NOT FOR PUBLICATION

UNITED STATES BANKRUPTCY COURT

EASTERN DISTRICT OF CALIFORNIA

In re: ZOOM, INC., Debtor.	Case No. 25-22495-C-7 DCN No. DCD-1

ORDERS ON MOTION TO QUASH, MOTION FOR PROTECTIVE ORDER, AND COUNTER-MOTION TO COMPEL

CHRISTOPHER M. KLEIN, Bankruptcy Judge.

Chapter 7 Trustee Jeffrey Vetter is liquidating the bankruptcy estate of Zoom, Inc., in which one owner of the two-owner close corporation is alleged to have stripped it of assets by way of a bulk transfer without compliance with applicable California law and in fraud of the other owner. Left with no corporate assets, the marooned owner, is also prosecuting two state-court actions, both on his behalf and derivatively, filed this chapter 7 case for Zoom, Inc., on May 21, 2025.

The Trustee reported finding assets in potential avoidance and recovery claims on behalf of Zoom, Inc., that might provide a return for creditors and caused a claims deadline to be fixed.

The filed claims total $581,209.17, including $537,868.45 owed to the United States Small Business Administration ("SBA"). The SBA claim is on a $500,000 modified note dated March 1, 2022. Claim 4-1 ($500,000 principal + $37,868.45 interest).

Allegations Pertinent to Administration of Estate

The Trustee, as related in his Motion to Employ Special Counsel, was advised of allegations that suggest the possibility of recoveries by the Trustee for the estate:

3. Debtor was formerly engaged in the business of selling automobiles within the State of California. There were two members of the Board of Directors of the Debtor: Naeim Zamani Mahfroujaki ("Zamani") and Seyedmohammad Caranizadeh ("Caranizadeh").

4 ... [Pending state-court actions identified]
The Trustee has been informed of the following events relevant to these actions and to the Debtor:

(a): On or about January 2, 2023, without the consent or approval of the Debtor's Board of Directors as required by Debtor's Bylaws (Art. II, §§ 2.1, 2.8(a)) and California Corporations Code § 1001, Caranizadeh entered into a "Bulk Purchase Agreement" with Armani Financial Group, Inc. dba Armani Motors ("Armani"), pursuant to which Debtor sold all of its vehicle inventory to Armani for $400,000. The vehicles sold had cost Debtor between approximately $700,000 and $750,000 and at the time of the sale, had a fair market value of nearly $1,000,000. The sale was executed unilaterally by Caranizadeh without the consent or knowledge of Zamani, the equal co-owner (50% shareholder) and co-director of Zoom's two-member Board of Directors. By causing Zoom to sell substantially all of its vehicle inventory on grossly unfavorable terms and without Board approval [authorities omitted], Caranizadeh acted in violation of Zoom's governing documents and his fiduciary duties of loyalty and care under California Corporations Code § 309.

(b): On or about the same date, January 2, 2023, again without any authorization of the Board of Directors as required by Debtor's Bylaws (Art. II, §§ 2.1, 2.8(a)), Caranizadeh caused Debtor to enter into an "Equipment Purchase Agreement" with Armani pursuant to which Debtor sold its shop equipment, tools, and office furniture to Armani for only $20,000, even though such equipment and office furniture had a fair market value between approximately $300,000 and $400,000. This transaction likewise was undertaken without the knowledge or consent of Zamani and without the Board or shareholder approvals required by Debtor's Bylaws [citations omitted] and therefore constitutes a further breach of Debtor's Bylaws and of Caranizadeh's fiduciary duties of loyalty and care under California Corporations Code § 309.

5. The Chapter 7 Trustee is informed that if the actions described herein are either continued or <u>prosecuted separately in this Chapter 7 case</u>, with the assistance of Proposed Counsel, the Chapter 7 Trustee is informed that the Debtor may potentially recover, among other things:

a. Approximately $500,000 in loan proceeds received from the United States Small Business Administration and allegedly misappropriated by Caranizadeh;

b. Damages in the approximate amount of $700,000 to $750,000 representing the difference between fair market value of the vehicles sold in the bulk purchase described above and the consideration actually received; and

c. Damages in the approximate amount of $300,000 to $400,00 arising from the undervalued sale of equipment and office furniture to Armani Financial Group, Inc. dba Armani Motors.

