party seeking discovery must file and
16 serve a notice of motion together with a written
17 stipulation by the parties.

18 (A) The stipulation must be contained in 1
19 document and must identify, separately and with
20 particularity, each disputed issue that remains to
21 be determined at the hearing and the contentions
22 and points and authorities of each party as to each
23 issue.

24 (B) The stipulation must not simply refer the
25 court to the document containing the discovery
26 request forming the basis of the dispute. For
example, if the sufficiency of an answer to an
interrogatory is in issue, the stipulation must
contain, verbatim, both the interrogatory and the
allegedly insufficient answer, followed by each
party's contentions, separated stated.

(C) In the absence of such stipulation or a
declaration of counsel of noncooperation by the
opposing party, the court will not consider the
discovery motion.

(4) Cooperation of Counsel: Sanctions. The failure of
any counsel either to cooperate in this procedure . . . or

1 to provide the moving party the information necessary to
2 prepare the stipulation required by this rule within 7
3 days of the meeting of counsel [described in LBR 7026-
4 1(c)(2)] will result in the imposition of sanctions,
5 including the sanctions authorized by [Rule] 7037 and LBR
6 9011-3.

7 It appears that the Petitioning Creditors made known to
8 Mr. Marciano their intent to seek a protective order, and that the
9 parties agreed that the Petitioning Creditors would file the
10 required stipulation by April 23, 2010, in connection with the
11 contemplated motion for protective order. On April 18, 2010, the
12 Petitioning Creditors provided to Mr. Marciano what he characterized
13 as a "deficient joint stipulation" without any points and
14 authorities to which Mr. Marciano could respond. They did provide a
15 draft joint stipulation with points and authorities on April 20,
16 2010, to which Mr. Marciano responded on April 21, 2010. The joint
17 stipulation never was completed for filing by the Petitioning
18 Creditors. Ultimately, the Petitioning Creditors did not appear for
19 their depositions, which the parties had agreed to be reset to May
20 11, 12, and 13, 2010, and failed to respond to Mr. Marciano's
21 document production requests and interrogatories.

22 On May 13, 2010, Mr. Marciano filed a motion ("Marciano
23 Discovery Motion") to be heard at the June 3, 2010 continued status
24 hearing. In the Marciano Discovery Motion, Mr. Marciano requested
25 that the bankruptcy court enter discovery sanctions as follow:
26 (1) striking the Involuntary Petition and dismissing the involuntary
Chapter 11 case, (2) ordering prompt compliance with the pending
discovery requests, (3) imposing monetary sanctions against the

1 Petitioning Creditors and their counsel in the amount of \$9,000,
2 representing the amount of fees and costs incurred by Mr. Marciano
3 in connection with the Marciano Discovery Motion, and (4) relieving
4 Mr. Marciano of his obligation under the discovery rules to meet and
5 confer with Petitioning Creditors in connection with a motion for
6 protective order they were threatening to file.

7 At the June 10 Hearing on the Marciano Discovery Motion,⁸ the
8 bankruptcy court determined that discovery sanctions against the
9 Petitioning Creditors did not appear appropriate in light of the
10 admittedly confusing order the bankruptcy court had entered on April
11 30, 2010 ("April 30 Order"), in which the bankruptcy court edited
12 the proposed stipulated order submitted by the parties with respect
13 to their discovery disputes such that it provided simply "[t]he
14 Court will evaluate the issues identified in the Stipulation at the
15 status conference to be held on June 3, 2010" The
16 bankruptcy court determined that the Petitioning Creditors could
17 reasonably have concluded in reading the April 30 Order that all
18 discovery had been stayed pending the June 10 Hearing.

19 The bankruptcy court entered an order ("Marciano Discovery
20 Order"), partially granting the Marciano Discovery Motion, which
21 directed the Petitioning Creditors to serve complete written
22 responses to the document production requests and the
23 interrogatories by July 26, 2010 and to appear to be deposed on
24 August 2, 3 and 4, 2010. The Marciano Discovery Order also

25
26 ⁸ The June 3, 2010 status conference was reset by the
bankruptcy court to June 10, 2010.

1 scheduled a hearing on the issuance of a protective order, which was
2 to be raised in a joint stipulation ("Joint Stipulation") to be
3 filed by July 2, 2010 in compliance with LBR 7026-1(c)(3). The
4 Joint Stipulation was timely filed as required by the Marciano
5 Discovery Order.

6 On the day before the hearing on the Joint Stipulation, the
7 Petitioning Creditors filed their motion for summary judgment
8 ("Summary Judgment Motion"), seeking a determination that entry of
9 an order for relief was appropriate as a matter of law. At the July
10 15 Hearing on the Joint Stipulation, the bankruptcy court determined
11 that because the Summary Judgment Motion was based solely upon the
12 agreed facts identified in the Scheduling Order entered April 28,
13 2010, a stay of discovery pending resolution of the Summary Judgment
14 Motion was appropriate. The order staying discovery ("Protective
15 Order") was entered on September 8, 2010.

16 On appeal, Mr. Marciano challenges the entry of the
17 Protective Order on two grounds. First, he asserts that the
18 bankruptcy court abused its discretion when it allowed the
19 Petitioning Creditors to seek a protective order in an untimely
20 manner, i.e., after the time for responses to the discovery requests
21 were due. In particular, Mr. Marciano objects to the finding of the
22 bankruptcy court that its April 30 Order could have been interpreted
23 as a stay of all discovery until the June 3 status conference.
24 Giving substantial deference to the bankruptcy court's
25 interpretation of its own April 30 Order, and concluding that its
26 interpretation is neither illogical, implausible, nor without

1 support in inferences that may be drawn from the facts in the
2 record, we find no abuse of discretion in allowing the Petitioning
3 Creditors to seek a protective order in the Joint Stipulation. The
4 bankruptcy court's interpretation of the April 30 Order precludes
5 any finding of dilatory behavior by the Petitioning Creditors which
6 might support a waiver of the right to seek a protective order.

7 Second, Mr. Marciano asserts the entry of the Protective
8 Order was improper because it deprived him of the opportunity to
9 conduct discovery "on all issues," with the result that he was
10 precluded from defending himself in the proceedings on the Motion
11 for Summary Judgment. The running colloquy between the bankruptcy
12 court and Mr. Marciano as reflected in the transcripts of the
13 hearings held April 8, June 10, and July 15, 2010, establishes that
14 the primary issue on which Mr. Marciano wanted to take discovery was
15 his contention that the Petitioning Creditors had filed the
16 Involuntary Petition in bad faith.

17 At the July 15 Hearing, the bankruptcy court clarified that
18 it was not denying discovery, but rather that it was "staging"
19 discovery. It was undisputed that the Summary Judgment Motion was
20 brought on the agreed facts identified by the bankruptcy court in
21 its Scheduling Order. The bankruptcy court therefore determined
22 that, before ordering additional discovery, it was appropriate to
23 decide "whether the facts that are not in dispute are sufficient to
24 enter an order for relief." Tr. of July 15, 2010 H'ring at 46:8-11.

25 Civil Rule 26(b), applicable in the adjudication of the
26 Involuntary Petition pursuant to Rules 9014 and 7026, provides that

1 "Unless otherwise limited by court order, . . . [the parties] may
2 obtain discovery regarding any nonprivileged matter that is relevant
3 to any party's claim or defense. . . ." Civil Rule 26(b)(1)
4 (Emphasis added.). Mr. Marciano contends that because he pled bad
5 faith as an affirmative defense, the Protective Order deprived him
6 of his opportunity to defend the Involuntary Petition. We observe
7 that Civil Rule 26(b)(2)(C)(iii) authorizes the bankruptcy court, on
8 its own motion, to limit discovery otherwise allowed by Civil Rule
9 26, if it determines that "the burden or expense of the proposed
10 discovery outweighs its likely benefit, considering the needs of the
11 case, . . . and the importance of the discovery in resolving the
12 issues." Further, Civil Rule 42(a), applicable to the dispute
13 before the bankruptcy court pursuant to Rules 9014 and 7042,
14 provides that "[f]or convenience, to avoid prejudice, or to expedite
15 and economize, the court may order a separate trial of one or more
16 separate issues, claims, crossclaims, counterclaims, or third-party
17 claims. . . ." Thus, under the applicable rules, the bankruptcy
18 court was authorized to limit discovery. The question we are asked
19 to decide is whether the bankruptcy court abused its discretion in
20 doing so on the facts and under the circumstances of the dispute
21 pending before it.

22 As relevant to this case, § 303 provides:

23 (b) An involuntary case against a person is commenced by
24 the filing with the bankruptcy court of a petition under
chapter 7 or 11 of this title --

25 (1) by three or more entities, each of which is
26 either a holder of a claim against such person that
is not contingent as to liability or the subject of
a bona fide dispute as to liability or amount . . .

1 if such noncontingent, undisputed claims aggregate
2 at least \$13,475 more than the value of any lien on
3 property of the debtor securing such claims held by
4 the holders of such claims

5

6 (h) [If the petition is timely controverted], after trial,
7 the court shall order relief against the debtor in an
8 involuntary case under the chapter under which the
9 petition was filed, only if --

10 (1) the debtor is generally not paying such
11 debtor's debts as such debts become due unless such
12 debts are the subject of a bona fide dispute as to
13 liability or amount

14 The bankruptcy court correctly noted that § 303(b) "does not contain
15 any language regarding the good faith of the petitioning creditors."
16 Marciano, 446 B.R. at 430. Nor does § 303(h).

