UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF VIRGINIA, ALEXANDRIA DIVISION

Schultz v. The Martin Law Group, P.C., et al.

Schultz · No. 1:25-cv-1598 (LMB/IDD); Bankruptcy No. 24-11959 (BFK) · Decided April 21, 2026

SUMMARY

The United States District Court for the Eastern District of Virginia reviews Paul David Schultz’s appeal from a bankruptcy court order awarding reduced compensation and expenses to the Martin Law Group and denying disgorgement of the firm’s retainer. The court rejects Schultz’s arguments that fees were unauthorized because no formal employment order was entered, that post-conversion services should have been reviewed, and that the firm’s services were not reasonably likely to benefit the estate. The opinion affirms the bankruptcy court’s decision, applying principles from David v. King and Lamie v. United States Trustee.

CASE DETAILS

COURT	United States District Court for the Eastern District of Virginia, Alexandria Division
WRITING FOR THE COURT	Leonie M. Brinkema
JURISDICTION	United States District Court for the Eastern District of Virginia, Alexandria Division
DECIDED	April 21, 2026
DOCKET	1:25-cv-1598 (LMB/IDD); Bankruptcy No. 24-11959 (BFK)
DISPOSITION	affirmed
PROCEDURAL POSTURE	Appeal by the Chapter 11 debtor from the bankruptcy court's September 15, 2025 order awarding compensation and expenses to the Martin Law Group and denying Schultz's motion to disgorge the firm's retainer.
STANDARD OF REVIEW	The opinion does not expressly identify a general standard of review. It reviews the bankruptcy court's legal conclusions and fee determinations and holds that the challenged rulings were not erroneous; it also applies the objective statutory test for whether services were reasonably likely to benefit the estate.
PRECEDENTIAL VALUE	unpublished memorandum opinion; nonprecedential district-court decision

PARTIES	Paul David Schultz v. The Martin Law Group, P.C., et al.

TOPICS

bankruptcy · chapter 11 · chapter 7 · appellate procedure · attorney fees

PRACTICE AREAS

bankruptcy · bankruptcy attorney compensation · bankruptcy appeals · civil procedure

QUESTIONS PRESENTED

1. Whether the bankruptcy court could award compensation to the Martin Law Group when a proper employment application was filed but no formal order approving employment was entered before the firm performed its services.
2. Whether the bankruptcy court improperly limited compensable services to those performed before the Chapter 11 case was converted to Chapter 7.
3. Whether the Martin Law Group's services were actual, necessary, and reasonably likely to benefit the bankruptcy estate under 11 U.S.C. § 330.
4. Whether the bankruptcy court violated Schultz's due process rights by conducting an evidentiary hearing on the fee petition without separately notifying him that evidence and testimony would be received.
5. Whether the bankruptcy court improperly relied on statements from the former Chapter 7 trustee in resolving the fee and disgorgement issues.

HOLDINGS

1. A bankruptcy court may award compensation to a Chapter 11 debtor's attorney when a proper application under 11 U.S.C. § 327(a) was filed at the beginning of the representation, the court was aware of the attorney's work, and the services were otherwise compensable, even though the court did not enter a formal order approving employment before the services were performed.
2. After conversion from Chapter 11 to Chapter 7, a debtor's attorney may not receive compensation from estate funds for services performed for the debtor unless the attorney is employed and approved under § 327 in the Chapter 7 proceeding.
3. The bankruptcy court properly awarded compensation because the services were actual, necessary, and, when rendered, reasonably likely to benefit the estate under the objective test applied to 11 U.S.C. § 330.
4. The bankruptcy court did not violate Schultz's due process rights by receiving evidence and testimony at the noticed hearing on the fee petition.
5. The bankruptcy court did not err by relying on statements from former trustee Jason Gold because the record showed that the bankruptcy court did not rely on or reference Gold's response in its ruling.

KEY QUOTATIONS

> *“Simply put, it would be unjust to deny fees to an attorney who worked “in good faith” at the behest of the debtor-in-possession “with the knowledge and acquiescence of... the bankruptcy court.””* (at 10)

> *“The Supreme Court affirmed, holding that when an action is converted to a Chapter 7 proceeding, the debtor’s attorney may be paid from estate funds only if he had been employed by the trustee and approved by the bankruptcy court in the Chapter 7 proceeding.”* (at 12)

> *“requires consideration of whether, at the time the services were rendered, a reasonable attorney would have believed that they would benefit the estate, rather than a subsequent consideration of the practical effects actually achieved by an attorney’s services.”* (at 14)

FACTUAL BACKGROUND

Schultz filed a Chapter 11 bankruptcy petition and disputed the validity of a loan that was the subject of an adversary proceeding. He retained the Martin Law Group, which filed an employment application complying with § 327(a) and Rule 2014 and performed legal work, although the bankruptcy court never entered a formal order approving the application. After the case was converted to Chapter 7, the firm continued representing Schultz without obtaining renewed employment approval, later withdrew, and sought compensation only for services performed before conversion. The bankruptcy court awarded reduced fees and expenses and denied Schultz's request to disgorge the retainer, finding the services reasonably likely to benefit the estate and the representation not below the applicable standard of care.

PROCEDURAL HISTORY

Schultz filed a Chapter 11 petition and later retained the Martin Law Group, which filed a compliant application for employment under 11 U.S.C. § 327(a) and Federal Rule of Bankruptcy Procedure 2014, but the bankruptcy court did not enter a formal employment order. The bankruptcy case was converted to Chapter 7 on February 13, 2025, and the firm later withdrew. After a fee application and Schultz's motion to disgorge the retainer, the bankruptcy court awarded the firm reduced fees and expenses for services rendered through February 12, 2025 and denied disgorgement. Schultz timely appealed, and the district court affirmed.

DISPOSITION

affirmed

CASES CITED

- Marrama v. Citizens Bank of Mass., 549 U.S. 365, 367 (2007)
- Grogan v. Garner, 498 U.S. 279, 286-87 (1991)
- David v. King, 109 F.4th 653, 655-64 (4th Cir. 2024)
- Lamie v. U.S. Tr., 540 U.S. 526, 531-37 (2004)
- In re Jarvis, 53 F.3d 416, 419 (1st Cir. 1995)
- Matter of Triangle Chems., Inc., 697 F.2d 1280, 1289 (5th Cir. 1983)
- Vaughn v. Gold, 671 B.R. 698, 708-09 (E.D. Va. 2025)

- In re Vu, 366 B.R. 511, 516 (D. Md. 2007)
- In re Smith, 624 B.R. 781, 796-97 (Bankr. D.S.C. 2021)
- Malloy v. Kane, No. 3:24-cv-200, 2025 WL 777664, at *1 (E.D. Va. Mar. 11, 2025)
- In re Tobacco Row Phase IA Dev. L.P., 338 B.R. 684, 695 (Bankr. E.D. Va. 2005)
- United States v. Stanley, No. 5:15-cr-166, 2024 WL 4633960, at *3 n.4 (E.D.N.C. Oct. 30, 2024)