6. The Trustee has further determined that it is in the best interests of the estate to employ Proposed Counsel because they can assist in recovering approximately over $1,000,000 in cash that is estate property that is being wrongfully held by Caranizadeh, who purports to be holding the funds on behalf of the Debtor. The following is a summary of the dates and amounts totaling $1,030,000 which Defendant Caranizadeh has wrongfully taken from Zoom’s checking and savings accounts and secreted into another account:

a. On May 31, 2022, Defendant Caranizadeh made a withdrawal from Defendant Zoom’s Bank of America checking account in the amount of $100,000.

b. On May 31, 2022, Defendant Caranizadeh made a withdrawal from Defendant Zoom’s Bank of America checking account in the amount of $400,000.

c. On June 29, 2022, Defendant Caranizadeh transferred $250,016.71 from Defendant Zoom’s Bank of America Savings Account into Defendant Zoom’s Bank of America Checking Account. The said $250,016.71 was part of a $500,000 loan obtained by Defendant Zoom from the federal Small Business Administration (“SBA”) and the SBA rules and regulations required that the loan be used only for business purposes and not for any personal use or purpose. The entire SBA loan in the amount of $500,000 has been taken by Defendant Caranizadeh from Defendant Zoom’s bank accounts.

d. On June 30, 2022, Defendant Caranizadeh made a withdrawal from Defendant Zoom’s Bank of America checking account in the amount of $530,000, which included the $250,016.71 that Defendant Caranizadeh had transferred on June 29, 2022 from Defendant Zoom’s Bank of America Savings Account into Defendant Zoom’s Bank of America Checking Account.

Motion to Employ Special Counsel, Dkt. #29 (emphasis supplied).

<u>Employment of Special Counsel</u>

Caranizadeh opposed the Motion to Employ. Dkts. 36-40 & 48.

This Court, taking into account the totality of circumstances identified in the Motion to Employ — (1) mindful that Caranizadeh is not a “creditor” entitled to object pursuant to 11 U.S.C. § 327(c); (2) mindful that prospective defendants opposing selection of the counsel who would sue them is to be viewed with skepticism; (3) persuaded that there is not an actual conflict inherent in the terms of proposed employment; and (4) mindful that 11 U.S.C. § 328(c) provides a powerful tool for retroactively policing interests adverse to the interests of the estate if the Court’s initial view was incorrect — granted the Motion to Employ Special Counsel. Dkt. 54.

This Court was and remains persuaded that it is able appropriately to monitor and separate litigation interests and proceeds as between Zamani and the estate.

Possible Bankruptcy Litigation

The allegations certainly suggest that, if true, there are bankruptcy-related causes of action for the Trustee to pursue under avoiding powers and turnover powers.

No bankruptcy adversary proceeding or bankruptcy contested matter has yet been filed in this Zoom, Inc., case. A current task for the chapter 7 trustee is to determine whether and how to proceed in the interests of the estate, particularly with respect to the unique avoiding powers that the Bankruptcy Code affords on behalf of the estate.

If the Trustee chooses to litigate, then he will be subject to the requirement that he make an “inquiry reasonable under the circumstances.” Fed. R. Bankr. P. 9011(b).

Rule 2004

In furtherance of his evaluation of how to proceed and his duty to make an inquiry reasonable under the circumstances, the Trustee filed a motion to authorize Bankruptcy Rule 2004 examination, with production of documents, of Armani Financial Group, Inc.

Rule 2004 is the basic discovery device in bankruptcy cases. It allows examination of any entity on motion filed with the Court. Fed. R. Bankr. P. 2004(a).

The scope of examination is broad but limited. It extends in chapter 7 cases to: (A) the debtor's acts, conduct, or property; (B) the debtor's liabilities and financial condition; (C) any matter that may affect the administration of the debtor's estate; (D) the debtor's right to a discharge. Fed. R. Bankr. P. 2004(b)(1).

The Collier Treatise explains: The scope of a Rule 2004 examination is exceptionally broad and the rule itself is peculiar to bankruptcy law and procedure because it affords few of the procedural safeguards that an examination under Rule 26, Fed.R.Civ.P. does. Such examinations are subject to the Court's discretionary power and are allowed for the purpose of discovering assets and unearthing frauds and have been compared to a "fishing expedition." 9 Collier on Bankruptcy ¶ 2004.01[1] ("Collier").

Third parties, such as Armani, may be examined. Attendance may be compelled pursuant to Rule 9016 (incorporating Civil Rule 45). Sanctions per Rule 45 may be imposed for failure to appear. 9 Collier ¶ 2004.01[6]; Fed. R. Civ. P. 45(e)-(g).

Notably, the discovery rules of the Federal Rules of Civil Procedure do not apply to Rule 2004 examinations. While protective orders may be issued, they are not governed by Rule 26(c), Fed.R.Civ.P.

This Court determined there was "good cause" and a "reasonable basis" for the trustee to conduct the proposed examination as being within the permitted scope of a Rule 2004 examination, to wit: the debtor's acts, conduct, or property; the debtor's liabilities and financial condition; and matters that affect the administration of the debtor's estate. Fed. R. Bankr. P. 2004(b)(1).