17 Section 303(i) (2) "makes plain that bad faith is not relevant
18 unless consequential and punitive damages are under consideration."
19 In re Kidwell, 158 B.R. 203, 217 (Bankr. E.D. Cal. 1993), citing In
20 re Johnston Hawks, Ltd., 72 B.R. 361, 365 (Bankr. D. Haw. 1987),
21 aff'd, 885 F.2d 875 (9th Cir. 1989). See also In re Bank of Am.,
22 N.A., No. 11-24503, 2011 WL 2493056, at *6 (Bankr. D. Colo. Jun. 21,
23 2011). Section 303(i) (2) provides:

24 If the court dismisses a petition under this section other
25 than on consent of all petitioning creditors and the
26 debtor, and if the debtor does not waive the right to
27 judgment under this subsection, the court may grant
28 judgment --

29

30 (2) against any petitioner that filed the petition in bad
31 faith, for--

32 (A) any damages proximately caused by such filing; or
33 (B) punitive damages.

34 (Emphasis added.) Ordinarily, the bankruptcy court would not reach
35 the issue of bad faith unless and until the Involuntary Petition was

1 dismissed. In re Ross, 63 B.R. 951, 955 (Bankr. S.D.N.Y. 1986) (the
2 court need not reach the affirmative defense that the involuntary
3 petition was not filed in good faith if an order for relief is
4 entered). See also Kaplan v. Breslow (In re WLB-RSK Venture), 320
5 B.R. 221, 2004 WL 3119789 at *6 n.13 (9th Cir. BAP 2004) (unpublished
6 disposition).

7 When a motion for summary judgment is filed in advance of the
8 close of discovery in litigation, the court always has a
9 discretionary call to make in determining how much discovery to
10 allow or require in advance of its summary judgment determination.
11 Counsel for Mr. Marciano vigorously argued before the bankruptcy
12 court that the Petitioning Creditors' lack of good faith was
13 relevant because 1) two of the three Petitioning Creditors were the
14 most aggressive among the judgment creditors in their collection
15 efforts against Mr. Marciano; 2) the third Petitioning Creditor,
16 Ms. Tagle, joined in filing the Involuntary Petition after her
17 settlement overtures were rebuffed; and 3) the Petitioning Creditors
18 opposed Mr. Marciano's motion for relief from stay to continue his
19 appeals against his judgment creditors, including his appeals of the
20 judgments held by the Petitioning Creditors. He made those same
21 points in his declaration in opposition to the Summary Judgment
22 Motion, further stating that he was advised by counsel for the
23 Petitioning Creditors that they "relied upon counsel's advice in
24 deciding whether to file the [Involuntary Petition]." Declaration
25 of Daniel J. McCarthy in Opposition to the Summary Judgment Motion,
26 at p. 14.

1 None of these points tends to indicate that further discovery
2 directed to the Petitioning Creditors would raise any genuine issues
3 of material fact with respect to the Summary Judgment Motion. We
4 conclude that the bankruptcy court did not abuse its discretion in
5 determining that requiring further discovery on the issue of the
6 Petitioning Creditors' alleged bad faith at this stage in the
7 proceedings would not produce any evidence relevant to its
8 determination of the Summary Judgment Motion. Accordingly, the
9 bankruptcy court could properly limit the scope of discovery pending
10 adjudication of the Involuntary Petition. Limiting the discovery
11 did not preclude Mr. Marciano from defending against the Involuntary
12 Petition. We find no abuse of discretion in the entry of the
13 Protective Order.

14 D. The Bankruptcy Court Did Not Abuse Its Discretion When It
15 Declined To Stay Proceedings on the Involuntary Petition
 Pursuant to § 305.

16 "[N]otwithstanding a bankruptcy court's jurisdiction over an
17 involuntary case pursuant to § 303, § 305(a) provides that the
18 bankruptcy court may dismiss an involuntary case, or suspend all
19 proceeding in that case, and thereby decline to exercise
20 jurisdiction." Macke Int'l Trade, 370 B.R. at 246. Section 305(a)
21 provides in relevant part:

22 The court, after notice and a hearing, may dismiss a case
23 under this title, or may suspend all proceedings in a case
 under this title, at any time if -
24 (1) the interests of creditors and the debtor would be
 better served by such dismissal or suspension;

25 Mr. Marciano sought such dismissal or suspension of the
26 involuntary case by motion ("Second Dismissal Motion") filed April

1 26, 2010,⁹ "until such time as the pending appeals by Mr. Marciano
2 from the default judgments held by the petitioning creditors and
3 five other default judgment creditors are resolved." The Second
4 Dismissal Motion was heard by the bankruptcy court at the June 10
5 Hearing; the order denying the Second Dismissal Motion was entered
6 July 2, 2010.

7 1. Section 305(c) Does Not Preclude This Panel From
8 Considering an Appeal Relating to the Second Dismissal
9 Motion

10 As a threshold matter, we recognize that § 305(c) imposes
11 limitations on the appellate review available with respect to orders
12 to grant or deny a motion pursuant to § 305(a). Quoting In re Paper
13 I Partners, L.P., 283 B.R. 661, 678 (Bankr. S.D.N.Y. 2002), in
14 ruling on the Second Dismissal Motion, the bankruptcy court
15 emphasized that "[a]bstention pursuant to section 305 of the Code is
16 a power that should only be utilized under extraordinary
17 circumstances." Tr. of June 10, 2010 H'ring at 32:20-23. One
18 bankruptcy court has clarified that "[d]ismissal pursuant to
19 § 305(a) is an extraordinary remedy, in part because it is generally
20 not appealable beyond the level of the District Court or, in the
21 Ninth Circuit, the Bankruptcy Appellate Panel." In re Orchards
22 Village Invs., LLC, 405 B.R. 341, 351 (Bankr. D. Or. 2009); see also
23 Eastman v. Eastman (In re Eastman), 188 B.R. 621, 624 (9th Cir. BAP

24 ⁹ Three of the orders on appeal relate to the bankruptcy
25 court's denial of the Second Dismissal Motion: the order denying the
26 Second Dismissal Motion itself, the order denying the motion for
reconsideration of the Second Dismissal Motion, and the order
denying a second motion for reconsideration.

1 1995) ("Section 305(c) does not prohibit or restrict appeals to the
2 Panel or the district court, but only further appeals to the circuit
3 courts of appeal and the United States Supreme Court.").

4 2. The Bankruptcy Court Did Not Abuse Its Discretion in
5 Denying Mr. Marciano's Three Requests For a "Stay" Under
6 § 305(a).

7 Dismissal under § 305(a)(1) is appropriate "only in the
8 situation where the court finds that both 'creditors and the debtor'
9 would be 'better served' by a dismissal." Eastman, 188 B.R. at 624.

10 In the Second Dismissal Motion, Mr. Marciano relied heavily
11 on cases that favor dismissal where an Involuntary Petition was
12 filed as an inappropriate "litigation tactic." See, e.g., In re
13 Pac. Rollforming, LLC, 415 B.R. 750, 755 (Bankr. N.D. Cal. 2009);
14 Profutures Special Equity Fund, L.P. v. Spade (In re Spade), 269
15 B.R. 225, 228-29 (D. Colo. 2001). He emphasized that bankruptcy
16 relief would not be necessary, because his state court appeals were
17 "meritorious."

18 "Before a court may refrain from exercising jurisdiction over
19 an otherwise proper case, it must make specific and substantiated
20 findings that the interests of the creditors and the debtor will be
21 better served by dismissal or suspension." Macke Int'l Trade, 370
22 B.R. at 247. The bankruptcy court made such findings against
23 Mr. Marciano in its ruling on the Second Dismissal Motion. Tr. of
24 June 10, 2010 H'ring at 32:9-42:6. The bankruptcy court agreed with
25 Mr. Marciano that the factors to be considered in a § 305(a)
26 decision are set forth in In re Monitor Single Lift I, Ltd., 381 B.R.
455, 464-65 (Bankr. S.D.N.Y. 2008), citing In re Paper I Partners,

1 L.P., 283 B.R. at 678 (“§ 305(a) Factors”). The § 305(a) Factors
2 are:

3 (1) the economy and efficiency of administration; (2)
4 whether another forum is available to protect the
5 interests of both parties or there is already a pending
6 proceeding in state court; (3) whether federal proceedings
7 are necessary to reach a just and equitable solution; (4)
8 whether there is an alternative means of achieving an
9 equitable distribution of assets; (5) whether the debtor
10 and the creditors are able to work out a less expensive
11 out-of-court arrangement which better serves all interests
12 in the case; (6) whether a non-federal insolvency has
13 proceeded so far in those proceedings that it would be
14 costly and time consuming to start afresh with the federal
15 bankruptcy process; and (7) the purpose for which
16 bankruptcy jurisdiction has been sought.

17 In applying the § 305(a) Factors, the bankruptcy court found
18 that eight judgment creditors held judgments¹⁰ against Mr. Marciano
19 in an aggregate of more than \$260 million; that those judgments were
20 not stayed; that appeals were pending with respect to the judgments;
21 that Mr. Marciano did not have sufficient funds to pay the
22 judgments; and that any unity of interest among the creditors in the
23 state court proceedings had been supplanted by their competing
24 interests in collecting on their individual judgments. The
25 bankruptcy court found compelling the fact that dismissing the case
26 to allow the judgment creditors to pursue their remedies in state
27 court would not address the issue of equality of distribution. The
28 bankruptcy court observed that Mr. Marciano had obtained relief from

29 ¹⁰ Marciano, 446 B.R. at 417. Six judgments were entered
30 against Mr. Marciano, one of which related to three judgment
31 creditors, who are not the Petitioning Creditors.

1 the automatic stay¹¹ to prosecute the state court appeals, and that
2 he could continue to do so, even in the context of a Chapter 11
3 case. The bankruptcy court found paramount the fact that while
4 Mr. Marciano could pursue the state court appeals inside or outside
5 of a Chapter 11 case, there was no alternate forum to a bankruptcy
6 case which would protect the creditors' rights to equality of
7 distribution.

