UNITED STATES BANKRUPTCY APPELLATE PANEL OF THE NINTH CIRCUIT

In re Matheson Flight Extenders, Inc.; Matheson Postal Services, Inc.; Matheson Trucking, Inc.

In re Matheson · No. BAP No. EC-25-1142-LSB · Decided May 11, 2026

SUMMARY

The United States Bankruptcy Appellate Panel of the Ninth Circuit reviews an order subordinating and partially disallowing claims held by creditors arising from a discrimination judgment and subsequent settlement. The Panel holds that the bankruptcy court could look behind the settlement to characterize the claims as punitive damages, but could not apply 11 U.S.C. § 1129(a)(7) post-confirmation to subordinate the claims. It also reverses the disallowance of $2.7 million as an unenforceable penalty and remands for further proceedings.

CASE DETAILS

COURT	United States Bankruptcy Appellate Panel of the Ninth Circuit
WRITING FOR THE COURT	Judge Lafferty; Lafferty; Spraker; Brand
JURISDICTION	United States Bankruptcy Appellate Panel of the Ninth Circuit
DECIDED	May 11, 2026
DOCKET	BAP No. EC-25-1142-LSB
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	Appeal from a bankruptcy court order subordinating the appellants' claim and disallowing $2.7 million as an unenforceable penalty in the debtors' chapter 11 cases.
STANDARD OF REVIEW	Orders allowing or disallowing proofs of claim are reviewed for abuse of discretion; factual findings are reviewed for clear error; legal conclusions are reviewed de novo; mixed questions concerning due process are reviewed de novo.
PRECEDENTIAL VALUE	published
PARTIES	Mahamet Camara, Andre de Olivera, Bemba Diallo, Salif Diallo, Macire Diarra, Ardith Duke, as Personal Representative of the Estate of Ernie Duke, Dean Patricelli v. Matheson Flight Extenders, Inc., Matheson Postal Services, Inc., Matheson Trucking, Inc.

TOPICS

chapter 11 · proof of claim · appellate procedure · statutory interpretation · liquidated damages

PRACTICE AREAS

bankruptcy · bankruptcy reorganization · bankruptcy appellate practice · contract remedies · employment discrimination

QUESTIONS PRESENTED

1. Whether Brown v. Felsen and Archer v. Warner permitted the bankruptcy court to look behind the settlement and plan to characterize the appellants' claim as arising from punitive damages.
2. Whether the bankruptcy court could subordinate the appellants' claim under 11 U.S.C. § 1129(a)(7) after confirmation of the chapter 11 plan.
3. Whether $2.7 million due under the settlement's judgment clause was an unenforceable penalty under Nevada law.

HOLDINGS

1. Brown v. Felsen and Archer v. Warner permitted the bankruptcy court to look behind the settlement and plan to determine the true nature of the debt; the settlement and plan did not prevent characterization of the claim as arising from punitive damages.
2. Section 1129(a), including § 1129(a)(7), applies as a precondition to plan confirmation and does not authorize post-confirmation subordination of a claim absent a statutorily compliant plan modification or another applicable legal basis.
3. Section 726(a)(4) does not directly apply in a chapter 11 case; it may be consulted only as part of the hypothetical chapter 7 liquidation analysis required by § 1129(a)(7)(A)(ii).
4. The bankruptcy court abused its discretion by disallowing $2.7 million as an unenforceable penalty under Nevada law.

KEY QUOTATIONS

> *"The only statutory exception Congress created to § 1129(a)'s pre-confirmation application is in § 1127, which provides that a plan proponent may modify a plan post-confirmation "before substantial consummation of such plan," and then only if the modified plan meets the requirements of §§ 1122 and 1123, "circumstances warrant such modification" and the bankruptcy court, "after notice and a hearing, confirms such plan as modified, under section 1129 of this title.""* (18)

> *"Ultimately, the 2015 Settlement benefitted MFE and MTI by capping the damages they would owe the Camara Creditors."* (28)

FACTUAL BACKGROUND

A federal jury awarded the Camara Creditors $968,100 in compensatory damages and $14 million in punitive damages in a racial-discrimination, retaliation, and hostile-work-environment action against MFE and MTI. During MFE's 2015 chapter 11 case, the parties settled for payments totaling $7,299,999, with a default provision permitting entry of a stipulated $10 million judgment less payments received. The settlement was incorporated into a confirmed plan, and the debtors paid $6,206,249 before defaulting and filing the current chapter 11 cases. The bankruptcy court later subordinated the remaining claim and disallowed $2.7 million as an unenforceable penalty.

