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UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF CALIFORNIA

In re:) Case No. 11-28853-D-7
)
ROBERT MATTHEW LANGFIELD and) Docket Control No. DNL-2
JULIE LEIGH LANGFIELD,)
) Date: December 14, 2011
Debtors.) Time: 10:00 a.m.
) Dept: D

This memorandum decision is not approved for publication and may not be cited except when relevant under the doctrine of law of the case or the rules of claim preclusion or issue preclusion.

MEMORANDUM DECISION

On September 28, 2011, the chapter 7¹ trustee in this case, J. Michael Hopper (the "Trustee"), filed a Motion to Approve Compromise (the "Motion") to resolve certain relief that was requested by Evelyn Pettit Rollins ("Pettit") in Adversary case number 11-02499 (the "Complaint"). As of August 31, 2011, the Trustee and Pettit entered into a settlement agreement (the "Settlement Agreement"). The hearing on the Motion was twice continued, and on December 14, 2011, the court took the Motion under submission. For the reasons set forth below, the court will grant the Motion.

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1. Unless otherwise indicated, all Code, chapter, and section references are to the Bankruptcy Code, 11 U.S.C. §§ 101-1532. All Rule references are to the Federal Rules of Bankruptcy Procedure, Rules 1001-9037.

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I. THE COMPROMISE

The matter proposed to be compromised is Pettit's request in the Complaint for declaratory relief that Robert Matthew Langfield and Julie Leigh Langfield (the "Debtors" or "Defendants") do not own in fee simple the one-acre real property parcel located at 3327 and 3331 County Road 88B, Dunnigan, California 95937 (the "Dunnigan Property").² Moreover, Pettit claims that she has an equitable ownership interest in the Dunnigan Property pursuant to a purported arrangement between her and the Debtors.³

Pettit is married to Julie Langfield's father, Willard D. Rollins. Pettit asserts that she offered the Debtors a sum of money for the specific purpose of enabling the Debtors to make improvements to the Dunnigan Property. In exchange, Pettit claims that Robert Langfield agreed to perform the necessary labor to install a modular home and garage on the Dunnigan Property, and allow Pettit and Rollins to live on the Dunnigan Property for the rest of their lives -- rent-free. Pettit
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2. The Debtors estimate that the value of the Dunnigan Property is \$180,000.00, subject to a \$50,000.00 secured claim held by Robert and Alicia Larsen of Sacramento, California, and a \$2,042.00 secured property tax claim held by the County of Yolo. The Debtors claim a homestead exemption in the Dunnigan Property with a value of \$127,958.00. Debtors' Schedules A & C, filed on April 8, 2011.

3. In the Complaint, Pettit's prayer for relief includes, in relevant part, a request for a judgment declaring that the Defendants do not own the Dunnigan Property in fee simple; awarding Pettit a proportionate ownership interest in the Dunnigan Property; and ordering that the affairs of the joint venture be wound up lawfully. Pettit's Complaint to Determine Dischargeability of a Debt, filed on July 14, 2011 at ¶¶ 3-5.

1 asserts that this arrangement gave rise to a "joint venture"
2 between Pettit and the Debtors.

3 As reflected in the Settlement Agreement, the compromise
4 provides that Pettit will assign to the Trustee all her rights in
5 the purported joint venture in the Dunnigan Property, including
6 Pettit's claimed equitable ownership interest in the Dunnigan
7 Property; attendant profits and return of capital; and Pettit's
8 right to object to the Debtors' homestead exemption.⁴ In
9 exchange for this concession, Pettit will be granted a
10 \$125,000.00 allowed claim against the Debtors' bankruptcy estate,
11 secured by 50% of the net proceeds that are eventually realized
12 if and when the Trustee sells the Dunnigan Property.^{5 6}
13 Significantly, the Settlement Agreement provides a release
14 whereby Pettit will not pursue further any claim of ownership in
15 the Dunnigan Property.⁷

16 In effect, the Settlement Agreement resolves the relief
17 requested in the Complaint; namely, Pettit's request for an order
18 declaring that the Debtors do not own the Dunnigan Property in
19 fee simple; that Pettit has an equitable ownership interest in
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22 4. Motion to Approve Compromise, filed on September 28,
23 2011 ("Motion") at 2:20-21; Motion, Exh. A, Settlement Agreement,
executed on August 31, 2011 ("Agreement") at ¶ 2.

24 5. The Debtors' have indicated that Pettit has an unsecured
25 claim of \$77,046.00 pursuant to a promissory note. The Debtors'
26 have also listed an unsecured claim for the same amount in the
name of Willard Rollins, also pursuant to a promissory note.
Debtors' Schedule F, filed on April 8, 2011.

27 6. Motion, Exh. A, Agreement at ¶ 4.

28 7. Motion, Exh. A, Agreement at ¶ 5.

1 the Dunnigan Property; and that there is a joint venture that is
2 required to be wound up.

3 **II. THE POSITIONS OF THE PARTIES**

4 The Trustee contends that the compromise is fair and
5 equitable under applicable Ninth Circuit standards. The court
6 agrees; application of the relevant factors will be discussed
7 below.