8 When asked by Mr. Marciano what findings the bankruptcy court
9 would make in connection with a "stay" of the case under § 305(a) as
10 opposed to a dismissal, the bankruptcy court determined that the
11 factors to consider in deciding whether a "stay" was appropriate
12 were the same as those considered for a dismissal under § 305(a),
13 and that a "stay" was not appropriate in this case where there was
14 no alternative forum to deal with competing efforts to collect
15 judgments.

16 The bankruptcy court entered its order ("Second Dismissal
17 Order") denying the Second Dismissal Motion on July 2, 2010. While
18 Mr. Marciano has appealed the Second Dismissal Order, he does not
19 challenge the bankruptcy court's decision not to dismiss the
20 involuntary Chapter 11. Instead, his appeal of the Second Dismissal
21 Order relates to the bankruptcy court's refusal to "stay" the
22 involuntary Chapter 11 case pending resolution of the state court
23

24 ¹¹ Mr. Marciano filed two motions for relief from the
25 automatic stay to allow the appeals of the state court judgments of
26 the Petitioning Creditors and other judgment creditors to proceed,
which the bankruptcy court granted by its orders entered March 19,
2010.

1 appeals,¹² and to his two motions to reconsider the denial of the
2 § 305(a) "stay."

3 3. The Bankruptcy Court Did Not Err In Its Application of
4 Section 305(a).

5 Mr. Marciano asserts on appeal that the bankruptcy court
6 erred as a matter of law in denying his motion for a § 305(a)
7 "stay." Mr. Marciano states that, in effect, the bankruptcy court
8 concluded (1) that the same factors for considering a § 305(a)
9 dismissal also apply to a § 305(a) "stay," and (2) if those factors
10 do not favor a dismissal, they cannot favor a "stay." Mr. Marciano
11 contends that the bankruptcy court erred when it failed to make, in
12 connection with his request for a § 305(a) "stay," independent
13 factual findings as opposed to relying on the same findings it had
14 made in connection with his request for a § 305(a) dismissal. We
15 find no error in the bankruptcy court's application of § 305(a).

16 In its construction, § 305(a) is similar to other Bankruptcy
17 Code sections that allow the bankruptcy court to determine whether
18 it is appropriate to continue a bankruptcy case or to dismiss it.

19
20
21 ¹² Mr. Marciano filed a motion requesting that the bankruptcy
22 court reconsider its decision not to grant a § 305 injunction; that
23 motion was denied by orders entered on December 29, 2010, and
24 January 10, 2011. These orders are included in this appeal. In his
25 Opening Brief on Appeal, Mr. Marciano asserts that a "stay" under
26 § 305(a) would have avoided significant expenses regarding discovery
disputes, cross-motions for summary judgment, and a potential trial.
"Because the [bankruptcy court] denied the stay, the parties later
incurred the predicted costs. The [bankruptcy court], however, had
two more opportunities to correct its error, but refused to do so."
Appellant's Opening Brief at 13:3-19.

1 For example, § 1112(b) allows the bankruptcy court either to convert
2 a Chapter 11 case to a case under Chapter 7, or to dismiss the case
3 entirely. In its application of § 1112(b), a bankruptcy court must
4 first determine whether "cause," as articulated by the statute,
5 exists to change the manner in which the Chapter 11 case is
6 proceeding. Only after finding "cause" does a bankruptcy court
7 reach the issue of what to do with the case. Section 1112(b) offers
8 the choices of conversion to Chapter 7, dismissal, or even the
9 appointment of a trustee or an examiner. In making its choice, the
10 bankruptcy court is directed to evaluate which alternative is in the
11 "best interests of the creditors and the estate." See Rollex Corp.
12 v. Associated Materials, Inc. (In re Superior Siding & Window,
13 Inc.), 14 F.3d 240, 242 (4th Cir. 1994).

14 We believe this two-step process also is appropriate in the
15 context of deciding a § 305(a) motion with respect to a pending
16 Involuntary Petition. The bankruptcy court first must make findings
17 that continuing the adjudication of the Involuntary Petition is or
18 is not appropriate. While no specific statutory cause is stated to
19 guide a bankruptcy court, the development of the case law has
20 provided guidance as to the factors to consider. Those were the
21 factors identified in the Single Monitor Lift case and applied by
22 the bankruptcy court with respect to the Second Dismissal Motion
23 under the appropriate "totality of the circumstances standard." See
24 Macke Int'l Trade, 370 B.R. at 247. Only if the bankruptcy court
25 had determined that adjudication of the Involuntary Petition should
26 not go forward at the time of its decision would it need to consider

1 whether it should dismiss the Involuntary Petition outright or
2 simply "stay" the adjudication of the Involuntary Petition, for
3 instance, until the state court appeals had concluded.

4 4. The Bankruptcy Court's Findings in Support of the Second
5 Dismissal Order Are Not Clearly Erroneous.

6 Mr. Marciano contends that the bankruptcy court abused its
7 discretion when it failed to suspend the Involuntary Petition under
8 § 305(a). First, he asserts that the bankruptcy court failed to
9 give primary consideration to the first § 305(a) Factor: "the
10 economy and efficiency of administration." We disagree that any of
11 the § 305(a) Factors can be "primary" where the determination of
12 relief under § 305(a) is based on the totality of the circumstances.
13 See Macke Int'l Trade, 370 B.R. at 247. We observe in the record
14 before us on appeal that both before and after it denied the Second
15 Dismissal Motion, the bankruptcy court went to great lengths to
16 address Mr. Marciano's concerns about the economy and efficiency of
17 administration. As early as April, 2010, the bankruptcy court had
18 invited a motion for summary judgment on the agreed facts that it
19 believed would be sufficient to adjudicate the involuntary petition.
20 Many of the costs of administration of which Mr. Marciano complains
21 were incurred as a result of his repeated attempts to continue
22 discovery, as discussed above.

23 With respect to "efficiency" of administration,
24 Mr. Marciano's concerns sound hollow. There is a "premise that a
25 prompt determination of whether a bankruptcy case is to proceed is
26 needed. . . ." Kidwell, 158 B.R at 210. Mr. Marciano argued before

1 the bankruptcy court that this "policy" is to protect a debtor,
2 because "the debtor is entitled to know sooner rather than later
3 because involuntaries do adversely impact alleged debtors." Tr. of
4 June 10, 2010 H'rng at 12:17-19. However, Mr. Marciano made clear
5 that he did not want a prompt adjudication of the Involuntary
6 Petition. "[I]f you're not going to dismiss the case, at least stay
7 it." Id. at 12:20-21. In not challenging the bankruptcy court's
8 refusal to dismiss the Involuntary Petition, but instead filing two
9 motions to reconsider the denial of the § 305(a) "stay" (as well as
10 this appeal only of the denial of the § 305(a) "stay"), Mr. Marciano
11 evinces an intent to have the advantage of the automatic stay
12 without the disadvantages of complying with any of a debtor's duties
13 under the Bankruptcy Code.

14 Second, Mr. Marciano disputes that no alternative forum was
15 available to determine the parties' interests, pointing to the
16 pending state court appeals. In the context of this case, the third
17 and fourth § 305(a) Factors, i.e., whether federal proceedings are
18 necessary to reach a just and equitable solution, and whether there
19 is an alternative means of achieving an equitable distribution of
20 assets, are sufficiently related to the second § 305(a) Factor that
21 a separate analysis of them is not warranted.

22 Based on his entrenched position that the judgments of the
23 Petitioning Creditors would not stand on appeal, Mr. Marciano
24 refuses to acknowledge the consequences for the interests of the
25 Petitioning Creditors if the judgments are affirmed on appeal.
26 Mr. Marciano asserts on appeal that because the Rooker-Feldman

1 doctrine¹³ precludes a federal court's "appellate review" of state
2 court default judgments, the only forum available to resolve the
3 dispute was the state court of appeals. As the bankruptcy court
4 noted, (1) relief from the automatic stay already had been granted
5 to allow the state court appeals to proceed, and (2) even assuming
6 that an order for relief was entered in the bankruptcy case, nothing
7 in the Bankruptcy Code would prevent Mr. Marciano, as a debtor-in-
8 possession, from proposing a plan that would provide for the
9 resolution of his disputes with the Petitioning Creditors by a
10 continuation of the state court appeals.

11 We note that while Mr. Marciano refused to concede that there
12 might need to be a bankruptcy stay to avoid potential adverse
13 consequences from competing collection activity, in the context of
14 arguing his alternative motion for a "stay" under § 305(a) in the
15 event the bankruptcy court would not dismiss the Involuntary
16 Petition as requested, he acknowledged that if "the goal of ratable
17 distribution and equality of distribution is even at issue in this
18 case, a [§ 305(a) 'stay'] could preserve that" Tr. of June
19 10, 2010 H'ring at 12:6-10. In light of the entry of the order for
20 a judgment debtor exam and its resulting lien on Mr. Marciano's
21 assets in favor of two of the judgment creditors, there was no

22
23 ¹³ Pursuant to the Rooker-Feldman doctrine, a federal district
24 or bankruptcy court cannot exercise appellate jurisdiction over a
25 challenge to a state court's decision. See Dubinka v. Judges of the
26 Superior Court, 23 F.3d 218, 221-22 (9th Cir. 1994). Continuation
of the proceedings on the Involuntary Petition does not implicate
Rooker-Feldman. Mr. Marciano obtained relief from stay to pursue
the state court appeals independent of the bankruptcy proceedings.

1 alternative forum that could provide for preservation of lien
2 avoidance rights to ensure equitable distribution of Mr. Marciano's
3 assets among his many judgment creditors.