A subpoena duces tecum was issued. The response from Armani was the instant Motion to Quash and the Motion for Protective Order. The Trustee responded with a Counter-Motion to Compel.

The Motion to Quash urged that the Rule 2004 examination should not be permitted. It was objected that the Trustee was exceeding the scope of discovery permitted by Rule 2004. And it was objected that discovery was being attempted in matters that are already pending in state courts.

At a hearing regarding all three motions on July 29, 2026, the Court focused primarily on the Motion for Protective Order and what the terms of such an order would be while honoring the Trustee's Rule 2004 rights. The hearing was continued on the calendar until August 12, 2026, so that this Court could consider the matter with the benefit of the parties' respective written versions of protective orders.

This Court has now had the opportunity to review the proposed protective orders and consider the situation in light of the totality of circumstances.

Motion to Quash

A third party, such as Armani, may object to a Rule 2004 examination and make a Motion to Quash.

The first issue that arises with respect to a Motion to Quash a 2004 examination is whether the party seeking the examination can demonstrate "good cause" that the Court assesses by the "totality of circumstances." 9 Collier ¶ 2004.01[6].

A Motion to Quash is committed to the discretion of the bankruptcy court. 9 Collier ¶ 2004.01[7].

Here, the Trustee is the party that sought the examination. In issuing the order, this Court was persuaded there was "good cause" to issue the order. Now that Armani has objected, this Court has taken a second look through the lens of "totality of circumstances" and remains persuaded there remains "good cause" to require the Rule 2004 examination.

Armani objects the examination goes beyond the scope allowed by Rule 2002(b). The allegations reported in the Motion to Employ Special Counsel identify multiple potential causes of action on theories such as avoidance and turnover that the Trustee might pursue, all for the purpose of recovering for the benefit of the estate. As such, this Rule 2004 examination is squarely within the scope prescribed by Rule 2004(b)(1)(C): "any matter that may affect the administration of the debtor's estate." Recovery of assets for distribution to creditors is at the heart of "administration of the debtor's estate."

Armani also objects the Rule 2004 examination offends judge-made "pending proceeding rule." That discretionary rule provides that if there is a pending bankruptcy adversary proceeding or bankruptcy contested matter, then the parties may not use the broad scope and timing of Rule 2004 to discover information that is within the Civil Rule 26(b) scope of ordinary federal civil discovery in the pending proceeding. In such cases, the parties are relegated to the discovery devices embodied in Rules 7026-7037 (i.e., F.R.Civ.P. 26-37), which permit deeper and more invasive discovery than Rule 2004 with a narrower focus.

The "pending proceeding rule," however, does not bar a Rule 2004 examination seeking information not within the scope of Rule 26(b), and not intended for use, in the pending proceeding.

Here, there is no pending adversary proceeding or contested matter in the Zoom, Inc. case to which the "pending proceeding rule" could apply. Whether there will be such a proceeding depends upon the election of the Trustee about how to proceed.

It is noted in this respect that it is not uncommon for identical civil actions to proceed in state court and federal court. Whenever there is such a situation, the courts are in a race to judgment between state and federal courts – it happens most when the bankruptcy court can finish trial within one year when state courts are backed up for years for trials. Here, it is conceivable that the Trustee may elect to file adversary proceedings that are substantially identical to actions already pending in state court.

Armani's objections are OVERRULED.

Motion for Protective Order

A subpoena duces tecum was issued. The response from Armani was the instant Motion to Quash and related Motion for Protective Order. The Trustee responded with a Counter-Motion to Compel.

At a hearing regarding all three motions on July 29, 2026, the Court focused primarily on the Motion for Protective Order and what the terms of such an order would be while honoring the Trustee's Rule 2004 rights. The hearing was continued on the calendar until August 12, 2026, to provide this Court with the parties' respective written versions of protective orders.

This Court has now reviewed the proposed protective orders and considered the situation in light of the totality of circumstances.

The version of protective order proposed by the Trustee is appropriate and will be entered, as an order of the Court, rather than as a stipulation.

Accordingly, the Motion for Protective Order is GRANTED.

Counter-Motion to Compel

This Court, having determined that the Order granting the Motion For Rule 2004 examination was correctly based on "good cause" in light of the "totality of circumstances" identified in that motion, the Trustee's Counter-Motion to Compel Armani Financial Group, Inc. to comply with Rule 2004 subpoenas under Federal Rule of Civil Procedure 45(e), and enforceable per Rule 45(g), is:

GRANTED.

SO ORDERED.

Dated: August 11, 2026

United States Bankruptcy Judge