UNITED STATES COURT OF APPEALS FOR THE ELEVENTH CIRCUIT

Apps v. Morrison (In re Superior Homes & Investments, LLC)

521 F. App'x 895 (11th Cir. 2013) · Decided June 10, 2013

SUMMARY

The Eleventh Circuit affirmed approval of a bankruptcy settlement under Federal Rule of Bankruptcy Procedure 9019 and a related bar order enjoining creditors' state-court claims against non-debtor defendants. The court held that the bankruptcy court had related-to jurisdiction and did not abuse its discretion in approving the compromise, which provided $800,000 to the bankruptcy estate in exchange for barring further litigation.

CASE DETAILS

COURT	United States Court of Appeals for the Eleventh Circuit
WRITING FOR THE COURT	Kravitch; Marcus; Wilson
JURISDICTION	Federal
DECIDED	June 10, 2013
DISPOSITION	affirmed
PROCEDURAL POSTURE	Creditor-appellants appealed the district court's affirmance of a bankruptcy court order approving a Rule 9019 settlement and entering a bar order enjoining related state-court litigation against the debtor and nondebtor defendants.
STANDARD OF REVIEW	The Eleventh Circuit reviewed the bankruptcy court's legal conclusions de novo, factual findings for clear error, and approval of the settlement agreement for abuse of discretion.
PRECEDENTIAL VALUE	Unpublished, nonprecedential Eleventh Circuit appellate decision
PARTIES	Apps and 115 other creditor-appellants v. Robert Morrison, Chapter 11 and Chapter 7 Trustee, Non-Debtor Defendants

TOPICS

bankruptcy · chapter 7 · fraudulent transfer · adversary proceedings · injunctions

PRACTICE AREAS

Bankruptcy · Civil procedure · Appellate procedure · Remedies · Insurance

QUESTIONS PRESENTED

1. Whether the bankruptcy court had subject matter jurisdiction over state-court litigation between creditors and nondebtor defendants when that litigation could affect the bankruptcy estate.
2. Whether the bankruptcy court had authority under 11 U.S.C. § 105 and Federal Rule of Bankruptcy Procedure 9019 to approve a settlement conditioned on a bar order enjoining related litigation against nondebtor defendants.
3. Whether the bankruptcy court abused its discretion under the In re Justice Oaks II factors by approving the compromise despite creditor objections concerning the recovery amount and the absence of Coblentz agreements.

HOLDINGS

1. The bankruptcy court had subject matter jurisdiction over the creditors' state-court litigation against the nondebtor defendants because the litigation could conceivably affect the administration of the bankruptcy estate and had a sufficient nexus to the Title 11 case.
2. The trustee had authority to seek the compromise and bar order, and the bankruptcy court had power to enter the bar order as an equitable order necessary to protect the estate and effectuate the bankruptcy process.
3. The bankruptcy court did not abuse its discretion by approving the compromise and entering the bar order despite the creditor-appellants' objections regarding the amount of their expected recovery and the absence of Coblentz agreements.

KEY QUOTATIONS

> *"In the bankruptcy context, we have interpreted "related to" jurisdiction as extending to those proceedings that "could conceivably have an effect on the estate being administered in bankruptcy.""* (521 F. App'x at 898)

> *"Allowing the state-court litigation to continue would have drained the Non-Debtor Defendants' resources and allowed Appellants to make an end-run around the normal bankruptcy procedure for distribution of the Estate."* (521 F. App'x at 899)

FACTUAL BACKGROUND

Creditors asserted more than 650 claims against Superior Homes, including approximately $33 million in unrepaid deposits. After the case was converted from Chapter 11 to Chapter 7, the trustee discovered potentially avoidable transfers to principals and affiliated nondebtor entities and sued to recover them. Because the nondebtor defendants had approximately $1 million in assets that could be depleted defending state-court suits brought by estate creditors, the trustee negotiated an $800,000 settlement conditioned on a bar order preventing further litigation against the debtor and nondebtor defendants.

PROCEDURAL HISTORY

Numerous creditors filed an involuntary Chapter 11 petition against Superior Homes & Investments, LLC; the case was later converted to Chapter 7 and Robert Morrison was appointed trustee. The trustee sued the debtor and affiliated nondebtor defendants to recover allegedly fraudulent transfers and negotiated an $800,000 settlement conditioned on a bar order prohibiting further litigation. The bankruptcy court approved the compromise and entered the bar order on September 1, 2011; the district court affirmed on September 20, 2012; and the Eleventh Circuit affirmed.

DISPOSITION

affirmed

CASES CITED

- In re Mosley, 494 F.3d 1320, 1324 (11th Cir. 2007)
- In re Cox, 338 F.3d 1238, 1241 (11th Cir. 2003) (per curiam)
- Christo v. Padgett, 223 F.3d 1324, 1335 (11th Cir. 2000)
- Munford v. Munford, Inc. (In re Munford, Inc.), 97 F.3d 449, 453-54 (11th Cir. 1996)
- Celotex Corp. v. Edwards, 514 U.S. 300, 307 n.5 (1995)
- Continental Illinois National Bank & Trust Co. of Chicago v. Chicago, Rock Island & Pacific Railway Co., 294 U.S. 648, 675 (1935)
- Alderwoods Group, Inc. v. Garcia, 682 F.3d 958, 967 n.19 (11th Cir. 2012)
- In re Justice Oaks II, Ltd., 898 F.2d 1544, 1549 (11th Cir. 1990)
- Coblentz v. American Surety Co. of New York, 416 F.2d 1059, 1063 (5th Cir. 1969)
- Wrangen v. Pennsylvania Lumbermans Mutual Insurance Co., 593 F. Supp. 2d 1273, 1278 (S.D. Fla. 2008)

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