4 In his brief on appeal, Mr. Marciano concedes that the fifth
5 and sixth § 305(a) Factors are "least important" in the § 305(a)
6 analysis in this case. Those § 305(a) Factors are whether the
7 debtor and the creditors are able to work out a less expensive out-
8 of-court arrangement which better serves all interests in the case,
9 and whether a non-federal insolvency proceeding has gone so far that
10 it would be costly and time consuming to start afresh with the
11 federal bankruptcy process. Mr. Marciano does not ascribe any error
12 to the bankruptcy court's findings with respect to these factors.
13 It is indisputable on the record before us that no non-federal
14 insolvency proceeding has been initiated. With respect to whether
15 the debtor and creditors could work out a less expensive out-of-
16 court arrangement, no such option was brought to the attention of
17 the bankruptcy court. We observe that even if the judgments were
18 reduced in amount by the state court of appeals, there is nothing in
19 this record to suggest that Mr. Marciano would pay them, and plenty
20 to suggest that he would not.

21 Finally, Mr. Marciano does not assert any error on the part
22 of the bankruptcy court in connection with its finding on the
23 seventh § 305(a) Factor, the purpose for which bankruptcy
24 jurisdiction has been sought. The bankruptcy court found that,
25 notwithstanding Mr. Marciano's contention that the Involuntary
26 Petition had been filed in bad faith, there was no improper

1 motivation on behalf of the Petitioning Creditors to warrant relief
2 to Mr. Marciano under § 305(a).

3 The filing of an involuntary bankruptcy petition is always a
4 "litigation tactic." Whether the filing is inappropriate is a fact-
5 dependent determination. See, e.g., In re Pac. Rollforming, LLC,
6 415 B.R. at 753-54 (where, among other concerns of the bankruptcy
7 court, one of the three petitioning creditors acquired his claim by
8 purchase one day before the involuntary bankruptcy filing); and In
9 re Spade, 269 B.R. at 228 ("The bankruptcy judge found that the
10 involuntary petition was not filed as a means to ensure a fair
11 distribution of the Debtor's assets to all Creditors, but instead,
12 was a self-serving litigation tactic to control the forum and enlist
13 a trustee to conduct and pay for discovery into the Debtor's
14 affairs."). Where, as here, the bankruptcy court expressed a
15 primary concern that the issue of equality of distribution would not
16 effectively be dealt with in any other forum, we conclude that the
17 bankruptcy court did not abuse its discretion in denying the Second
18 Dismissal Motion.

19 5. The Bankruptcy Court Did Not Abuse Its Discretion When It
20 Denied Mr. Marciano's Motions for Reconsideration of
the Second Dismissal Order.

21 Mr. Marciano timely requested reconsideration ("First Motion
22 for Reconsideration") of the Second Dismissal Order, asserting that
23 the bankruptcy court failed to make findings with respect to a
24 "stay" under § 305(a), as distinguished from findings with respect
25 to dismissal under § 305(a). The bankruptcy court denied the First
26 Motion for Reconsideration on the basis that applying the § 305(a)

1 Factors did not support a "stay" of the proceedings where the only
2 factor on which Mr. Marciano focused was the economy and efficiency
3 of administration. The bankruptcy court observed that although
4 Mr. Marciano argued that "the interests of the Petitioning Creditors
5 would be better served by suspension because unnecessary expenses
6 would be avoided . . . [a]s evidenced by their vociferous
7 objections, the Petitioning Creditors clearly do not believe
8 suspension is in their best interests." The bankruptcy court
9 further noted that Mr. Marciano focused only on the economy of
10 administration, but did not address the "efficiency" of
11 administration. The bankruptcy court concluded that a suspension of
12 the proceedings while the state court appeals were resolved would
13 substantially delay the administration of the Involuntary Petition.
14 Marciano, 446 B.R. at 433.

15 The bankruptcy court entered an order denying the First
16 Motion for Reconsideration contemporaneously with the entry of the
17 Summary Judgment Order and the Order for Relief.

18 Mr. Marciano promptly filed a new motion for reconsideration
19 ("Second Motion for Reconsideration") on the basis that he had not
20 had sufficient time to review the bankruptcy court's tentative
21 ruling on the First Motion for Reconsideration, which contained much
22 case law not previously cited by the parties, before the bankruptcy
23 court ruled on the First Motion for Reconsideration. The bankruptcy
24 court denied the Second Motion for Reconsideration without a
25 hearing.

26 Mr. Marciano asserts on appeal that the bankruptcy court

1 abused its discretion when it denied his motions for reconsideration
2 of the Second Dismissal Order.

3 To establish that the bankruptcy court abused its discretion
4 in denying the motions for reconsideration, Mr. Marciano must
5 demonstrate the existence of newly discovered evidence that was not
6 available at the time of the original hearing, or that the
7 bankruptcy court committed clear error or made a decision that was
8 manifestly unjust, or that there was an intervening change in
9 controlling law. Zimmerman v. City of Oakland, 255 F.3d 734, 740
10 (9th Cir. 2001).

11 The motions for reconsideration were based neither on new
12 evidence nor on an intervening change in controlling law. Instead,
13 Mr. Marciano asserted that the bankruptcy court had committed clear
14 error when it failed to grant him a "stay" of the proceedings on the
15 Involuntary Petition. We previously have held that the bankruptcy
16 court did not err in its application of the § 305(a) Factors.
17 Accordingly, we conclude that the bankruptcy court did not abuse its
18 discretion when it denied the motions for reconsideration of the
19 Second Dismissal Order.

20 E. The Bankruptcy Court Did Not Err When It Granted the
21 Summary Judgment Motion and Entered the Order for Relief.

22 Civil Rule 56, applicable in bankruptcy contested matters
23 pursuant to Rules 9014 and 7056, provides that summary judgment is
24 appropriate if "there is no genuine issue as to any material fact,"
25 and if "the movant is entitled to judgment as a matter of law." An
26 issue is "genuine" only if there is an evidentiary basis on which a

1 reasonable fact finder could find in favor of the non-moving party.
2 Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248 (1986). A
3 dispute is "material" only if it could affect the outcome of the
4 suit under governing law. Id. At the summary judgment stage, the
5 court does not weigh the evidence and determine the truth of the
6 matter, but determines whether there is a genuine issue for trial.
7 Id. at 249.

8 In the context of determining whether there is a bona fide
9 dispute for purposes of § 303, "[a] bankruptcy court is not asked to
10 evaluate the potential outcome of a dispute, but merely to determine
11 whether there are facts that give rise to a legitimate disagreement
12 over whether money is owed, or, in certain cases, how much." Vortex
13 Fishing, 277 F.3d at 1064. As the bankruptcy court emphasized,
14 "[o]nly disputes over facts that might affect the outcome of the
15 suit under governing law will properly preclude entry of summary
16 judgment." Marciano, 446 B.R at 420, quoting Anderson v. Liberty
17 Lobby, Inc., 447 U.S. at 248.

18 The bankruptcy court identified five elements¹⁴ that the
19 Petitioning Creditors must establish pursuant to §§ 303(b) and (h)
20 in order to prevail on the Summary Judgment Motion and thereby
21

22 ¹⁴ The bankruptcy court rejected Mr. Marciano's assertion that
23 the lack of "bad faith" of the Petitioning Creditors in filing the
24 Involuntary Petition also is an element upon which the Petitioning
25 Creditors must prevail. Although Mr. Marciano included this
26 conclusion of the bankruptcy court as an issue on appeal directed to
the order granting the Summary Judgment Motion, because he does not
address the issue in the context of the Summary Judgment Motion in
his opening brief on appeal, he has waived it for purposes of this
discussion.

1 obtain entry of an order for relief against Mr. Marciano:

2 (1) three or more creditors (2) hold claims against
3 [Mr. Marciano] that are not contingent as to liability and
4 (3) are not the subject of a bona fide dispute as to
5 liability or amount (4) in the aggregate amount of at
6 least \$13,475, and (5) that [Mr. Marciano] is generally
7 not paying his debts as such debts become due.

8 Marciano, 446 B.R. at 420.

9 The bankruptcy court determined that only factors three and
10 five were at issue in the Summary Judgment Motion, i.e., whether the
11 Petitioning Creditors' claims were the subject of a bona fide
12 dispute as to liability or amount, and whether Mr. Marciano
13 generally was paying his debts as they become due. The bankruptcy
14 court determined that because (1) Mr. Marciano was not paying the
15 judgment creditors, (2) the evidence in the record reflects that
16 Mr. Marciano did not have sufficient assets to pay the judgments in
17 full, and (3) Mr. Marciano had no plan to pay the judgments, in the
18 totality of the circumstances, Mr. Marciano generally was not paying
19 his debts as they became due. Marciano, 446 B.R. 421. Mr. Marciano
20 does not dispute this determination on appeal, except to assert that
21 because the judgments are in bona fide dispute, they cannot
22 constitute debts that he is not paying as they become due for
23 purposes of § 303.

24 In essence, therefore, the only element in dispute is whether
25 the claims of the judgment creditors are the subject of a bona fide
26 dispute as to liability or amount.

Typically, in summary judgment proceedings the moving party
must present a prima facie case establishing its entitlement to

1 summary judgment. Once that prima facie case has been established,
2 the burden then shifts to the non-moving party to establish the
3 existence of a genuine issue of material fact that would preclude
4 entry of summary judgment. See Celotex Corp. v. Catrett, 477 U.S.
5 317, 324 (1986).

6 The bankruptcy court held that the Petitioning Creditors'
7 unstayed judgments constituted prima facie evidence that no bona
8 fide dispute existed as to their claims against Mr. Marciano.
9 Marciano, 446 B.R. at 422, citing Platinum Fin. Servs. Corp. v. Byrd
10 (In re Byrd), 357 F.3d 433, 438 (4th Cir. 2004). However, the
11 bankruptcy court also held that "[i]n the context of a sanctions
12 judgment, the policy of deciding disputes on the merits justifies a
13 per se rule that such judgments are not the subject of a bona fide
14 dispute." Marciano, 446 B.R. at 428.