8 The Debtors oppose the Motion. They contend that (1)
9 Pettit's ownership claim in the Dunnigan Property is uncertain
10 and yet to be determined and (2) the Trustee has failed to make a
11 prima facie showing of the relevant factors used in determining a
12 Rule 9019 motion.

13 It is significant that no other parties aside from the
14 Debtors have objected to the compromise, and that the compromise
15 eliminates a significant impediment to the Trustee's efforts to
16 administer the Dunnigan Property for the benefit of the estate.

17 As discussed below, the court finds that the Settlement
18 Agreement is fair and equitable and is in the best interest of
19 the estate in that it resolves contentious and expensive
20 litigation with Pettit over the estate's main asset: the Dunnigan
21 Property.

22 **III. ANALYSIS**

23 This court has jurisdiction over the Motion pursuant to 28
24 U.S.C. §§ 1334 and 157(b)(1). The Motion is a core proceeding
25 under 28 U.S.C. § 157(b)(2)(A), (B), (C), (I), and (O).

26 **A. Applicable Legal Standards**

27 "The law favors compromise and not litigation for its own
28 sake, and as long as the bankruptcy court amply considered the

1 various factors that determined the reasonableness of the
2 compromise, the court's decision must be affirmed." In re A & C
3 Properties, 784 F.2d 1377, 1381 (9th Cir. 1986). "Rather than an
4 exhaustive investigation or a mini-trial on the merits, the
5 bankruptcy court need only find that the settlement was
6 negotiated in good faith and is reasonable, fair and equitable."
7 Spiertos v. Ray (In re Spiertos), 2006 Bankr. LEXIS 4894 at *32
8 (9th Cir. B.A.P. 2006). The court's "proper role is 'to canvas
9 the issues and see whether the settlement falls below the lowest
10 point in the range of reasonableness.'" Id. (quoting In re
11 Pacific Gas & Elec. Co., 304 B.R. 395, 417 (Bankr. N.D. Cal.
12 2004)).

13 **B. The Compromise is Fair and Equitable⁸**

14 Although the bankruptcy court has "great latitude in
15 approving compromise agreements," it may approve a compromise
16 only if it is "fair and equitable." In re Woodson, 839 F.2d 610,
17 620 (9th Cir. 1988), citing A & C Properties, 784 F.2d at 1381.
18 In making this determination, the court must consider the
19 following factors:

20 (a) The probability of success in the litigation; (b)
21 the difficulties, if any, to be encountered in the
22 matter of collection; (c) the complexity of the
litigation involved, and the expense, inconvenience and

23 8. The Trustee asserts that the Debtors lack standing to
24 oppose the compromise. The court disagrees. Rule 9019 provides
25 that, "[n]otice shall be given to creditors, the United States
26 trustee, *the debtor*, and indenture trustees as provided in Rule
27 2002 and to any other entity as the court may direct." Fed. R.
28 Bankr. P. 9019(a) (emphasis added). Thus, the plain language of
Rule 9019 contemplates *the debtor* as a potential objector to a
compromise motion. See In re RFE Indus's, Inc., 283 F.3d 159,
164 (3d Cir. 2002) ("It is implicit in the debtor's being given
notice in this fashion that the debtor may object to a proposed
settlement.")

1 delay necessarily attending it; (d) the paramount
2 interest of the creditors and a proper deference to
their reasonable views in the premises.

3 Id.

4 "The trustee, as the party proposing the compromise, has the
5 burden of persuading the bankruptcy court that the compromise is
6 fair and equitable and should be approved." A & C Properties,
7 784 F.2d at 1381. The Trustee depicts Pettit as a sympathetic,
8 elderly woman, who was induced to give a substantial sum of money
9 towards improvements on the Dunnigan Property -- a set of facts
10 that may garner the sympathy of a fact finder. Although the
11 Trustee makes only a cursory analysis as to Pettit's probability
12 of success in the litigation, the Trustee makes a far more
13 compelling case on the other relevant Woodson factors, as
14 discussed below.

15 The Debtors, on the other hand, completely misapprehend the
16 court's role in ruling upon the Motion. The Debtors attempt to
17 litigate -- through their papers -- the merits of Pettit's claim
18 to ownership in the Dunnigan Property. Specifically, they set
19 forth various sections of the California Civil Code and make
20 arguments based in contract law as their basis for refuting
21 Pettit's asserted ownership interest in the Dunnigan Property.⁹
22 These arguments are not dispositive in the context of a Rule 9019
23 motion. In fact, such arguments in opposition represent a
24 misunderstanding of the court's role in ruling on a Rule 9019
25 compromise motion. The court is not required to rule on disputed
26 issues of fact, but only to canvas the issues. Burton v. Ulrich

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28 ⁹. Opposition of Motion to Approve Compromise, filed on
October 11, 2011 ("Opposition") at 3:3-5:11.

1 (In re Schmitt), 215 B.R. 417, 423 (9th Cir. B.A.P. 1997). Thus,
2 the court need not determine whether Pettit's asserted ownership
3 right in the Dunnigan Property -- whether by joint venture, life
4 estate, or otherwise -- in fact exists.