PROCEDURAL HISTORY

The appellants obtained a federal discrimination judgment against Matheson Flight Extenders and Matheson Trucking and later entered into a settlement incorporated into a confirmed chapter 11 plan. After the debtors defaulted and filed new chapter 11 cases, the bankruptcy court confirmed a joint plan of liquidation. Post-confirmation, the bankruptcy court sustained the debtors' claim objection, subordinated the appellants' claim under 11 U.S.C. § 1129(a)(7), and disallowed $2.7 million under Nevada penalty law. The BAP reversed and remanded.

DISPOSITION

```
reversed_and_remanded
```

REMAND INSTRUCTIONS

Reverse the Subordination Order and remand for further proceedings consistent with the opinion. The debtors may pursue equitable subordination under § 510(c), other applicable theories, or a plan modification under § 1127, subject to the Bankruptcy Code.

CASES CITED

- O'Rourke v. Seaboard Sur. Co. (In re E.R. Fegert, Inc.), 887 F.2d 955, 957-58 (9th Cir. 1989)
- Atwood v. Chase Manhattan Mortg. Co. (In re Atwood), 293 B.R. 227, 233 n.9 (9th Cir. BAP 2003)
- United States ex rel. Robinson Rancheria Citizens Council v. Borneo, Inc., 971 F.2d 244, 248 (9th Cir. 1992)
- Archer v. Warner, 538 U.S. 314 (2003)
- Brown v. Felsen, 442 U.S. 127 (1979)
- Orange Cnty. Nursery, Inc. v. Minority Voting Tr. (In re Orange Cnty. Nursery Inc.), 523 B.R. 692, 699 (C.D. Cal. 2014)
- Peltz v. Vancil, Inc. (In re Bridge Info. Sys., Inc.), 327 B.R. 382, 386-87 (8th Cir. BAP 2005), aff'd, 474 F.3d 1063 (8th Cir. 2007)
- Enpark Landscape, LLC v. AKF, Inc. (In re Enpark Landscape, LLC), BAP No. NV-23-1182-PLC, 2024 WL 4328581, at *6 (9th Cir. BAP Sept. 27, 2024)
- United States v. Noland, 517 U.S. 535, 542-43 (1996)
- United States v. Reorganized CF & I Fabricators of Utah, Inc., 518 U.S. 213, 228-29 (1996)
- Czyzewski v. Jevic Holding Corp., 580 U.S. 451, 457 (2017)

- United Student Aid Funds v. Espinosa, 559 U.S. 260, 275 (2010)
- Trulis v. Barton, 107 F.3d 685, 691 (9th Cir. 1995)
- Great Lakes Higher Educ. Corp. v. Pardee (In re Pardee), 193 F.3d 1083, 1086 (9th Cir. 1999)
- Munding v. Masingale (In re Masingale), 108 F.4th 1195, 1205-07 (9th Cir. 2024)
- Solimano Framing Grp. v. Pier Constr. & Dev., LLC (In re Solimano Framing Grp.), 664 B.R. 803, 813 (9th Cir. BAP 2024)
- Khan v. Bakhsh, 306 P.3d 411, 414 (Nev. 2013)
- Mason v. Fakhimi, 865 P.2d 333, 335 (Nev. 1993)
- In re Hyatt, 509 B.R. 707, 719 n.14, 720 (Bankr. D.N.M. 2014)
- Zante, Inc. v. Delegado (In re Zante, Inc.), 467 B.R. 216, 219-20 (D. Nev. 2012)
- In re Xpedior Inc., 354 B.R. 210, 225 (Bankr. N.D. Ill. 2006)