15 Mr. Marciano contends that the bankruptcy court erred as a
16 matter of law when it adopted a per se rule that precluded him from
17 rebutting the Petitioning Creditors' prima facie case that the state
18 court judgments were not subject to a bona fide dispute.

19 Mr. Marciano also contends that the bankruptcy court erred when it
20 refused to characterize the state court judgments as default
21 judgments. He asserts that because the state court judgments on
22 appeal are default judgments, they are subject to bona fide dispute
23 as a matter of law, regardless of whether they are stayed.

24 Consequently, he contends that the bankruptcy court erred when it
25 entered the Summary Judgment Order and when it entered the Order for
26 Relief.

1 1. The Bankruptcy Court Did Not Err When It Concluded That
2 the State Court Judgments Were Not In Bona Fide Dispute
3 As To Liability or Amount

4 Most courts that have considered the issue have held that no
5 bona fide dispute exists with respect to state court judgments where
6 the judgment debtor has not obtained a stay pending appeal. “[A]
7 claim based upon a judgment, in the absence of a stay, is not
8 subject to a bona fide dispute for purposes of determining whether a
9 petitioning creditor is eligible to commence an involuntary
10 petition.” In re AMC Investors, LLC, 406 B.R. 478, 481 (Bankr. D.
11 Del. 2009); In re Drexler, 56 B.R. 960, 967 (Bankr. S.D.N.Y. 1986).
12 Reduced to their essence, these rulings implement what has been
13 referred to as the Butner principle. In Butner, the Supreme Court
14 stated:

15 Property interests are created and defined by state law.
16 Unless some federal interest requires a different result,
17 there is no reason why such interests should be analyzed
18 differently simply because an interested party is involved
19 in a bankruptcy proceeding. Uniform treatment of property
20 interests by both state and federal courts within a State
21 serves to reduce uncertainty, to discourage forum
22 shopping, and to prevent a party from receiving “a
23 windfall merely by reason of the happenstance of
24 bankruptcy.”

25 Butner v. United States, 440 U.S. 48, 55 (1979) (quoting Lewis v.
26 Manufacturers Nat’l Bank, 364 U.S. 603, 609 (1961)).

 As a general rule, an unstayed state court judgment is
subject to enforcement procedures by the judgment creditor.
California law, which determines the enforceability of the state
court judgments at issue, is in accord with the general rule.
“Unless an undertaking is given, the perfecting of an appeal shall

1 not stay enforcement of the judgment or order in the trial court if
2 the judgment or order is for . . . money or the payment of money.”
3 Cal. Code. Civ. P. § 917.1(a)(1). “The filing of an involuntary
4 petition is but one of many means by which a judgment creditor may
5 seek to attempt collection of something upon its judgment.”
6 Drexler, 56 B.R. at 967.

7 Mr. Marciano points out that the Fourth Circuit has declined
8 to follow the majority approach, on the basis that substantial
9 questions may remain about a debtor’s liability, notwithstanding
10 judgments in a creditor’s favor. See In re Byrd, 357 F.3d at 438.
11 However, under Byrd, “a debtor’s subjective beliefs do not give rise
12 to a bona fide dispute.” Id. at 440. It is not enough for an
13 alleged debtor simply to refuse to concede the validity of a
14 petitioning creditor’s claim. Instead, to assert that a debt is in
15 bona fide dispute, a debtor must present evidence to support his
16 factual and legal arguments. Id. “Indeed it will be the unusual
17 case in which a bona fide dispute exists in the face of claims
18 reduced to state court judgments.” Id. at 438. Mr. Marciano
19 asserts that the bankruptcy court should have followed the Byrd
20 approach and allowed him an opportunity to rebut the Petitioning
21 Creditors’ prima facie case.

22 We disagree. In the Ninth Circuit, for purposes of § 303, a
23 bona fide dispute requires an objective basis for either a factual
24 or a legal dispute as to the validity of the debt. Liberty Tool &
25 Mfg. v. Vortex Fishing Sys., Inc. (In re Vortex Fishing Sys., Inc.),
26 277 F.3d at 1064. The AMC Investors court viewed Byrd’s requirement

1 to conduct an inquiry into the likelihood of success on appeal to be
2 unnecessarily intrusive into the trial court's ruling and
3 "undermines the objective analysis of bona fide disputes." In re
4 AMC Investors, LLC, 406 B.R. at 485. "Byrd turns the court into an
5 odds maker on appellate decision-making," id., and appears to be
6 fundamentally at odds with the statutory requirement to apply "full
7 faith and credit" to state court judgments. See 28 U.S.C. § 1738.
8 The AMC Investors court also noted the essential difficulty in
9 implementing Byrd's analytical approach:

10 The inherent difficulty and lack of necessity in engaging
11 in such analysis is borne out by Byrd itself, as the court
12 only made a cursory examination into the pending appeals,
13 finding the alleged debtor presented no evidence to
14 support his likelihood of success on appeal and, thus,
15 "failed to raise any substantial factual or legal
16 questions about the continued viability of those
17 judgments."

18 In re AMC Investors, LLC, 406 B.R. at 485 (quoting In re Byrd, 357
19 F.3d at 438).

20 The AMC Investors court further observed that the Byrd
21 court's rejection of the majority approach was based upon an
22 incorrect interpretation of the definition of "claim" under
23 § 101(5), specifically, that the entry of a judgment does not create
24 a right to payment. Id. at 486.

25 The Byrd court reads the phrase "whether or not such right
26 is reduced to judgment" to mean that the definition of
27 claim "permits some creditors who have not reduced their
28 claims to judgment to file involuntary petitions, just as
29 it prevents other creditors who have reduced their claims
30 to judgment from filing." While this court agrees that
31 the relevant language clarifies that a right to payment
32 may exist even if it has not been reduced to judgment; it
33 disagrees that the entry of a judgment does not create a

1 right to payment.

2 Id. (quoting In re Byrd, 357 F.3d at 438) (emphasis in original). We
3 agree.

4 Ultimately, whether one characterizes the conclusion as a
5 “per se” rule, we conclude, consistent with the holding in AMC
6 Investors and the majority of courts that have considered the
7 issue, including the bankruptcy court in this case, that an unstayed
8 judgment, other than a default judgment, that is regular on its
9 face, is “in and of itself, sufficient to establish that the claim
10 underlying the judgment is not in bona fide dispute for purposes of
11 determining whether a petitioning creditor is eligible” to initiate
12 an involuntary bankruptcy case. In re AMC Investors, LLC, 406 B.R.
13 at 487. See also C.W. Mining Co. v. Aquila, Inc. (In re C.W. Mining
14 Co.), 431 B.R. 307, 2009 WL 4798264 *5 (10th Cir. BAP 2009) (“This
15 Court declines to adopt the Byrd approach for the reasons so
16 articulately and convincingly set forth by the Delaware Bankruptcy
17 Court in In re AMC Investors, LLC.”), rev’d on other grounds, 636
18 F.3d 1257 (10th Cir. 2011).

19 2. The State Court Judgments Are Not Default Judgments

20 The courts that have adopted the general rule that unstayed
21 state court judgments are not in bona fide dispute have not dealt
22 with default judgments. See, e.g., In re AMC Investors, LLC, 406
23 B.R. at 487 (explicitly excludes default judgments from the scope of
24 its ruling, preserving the issue for determination in an appropriate
25 future dispute); In re Drexler, 56 B.R. at 964. Conversely, where a
26 default judgment is involved, a bankruptcy court is unlikely to

1 apply a per se rule in considering whether the underlying claim is
2 in bona fide dispute. See, e.g., In re Starlite Houseboats, Inc.,
3 426 B.R. 375 (Bankr. D. Kan. 2010); In re Henry S. Miller Comm'l,
4 LLC, 418 B.R. 912, 921 (Bankr. N.D. Tex. 2009); In re Graber, 319
5 B.R. 374, 379-80 (Bankr. E.D. Pa. 2004); In re Prisuta, 121 B.R.
6 474, 476 (Bankr. W.D. Pa. 1990). Mr. Marciano contends even if a
7 per se rule is appropriate to unstayed state court judgments entered
8 on the merits, the bankruptcy court inappropriately applied the per
9 se rule to the Petitioning Creditors' judgments, which he
10 characterizes as default judgments.

11 The bankruptcy court ruled that the judgments at issue were
12 not "default judgments" in the classic sense. Instead, they were
13 judgments resulting from the imposition of discovery sanctions.
14 They did not result from Mr. Marciano's mere failure to appear in
15 the state court litigation; they were the result of his
16 "inappropriate and dilatory conduct" in that litigation. Marciano,
17 446 B.R. at 428. While acknowledging the policy considerations
18 favoring resolution of disputes on the merits, the bankruptcy court
19 stated that because terminating sanctions only are awarded against
20 parties whose abuse of the discovery process continues
21 notwithstanding the imposition of lesser sanctions, terminating
22 sanctions "advance the truth-seeking function of litigation by
23 prodding parties to fulfill their discovery obligations." Id.,
24 citing Del Junco v. Hufnagel, 150 Cal.App.4th 789, 60 Cal.Rptr.3d
25 22, 29 (2007). The bankruptcy court held that a determination that
26 a judgment based on terminating sanctions was subject to bona fide

1 dispute would reward Mr. Marciano's conduct which thwarted the
2 policy of settling disputes on the merits. Marciano, 446 B.R. at
3 428.