5 Although the Trustee provides only a cursory analysis of one
6 prong of the Woodson factors, this is not dispositive. The
7 probability of success factor is just one factor among others.
8 On balance, the court finds that the compromise clearly satisfies
9 the other relevant Woodson factors, and, as such, the court
10 concludes that the compromise is fair and equitable and in the
11 best interest of the estate.

12 The Trustee has succeeded in compromising Pettit's claim of
13 ownership under terms that are reasonable under all the
14 circumstances, including, as discussed below, the likely costs of
15 litigation, and Pettit has agreed to assign all ownership rights
16 in the Dunnigan Property to the Trustee. This assignment of
17 rights transmutes a three-party dispute over the Dunnigan
18 Property into a two-party dispute, which will translate to
19 substantial benefits to the estate.

20 The Woodson factor concerned with difficulties in the matter
21 of collection is neutral to the Motion. Since the legal matter
22 proposed to be compromised is Pettit's purported interest in the
23 Dunnigan Property, the appropriate remedy would be a quiet title
24 action or some other declaratory remedy. In that sense, because
25 the recovery would not be monetary, there is no matter of
26 collection.

27 The remaining Woodson factors are what put this compromise
28 well within the range of reasonableness. Namely, the complexity

1 of the litigation and the associated expense, inconvenience and
2 delay, and the paramount interest of the creditors weigh in favor
3 of the court's approval.

4 Litigation of Pettit's asserted ownership interest in the
5 Dunnigan Property is not as simple as the Debtors make it.
6 Pettit's assertion of a joint venture with the Debtors
7 necessarily entails a fact-intensive inquiry based in general
8 partnership law. Under California law and general partnership
9 principles, a partnership is an association of two or more
10 persons to carry on, as co-owners, a business for profit.¹⁰ Since
11 the arrangement between Pettit and the Debtors results from oral
12 agreements, the task of divining the parties' intent would be
13 difficult and time consuming. The same expensive and time-
14 consuming inquiry would take place in the context of determining
15 whether Pettit was given a life tenancy in the Dunnigan Property.

16 Pettit, the estranged wife of Julie Langfield's father,
17 allegedly parted with a significant amount of money in pursuit of
18 having a home developed by her then son-in-law, Robert Langfield.
19 The court is convinced that, without the proposed compromise,
20 Pettit would be prepared to litigate her alleged ownership in the
21 Dunnigan Property. The Trustee would have to expend resources of
22 the estate -- both in terms of time and money -- to challenge
23 Pettit in the event that the Trustee proceeds to market and sell
24 the Dunnigan Property.

25 In his objection to the Debtors' homestead exemption, the
26 Trustee asserts the very same claim that Pettit has agreed to

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28 10. See generally Cal. Corp. Code § 16202(a) (defining
formation of a partnership).

1 compromise under the Motion: that the Dunnigan Property is the
2 property of a joint venture between Pettit and the Debtors. As
3 such, the court finds reasonable the Trustee's decision to
4 combine Pettit's claims against the Debtors with the Trustee's
5 exemption objection. Doing so eliminates the complexity and
6 confusion that would arise if Pettit's claims were being
7 litigated at two different levels: i.e., Pettit vs. the Debtors,
8 and Pettit via the Trustee's exemption objection vs. the Debtors.

9 If the Trustee is successful in his objection to the
10 Debtors' homestead exemption, it should result in a meaningful
11 distribution to creditors. With that said, the court is also
12 sensitive to money spent investigating and litigating contentious
13 and distracting issues, which would result in fewer dollars being
14 available to creditors. Accordingly, because the court perceives
15 unnecessary complexity and attendant expense and delay in the
16 litigation of Pettit's ownership claims without a compromise,
17 this factor weighs heavily in favor of the compromise.

18 Finally, the compromise serves the paramount interest of
19 creditors and reflects a proper deference to their reasonable
20 views. The court is mindful that only the Debtors opposed the
21 Motion; no creditor has voiced any opposition to the compromise.
22 Although this alone is not dispositive, it is considered by the
23 court in determining what is in the best interest of the
24 creditors. The certainty that litigation would be expensive and
25 time-consuming, and the likelihood that even a successful outcome
26 may be significantly offset by the costs of achieving it, the
27 court concludes that the compromise is in the best interest of
28 creditors and the estate.

The court will not second guess the Trustee's business judgment in agreeing to provide Pettit with an allowed claim of \$125,000.00. That figure incorporates Pettit's scheduled claim of \$77,046.00 and attributes some value to Pettit's purported interest in the Dunnigan Property. The court agrees with the Trustee that having the ability to efficiently administer and sell the Dunnigan Property without distracting and litigious confrontation from Pettit is a substantial benefit to creditors -- indeed, of paramount importance to creditors.

IV. CONCLUSION

The court concludes that the relevant Woodson factors significantly weigh in favor of the compromise, and thus, that the compromise is fair and equitable.

The court will enter an appropriate order.

Dated: January 19, 2012

/s/
ROBERT S. BARDWIL
United States Bankruptcy Judge