4 We agree that under the facts of this case, Mr. Marciano is
5 estopped from asserting that the state court judgments are in bona
6 fide dispute on the basis that he was precluded from presenting a
7 defense to the claims of the Petitioning Creditors. Under
8 California law, in an appeal from a judgment entered following the
9 imposition of terminating sanctions, review is "limited to questions
10 of jurisdiction, sufficiency of the pleadings and excessive damages,
11 if the damages awarded exceed the sum sought in the complaint." See
12 Steven M. Garber & Assoc. v. Eskandarian, 150 Cal.App.4th 813, 824,
13 59 Cal.Rptr.3d 1 (Cal. App. 2d Dist. 2007). The standard for review
14 with respect to an order imposing terminating sanctions is "abuse of
15 discretion." Collison & Kaplan v. Hartunian, 21 Cal.App.4th 1661,
16 1620, 26 Cal.Rptr.2d 786 (Cal. App. 2d Dist. 1994). Contrary to the
17 assumption implicit in the dissent, it is unlikely that
18 Mr. Marciano's appeals of the state court judgments against him will
19 reach the merits of his defenses. Rather, they necessarily will
20 focus on the claimed abuses of the trial court in sanctioning
21 Mr. Marciano's conduct in discovery. To the extent the dissent
22 implies that we can go behind a state court's terminating sanctions
23 orders to find a bona fide dispute, we disagree.

24 Mr. Marciano participated actively in the state court
25 litigation that ultimately resulted in the judgments being entered
26 against him. Only after repeated discovery abuses by Mr. Marciano,

1 for which he was repeatedly sanctioned, were his answers to cross-
2 complaints stricken. Thereafter, damages were determined by a jury,
3 and judgments were entered by the state court, after the jury awards
4 were reduced so that the damages did not exceed the amounts demanded
5 in each cross-complaint. See Marciano, 446 B.R. at 414-17. These
6 are not the types of "default" judgments, based on the lack of any
7 response to a complaint, that appropriately are subject to
8 reexamination to determine whether they are in "bona fide" dispute
9 for § 303(b) purposes. See, e.g., In re Drexler, 56 B.R. at 963-64
10 (where a judgment based on the imposition of discovery sanctions was
11 determined not to be a default judgment: "The Sanctions Judgment is
12 not a default judgment insofar as it grants sanctions and directs
13 the striking of the answer and counterclaim.").

14 F. Post-"Order for Relief" Stay Issues

15 After the bankruptcy court entered the Order for Relief,
16 Mr. Marciano immediately filed an ex parte application ("Stay
17 Application") for a 30-day stay of the Order for Relief to excuse
18 him from fulfilling the duties of a Chapter 11 debtor while the
19 bankruptcy court considered the pending motions he had filed
20 requesting reconsideration of the Summary Judgment Order and the
21 Order for Relief. The Stay Application also requested the
22 imposition of a § 305(a) "stay" in the context of the now-pending
23 Chapter 11 case. In the Stay Application, Mr. Marciano again
24 stressed the § 305(a) Factors of (1) economy and efficiency of
25 administration and (2) the availability of the state court of
26 appeals as an alternate forum to resolve the disputes between the

1 parties.

2 On January 11, 2011, Mr. Marciano filed an emergency motion
3 for temporary stay and for stay pending appeal ("Stay Motion"). At
4 that time, the bankruptcy court had not yet ruled on the Stay
5 Application. The Stay Motion appears to restate and expand upon the
6 Stay Application, and requested relief in the form of a stay of the
7 Order for Relief pursuant to § 305(a), Rule 8005, Civil Rule 62 as
8 applicable in the bankruptcy case pursuant to Rule 7062, and "the
9 Court's inherent authority."

10 In the Stay Motion, Mr. Marciano asserted that in light of
11 his pending appeal, the bankruptcy court was divested of
12 jurisdiction over the Order for Relief, and therefore over any
13 proceedings in the Chapter 11 case. He asserts that because he has
14 appealed the Order for Relief, the bankruptcy court

15 may not require Mr. Marciano to (1) file schedules and a
16 statement of financial affairs pursuant to [Rule]
17 1007(a)(2); (2) attend a meeting of creditors pursuant to
18 [§] 341(a); (3) close prepetition bank accounts under the
19 U.S. Trustee's Guidelines applicable to Chapter 11
20 debtors; (4) otherwise meet the U.S. Trustee's
21 requirements under those guidelines; (5) seek Court
22 approval of employment of counsel and accountants; (6)
23 seek Court approval for Mr. Marciano to use estate assets
24 to pay expenses and the related concerns raised under the
25 Thirteenth Amendment's proscription against involuntary
26 servitude, if approval is denied or limited in any manner;
and (7) incur the huge expense of meeting all such
obligations. The Court also may not enter orders on other
matters that may come up, such as (1) a motion for a Rule
2004 exam; (2) proceedings relating to any of the above-
described obligations that Mr. Marciano might not fulfill
in the expected manner, regardless of the reason; and (3)
various motions that the default judgment holders may file
in a further attempt to interfere with the pending
appeals, such as motions to convert or to appoint a
Chapter 11 trustee.

1 After a hearing, the bankruptcy court granted the Stay Motion
2 only to the extent of granting a temporary stay pending appeal for
3 30 days to allow Mr. Marciano to seek a stay pending appeal from
4 this Panel. With the exception of granting the temporary stay, the
5 bankruptcy court denied the Stay Motion.

6 The bankruptcy court determined it had continuing
7 jurisdiction over the Chapter 11 case notwithstanding the pending
8 appeal of the Order for Relief.

9 In ruling on the Stay Motion, the bankruptcy court first
10 determined that where the Order for Relief had been entered, the
11 focus of the proceedings no longer was just on preserving avoidance
12 causes of action; it now included preserving assets of the estate.
13 Because preserving assets of the estate required disclosure of those
14 assets, a stay of the Chapter 11 case and Mr. Marciano's duties as a
15 debtor-in-possession was not appropriate under the § 305(a) Factors.

16 Finally, the bankruptcy court determined that granting a stay
17 pending appeal, either pursuant to Rule 8005 or Civil Rule 62, was
18 not appropriate where continuing the Chapter 11 case would not cause
19 Mr. Marciano irreparable harm; conversely, the bankruptcy court
20 determined that a stay pending appeal would cause substantial harm
21 to the appellees (the Petitioning Creditors) because they would know
22 neither Mr. Marciano's financial status during the pendency of a
23 stay nor whether he was dissipating assets of the bankruptcy estate.
24 Finally, the bankruptcy court found that it would be in the public
25 interest to preserve the ability of creditors, of which there may be
26 many, to obtain repayment of their debts, including the judgments

1 which precipitated the case.

2 Mr. Marciano includes in his amended statement of issues on
3 appeal three issues which appear to relate to the Stay Motion:

4 17. Whether the Bankruptcy Court lost jurisdiction in
5 Mr. Marciano's involuntary Chapter 11 case upon
6 Mr. Marciano filing a notice of appeal from the Court's
order for relief such that the case could not proceed
before the Bankruptcy Court?

7 18. Once the order for relief was entered on December 28,
8 2010, did the Bankruptcy Court erroneously deny
9 Mr. Marciano's motion to stay the Chapter 11 case under
10 11 U.S.C. § 305(a) to allow the pending State Court
11 appeals from the default judgments held by petitioning
12 creditors and others to be resolved and to allow the
appeal from the order for relief and other orders of the
Bankruptcy Court to proceed before Mr. Marciano is
required to comply with requirements applicable to Chapter
11 debtors in possession and to comply with other
applicable rules, statutes and orders?

13 19. Did the Bankruptcy Court erroneously deny
14 Mr. Marciano's motion for a stay pending appeal under
15 Rule 8005 of the Federal Rules of Bankruptcy Procedure and
16 Rule 62 of the Federal Rules of Civil Procedure, as
potentially made applicable by Rule 7062 of the Federal
Rules of Bankruptcy Procedure?

17 In his Opening Brief on Appeal, Mr. Marciano points out that
18 after the Order for Relief was entered he "brought the motion again
19 as part [sic] his emergency stay motion." He summarizes his
20 concerns for not obtaining a stay under the § 305(a) Factors. He
21 concludes that incurring expenses in the Chapter 11 case until the
22 state court appeals are resolved "made no sense, yet the Court
23 denied the renewed motion out of hand by order entered January 10,
24 2011. That was an abuse of discretion."

25 The order to which he refers is not the order on the Stay
26

1 Motion.¹⁵ Instead, it is the order denying the second motion for
2 reconsideration of the Second Dismissal Order. Nowhere in his
3 Opening Brief does Mr. Marciano articulate any alleged error of the
4 bankruptcy court in denying the Stay Motion. Accordingly, he has
5 waived review of that order on appeal. Price v. Lehtinen (In re
6 Lehtinen), 332 B.R. 404, 410 (9th Cir. BAP 2005), aff'd, 564 F.3d
7 1052 (9th Cir. 2009); see also O'Rourke v. Seaboard Sur. Co. (In re
8 E.R. Fegert, Inc.), 887 F.2d 955, 957 (9th Cir. 1989).

9 VI. CONCLUSION

10 The bankruptcy court did not err when it concluded that the
11 judgments held by the Petitioning Creditors were not default
12 judgments, but instead were judgments based on terminating sanctions
13 resulting from Mr. Marciano's repeated discovery abuses in the state
14 court litigation. Neither did the bankruptcy court err when it
15 determined that judgments based on terminating sanctions are not in
16 bona fide dispute for purposes of § 303, or when it entered the
17 Summary Judgment Order and the resulting Order for Relief. The
18 bankruptcy court properly asserted jurisdiction over the Involuntary
19 Petition. Finally, the bankruptcy court did not abuse its
20 discretion through its orders with respect to the discovery process
21 in the proceedings before it, nor when it refused to dismiss or stay
22 the proceedings on the Involuntary Petition.

23 Accordingly, with respect to the issues before us in this
24 appeal, we AFFIRM the orders of the bankruptcy court.

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26 ¹⁵ The Stay Motion was heard by the bankruptcy court on
January 24, 2011; the order on the Stay Motion was entered
January 25, 2011.

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MARKELL, Bankruptcy Judge, dissenting:

I respectfully dissent. I believe the majority incorrectly applies or adopts the law on at least two points. Initially, I think it is incorrect and bad policy to adopt a “per se” rule regarding undisputed claims. Next, I believe the majority opinion improperly and incorrectly limits good faith principles with respect to the commencement and conduct of involuntary cases.

Adoption of the “Per Se” Rule as to Disputed Claims

The majority adopts a per se rule that an unstayed state court judgment conclusively determines that there is no bona fide dispute as to the debtor’s liability for the debt underlying the judgment, even if the debtor has taken an appeal from that judgment and that appeal is pending. Given the distinctly federal policies embodied in Section 303, and especially under the facts present here, I disagree that Section 303 requires, and Congress intended, such an inflexible rule.

The first court to adopt the per se rule was In re Drexler, 56 B.R. 960 (Bankr. S.D.N.Y. 1986). Drexler held that a claim represented by an unstayed final judgment never can be the subject of a bona fide dispute, even if subject to a pending appeal. Id. at 967. Drexler reasoned that precluding judgment creditors from filing involuntary petitions merely based on the pendency of an appeal would render involuntary petitions out of step with other debt collection remedies, because these other remedies may be

1 utilized by holders of unstayed final judgments, even while their
2 judgments are subject to appeals. Id. In Drexler's own words:

3 It would be contrary to the basic principles
4 respecting, and would effect a radical alteration of,
5 the long-standing enforceability of unstayed final
6 judgments to hold that the pendency of the debtor's
7 appeal created a "bona fide dispute" within the
8 meaning of Code § 303.

9 Id. (footnote omitted).

10 While several other courts have adopted Drexler's per se
11 rule,¹ the Fourth Circuit Court of Appeals rejected it as
12 unpersuasive. Platinum Fin. Serv. Corp. v. Byrd (In re Byrd), 357
13 F.3d 433, 438 (4th Cir. 2004). Other courts are in accord. See,
14 e.g., In re Starlite Houseboats, Inc., 426 B.R. 375 (Bankr. D.
15 Kansas 2010); In re Henry S. Miller Commercial, Inc., 418 B.R. 912,
16 920-23 (Bankr. N.D. Tex. 2009); see also In re Prisuta, 121 B.R. 474
17 (Bankr. W.D. Pa. 1990).

18 While Byrd acknowledged the general enforceability of
19 unstayed judgments, Byrd noted that nothing in § 303, or in the
20 Bankruptcy Code as a whole, mandated that holders of unstayed final
21 judgments be entitled to file involuntary petitions while their
22 judgments are subject to appeal. As stated in Byrd, "the Code does
23 not make the existence of a bona fide dispute depend on whether a
24 claim has been reduced to judgment." Id. After considering the
25 underlying purpose of the bona fide dispute clause in § 303(b), to

26 ¹See In re AMC Investors, LLC, 406 B.R. 478, 484 n.20 (Bankr.
D. Del. 2009) (listing cases). But see 2 Collier on Bankruptcy ¶
303.11[1] n.28 (Alan N. Resnick & Henry J. Sommer eds., 16th ed.
2011) (listing cases reaching conflicting results).

1 prevent creditors from coercing debtors into settlement of
2 legitimately disputed claims based on the threat of involuntary
3 bankruptcy,² Byrd concluded that the per se rule was inappropriate.
4 Rather, Byrd ruled that the unstayed final judgment was prima facie
5 evidence that no bona fide dispute existed. The presumption arose
6 upon presentation of the judgment, and the burden then shifted to
7 the alleged debtor to demonstrate the existence of a bona fide
8 dispute by presenting evidence of substantial legal or factual
9 questions. Id. at 438-40.

10 The controversy over the per se rule has continued after
11 Byrd. The Delaware bankruptcy court in In re AMC Investors, LLC,

12
13 ²The legislative history is thin on the addition of "bona fide
14 dispute" to the statute. Drexler identified the following statement
15 by its proponent, Senator Max Baucus of Montana, as the only
relevant legislative history:

16 The problem can be explained simply. Some courts have
17 interpreted Section 303's language on a debtor's general
18 failure to pay debts as allowing the filing of involuntary
19 petitions and the granting of involuntary relief even when
20 the debtor's reason for not paying is a legitimate and
21 good faith dispute over his or her liability. This
22 interpretation allows creditors to use the Bankruptcy Code
as a club against debtors who have bona fide questions
about their liability but who would rather pay up than
suffer the stigma of involuntary bankruptcy
proceedings

23 I believe this amendment although a simply [sic] one is
24 necessary to protect the rights of debtors and to prevent
25 misuse of the bankruptcy system as a tool of
coercion. . . .

26 In re Drexler, 56 B.R. at 966 (quoting 130 Cong. Rec. 17,151 (1984)
(statement of Sen. Max Baucus)).

1 406 B.R. at 484-87, rejected Byrd and instead followed Drexler. AMC
2 Investors offered several different grounds for rejecting Byrd.
3 According to AMC Investors, Byrd's approach "was unnecessarily
4 intrusive into the trial court's ruling and undermine[d] the
5 objective analysis of bona fide disputes." Id. at 485. AMC
6 Investors further determined that Byrd required an analysis of the
7 debtor's asserted factual and legal issues that was difficult and
8 unnecessary, and that Byrd's analysis rendered "the entry of a
9 judgment completely irrelevant in determining the existence of a
10 claim." Id. at 485-86. AMC Investors also asserted that Byrd
11 conflicted with Butner v. United States, 440 U.S. 48, 55 (1979),
12 which held that the underlying rights of parties in bankruptcy cases
13 generally are created and defined by applicable nonbankruptcy law.
14 As AMC Investors put it:

15 [t]he analysis in Byrd runs counter to the Butner
16 principle, which provides that, in the absence of a
17 specific provision to the contrary, bankruptcy courts
take non-bankruptcy rights and laws as they find them.

18 AMC Investors, 406 B.R. at 486 (emphasis added).³ Finally, AMC
19 Investors stated that Byrd's approach undermined the objective test
20 for discerning bona fide disputes.

21 I find the reasoning of both Drexler and AMC Investors to be
22 unpersuasive. Both cases disregard the plain meaning of Section
23 303(b)'s term "bona fide dispute." Subsequent to both Drexler and
24 AMC Investors, the Supreme Court has emphasized that, when Congress

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26 ³AMC Investors also argued that Byrd misconstrued the
definition of claim (see § 101(5)). Because my analysis does not
turn upon the definition of claim, I do not address this argument.

1 does not define a term, we must look first at its ordinary meaning.
2 Ransom v. FIA Card Servs., N.A., 131 S.Ct. 716, 724 (2011); Hamilton
3 v. Lanning, 130 S. Ct. 2464, 2471 (2010). The key portion of the
4 term in question is "bona fide" which generally means "1. Made in
5 good faith; without fraud or deceit. 2. Sincere; genuine." Black's
6 Law Dictionary 199 (9th ed. 2009). See also Oxford English
7 Dictionary ("bona fide" means "in good faith, with sincerity;
8 genuinely.") (last visited Sept. 13, 2011),
9 <http://www.oed.com/view/Entry/21238?>.⁴

10 Courts construing § 303 generally have interpreted "bona fide
11 dispute" according to its secondary meaning - focusing on
12 genuineness rather than on subjective good faith. See, e.g., In re
13 Vortex Fishing Systems, Inc., 277 F.3d at 1064-65. I do not take
14 issue with that focus. But Drexler and AMC Investors would have us
15 ignore the ordinary meaning of the term altogether. Both cases
16 would replace the terminology chosen by Congress with something
17 else, something fashioned from the courts' understanding of when
18 judgment creditors should be entitled to file an involuntary
19 bankruptcy, rather than attempting to discern Congress's
20 understanding based on the language it used.

21 So long as the plain meaning of the statute does not lead to
22 absurd results, our only task is to apply the statute as worded.

23
24 ⁴The dictionary definition of bona fide perhaps could justify a
25 subjective, good faith standard for determining whether a bona fide
26 dispute exists - a standard rejected by most circuits, including the
Ninth Circuit. See Liberty Tool, & Mfg. v. Vortex Fishing Sys, Inc.
(In re Vortex Fishing Sys, Inc.), 277 F.3d 1057, 1064 (9th Cir.
2002) (listing cases).

1 Lamie v. U.S. Trustee, 540 U.S. 526, 538 (2004). If Congress
2 actually meant to exclude unstayed judgments on appeal from the
3 category of claims subject to bona fide dispute, it is Congress's
4 sole prerogative to amend its statute to conform with its actual
5 intent. Id. at 542. As we recently stated,

6 in the argot of statutory interpretation, we will not
7 read into a statute additional words or terms, so as
8 to expand or contract the statute's coverage, when the
9 plain language of the statute as written is neither
10 absurd nor leads to absurd results.

11 Meyer v. Scholz (In re Scholz), 447 B.R. 887, 894 (9th Cir. BAP
12 2011) (citing Lamie, 540 U.S. at 538).

13 This is precisely the problem with Drexler and AMC Investors.
14 Both substitute their judgment of how involuntary bankruptcies
15 should commence for that of Congress, as expressed in § 303(b).
16 Ransom, Hamilton and Lamie undermine most of Drexler's and AMC
17 Investors' grounds for interpreting claims subject to "bona fide
18 dispute" as excluding unstayed judgments on appeal. Drexler focused
19 on keeping involuntary bankruptcies in step with nonbankruptcy
20 collection remedies available to judgment creditors, and AMC
21 Investors focused on the purportedly sacrosanct nature of state
22 court judgments and interests created by state law. But numerous
23 provisions of the Bankruptcy Code alter and affect nonbankruptcy
24 remedies, interests and judgments. The powers of the bankruptcy
25 trustee to assume or reject executory contracts (see § 365), to sell
26 property free and clear of liens when subject to dispute (see
§ 363(f)(4)), and to obtain credit secured by senior or equal liens
on property of the estate already encumbered (see § 364(d)) are but

1 a few of the Bankruptcy Code provisions that can significantly alter
2 the rights and duties of parties from that set forth under
3 nonbankruptcy law. Similarly, aspects of the automatic stay (see
4 § 362) and claims estimation procedure (see § 502(c)) can
5 drastically change the playing field from outside of bankruptcy.
6 Drexler and AMC Investors offer no reason at all, let alone a
7 persuasive one, why Congress could not move away from the
8 nonbankruptcy playing field by precluding all holders of claims
9 subject to bona fide dispute from filing an involuntary bankruptcy
10 petition.

11 Nor is AMC Investors' other reasoning compelling. AMC
12 Investors opined that it is both unnecessary and difficult for
13 bankruptcy courts to have to analyze whether there is any genuine
14 factual or legal issue raised in an appeal from a unstayed judgment.
15 But that necessity was determined by Congress, and it is not the
16 court's role to second-guess that necessity. As for difficulty,
17 "[t]he bankruptcy court need not resolve the merits of the bona fide
18 dispute, but simply determine whether one exists." Byrd, 357 F.3d
19 at 437.

20 Even if I agreed that this analysis could be complicated, the
21 difficulty of that analysis does not obviate our duty to undertake
22 it as necessitated by the statute. Courts regularly undertake
23 complex, time-consuming analyses as the result of provisions in
24 procedural rules or statutes. See, e.g., Pioneer Inv. Servs. Co. v.
25 Brunswick Assocs. Ltd. P'ship, 507 U.S. 380, 395 (1993) (adopting
26 fact-intensive, case-by-case test for determining excusable neglect

1 under Rule 9006(b)); Goeb v. Heid (In re Goeb), 675 F.2d 1386, 1390
2 (9th Cir. 1982) (adopting a totality of the circumstances test for
3 determining good faith under § 1325(a)(3)). In short, AMC
4 Investors' assessment of the necessity or difficulty of applying the
5 plain meaning of a provision of the Bankruptcy Code does not give
6 this court or any other court license to depart from the statute.

7 Finally, AMC Investors complained that Byrd's approach served
8 to undermine the objective test that most courts have adopted,
9 including the Ninth Circuit in Vortex. AMC Investors appears to
10 conflate a case-by-case inquiry with a subjective approach. While
11 the existence of a genuine issue of fact or a defensible legal
12 argument might be some evidence of subjective good faith, the two
13 are not equivalent, and the existence of factual or legal issues
14 just as easily could support an objective determination that the
15 claim is subject to bona fide dispute.

16 The facts of this case underscore the need to hew to the
17 statute's words. The massive judgment against Marciano is not a
18 judgment on the merits of petitioning creditors' claims, but rather
19 an unprecedented sanction for Marciano's conduct with respect to the
20 determination of those claims. The only reason that there is no
21 dispute is that the state court precluded Marciano from defending
22 himself by striking his answer and entering judgment as if he had
23 made no appearance at all. Simply put, Marciano undisputedly
24 disputes the claim; it is just that the state court muzzled him.

25 Byrd recognized that it would be "the unusual case in which a
26 bona fide dispute exists in the face of claims reduced to state

1 court judgments.” Byrd, 357 F.3d at 438. But if ever there were a
2 case in which the debtor could claim a dispute, this would be it.
3 And slavishly honoring the state-court sanctions judgment here
4 introduces strategic considerations for future petitioning
5 creditors. If such future creditors can convince a state court to
6 enter a judgment by default or as sanctions, they can effectively
7 dismantle the alleged debtor’s assets through an adroit use of
8 Section 303, usually in a manner that is more advantageous to them
9 than if they simply were left to the remedies afforded state-court
10 judgment creditors. Coupled with the size of the judgment against
11 Marciano, which effectively precluded a bond and thus a stay, the
12 majority effectively gives the petitioning creditors more than they
13 would have under applicable state law collection alternatives. This
14 cannot be the proper reading of Section 303(b).

15 The majority’s reasoning in this case is entirely derivative
16 of Drexler and AMC Investors. For the reasons set forth above, I
17 reject that reasoning and would reject the per se rule, in favor of
18 the approach adopted in Byrd, which held that an unstayed judgment
19 on appeal is prima facie evidence that the claim in question is not
20 subject to bona fide dispute, and that presentation of the judgment
21 shifts the burden to the alleged debtor to demonstrate that genuine
22 issues of fact or law have been raised in the appeal.

23 **Bad Faith Filing of an Involuntary Petition**

24 The majority also refuses to recognize the fundamental rule
25 that good faith is essential for any filing in federal court. The
26 majority would permit a bad faith filing of an involuntary petition

1 so long as the numerical and other mechanical requirements of
2 Section 303(b) are met. Because of the long tradition of requiring
3 good faith to initiate any proceeding in federal court, I also
4 dissent on this ground.

5 In considering whether a bankruptcy filing was appropriate,
6 bankruptcy courts have broad discretion to examine the equity of the
7 bankruptcy filing and to compare the motivation underlying the
8 subject bankruptcy filing with the purposes behind the enactment of
9 chapter 11. In re SGL Carbon Corp., 200 F.3d 154, 160 (3d Cir.
10 1999); Marsch v. Marsch (In re Marsch), 36 F.3d 825, 828 (9th Cir.
11 1994); In re Van Owen Car Wash, Inc., 82 B.R. 671, 673-74 (Bankr.
12 C.D. Cal. 1988).⁵ The weight of authority indicates that these
13 considerations and principles apply to involuntary cases as well,
14 especially in the case of collusive filings. See, e.g., In re
15 Bicoastal Holding Co., 402 B.R. 916, 919-21 (Bankr. M.D. Fla. 2009);
16 In re Sul, 380 B.R. 546, 555 (Bankr. C.D. Cal. 2007); In re Winn, 49
17 B.R. 237, 239 (Bankr. M.D. Fla. 1985). As Collier states, "[I]t is
18 generally agreed that involuntary filings must be in good faith and
19 that consequences flow if they are not. Dismissal is one possible

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22 ⁵In this regard, I believe that Section 1112(b) applies to this
23 involuntary chapter 11 proceeding. That section requires "cause" in
24 order to dismiss, and it is beyond cavil that a lack of good faith
25 in filing can constitute such "cause." See, e.g., In re SGL Carbon
26 Corp., 200 F.3d at 160. For background on the good faith filing
requirement in chapter 11, see Ali M.M. Mojdehi & Janet Dean Gertz ,
The Implicit "Good Faith" Requirement in Chapter 11 Liquidations: A
Rule in Search of a Rationale?, 14 Am. Bankr. Inst. L. Rev. 143
(2006).

1 consequence.” 2 Collier on Bankruptcy ¶ 303.16 (Alan N. Resnick &
2 Henry J. Sommer, eds., 16th ed. 2011) (Emphasis added).⁶

3 As stated in Van Owen Car Wash, “[t]he legislative history of
4 § 1112(b) indicates Congress’ intent that the bankruptcy court
5 retain broad equitable powers to dismiss petitions; “[t]he court
6 will be able to consider other factors as they arise, and to use its
7 equitable powers to reach an appropriate result in individual
8 cases.” Id. (quoting H.R. Rep. No. 95-595, at 405-06 (1977) and S.
9 Rep. No. 95-989, at 117-18 (1978)). Van Owen Car Wash further
10 emphasized that good faith should “be viewed as an implicit
11 prerequisite to the filing or continuation of a proceeding under
12 Chapter 11 of the Code.” Id. at 674 (quoting In re Victory Const.
13 Co., Inc., 9 B.R. 549, 558 (Bankr. C.D. Cal. 1981)).

14 Yet the majority upholds the bankruptcy court’s “staging” of
15 discovery so as to effectively prevent Marciano from taking
16 discovery concerning the petitioning creditors’ good faith. The
17 underlying purpose of an involuntary bankruptcy filing always is
18 relevant and may be grounds for dismissal if it amounts to an abuse
19 of the bankruptcy process. See, e.g., In re Bicoastal Holding Co.,
20 402 B.R. at 919-21; In re Sul, 380 B.R. at 555; In re Winn, 49 B.R.
21 at 239. Without giving Marciano an opportunity to take discovery,
22 the bankruptcy court committed reversible error by incorrectly and

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24 ⁶Although this section of Collier nominally deals with bad
25 faith in the context of Section 303(i), the listing of dismissal as
26 a consequence of a bad faith filing logically precedes any
determination of damages under Section 303(i), and thus it
recognizes that bad faith alone can support dismissal of an
involuntary petition.

1 prematurely determining that Marciano could not adduce facts showing
2 that the petitioning creditors had abused the bankruptcy process.

3 In short, unlike the majority, I believe that the subjective
4 motivations underlying the involuntary bankruptcy filing are
5 relevant even before entry of the order for relief. To hold
6 otherwise undermines the broad discretion that Congress gave to the
7 bankruptcy courts to investigate on a case-by-case basis the
8 propriety of bankruptcy filings (whether voluntary or involuntary),
9 to do equity, and to ensure that bankruptcies filed for improper
10 purposes are dispensed with in an expeditious manner.

11 **Conclusion**⁷

12 For the reasons stated above, I respectfully dissent.
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21 ⁷Although I also have concerns about the entry of an order for
22 chapter 11 relief against an unwilling individual debtor, the record
23 here does not adequately develop facts related to those concerns.
24 Accordingly, I will just note that involuntary chapter 11 cases
25 against individuals may raise serious constitutional issues. See
26 generally Margaret Howard, Bankruptcy Bondage, 2009 U. Ill. L. Rev.
191; Erwin Chemerinsky, Constitutional Issues Posed in the
Bankruptcy Abuse and Consumer Protection Act of 2005, 79 Am. Bankr.
L.J. 571, 586-88 (2005).