

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF ARIZONA

Crystal Springs Capital Incorporated v. Franklin Capital Funding
LLC, et al.

Crystal Springs Capital · No. CV-25-01586-PHX-GMS · Decided March 31, 2026

SUMMARY

The United States District Court for the District of Arizona ruled on Defendants’ motion for judgment on the pleadings and Plaintiff’s motion to amend in a dispute concerning competing security interests in business assets. The court held that Defendants, who were not parties to an earlier New York proceeding and acquired their interests before that litigation began, were not bound by the resulting consent order through collateral estoppel. The court granted judgment on the pleadings but allowed amendment to pursue a theory that the underlying debts had been fully satisfied.

CASE DETAILS

COURT	United States District Court for the District of Arizona
JURISDICTION	United States District Court for the District of Arizona
DECIDED	March 31, 2026
DOCKET	CV-25-01586-PHX-GMS
DISPOSITION	other
PROCEDURAL POSTURE	Defendants moved for judgment on the pleadings under Federal Rule of Civil Procedure 12(c), and Plaintiff moved to amend its First Amended Complaint. The district court granted judgment on the pleadings, denied amendment insofar as it relied on a New York consent order to invalidate Defendants' rights, and granted amendment to pursue the separate theory that the underlying debts had been satisfied.
STANDARD OF REVIEW	A Rule 12(c) motion is evaluated under a standard functionally identical to Rule 12(b)(6): the court accepts the nonmovant's allegations as true, construes factual allegations in the nonmovant's favor, and grants judgment when the pleadings show no material issue of fact and the movant is entitled to judgment as a matter of law. Motions to amend are governed by Rule 15(a)(2), under which leave should be freely given when justice so requires, with the Ninth Circuit applying the standard with extreme liberality.

TOPICS

motion for judgment on the pleadings

motion to amend

civil procedure

commercial litigation

uniform commercial code

PRACTICE AREAS

civil procedure

commercial litigation

contracts

remedies

QUESTIONS PRESENTED

1. Whether Plaintiff could use the New York consent order against Defendants, who were not parties to that proceeding, to invalidate or render unenforceable Defendants' assigned security interests.
2. Whether Plaintiff should be permitted to amend its complaint to assert that Defendants' senior security interest was unenforceable because the underlying debts had been satisfied in full.

HOLDINGS

1. Defendants were not bound by the New York consent order and could not be collaterally estopped by it because their assignment from Green occurred before commencement of the New York action, so they lacked the required privity and full and fair opportunity to litigate.
2. Judgment on the pleadings was proper because Plaintiff's claim depended on treating the New York consent order as binding on Defendants, but the pleadings established that Defendants could not be bound by that order.
3. Plaintiff was permitted to amend its complaint to allege that Defendants' senior security interest was unenforceable because the underlying debts had been satisfied in full.

KEY QUOTATIONS

"Judgment on the pleadings under Rule 12(c) is proper when the moving party establishes on the face of the pleadings that there is no material issue of fact and that the moving party is entitled to judgment as a matter of law." (at 2)

"In the assignor-assignee relationship, privity must have arisen after the event out of which the estoppel arises." (at 5)

"Plaintiff may not rely on the terms of the Consent Order as grounds to invalidate or render unenforceable Defendants' rights and interests." (at 6)

FACTUAL BACKGROUND

Plaintiff and Defendants were creditors of Arizona businesses and asserted contractual rights and perfected security interests in the businesses' assets. Green Capital Funding filed financing statements and later assigned its rights and financing statements to Franklin Group and then Franklin Funding. After New York sued Green for

a predatory lending scheme, the New York court entered a consent order canceling obligations owed or purportedly owed to Green and its assigns, and Plaintiff attempted to use that order to invalidate Defendants' senior security interests. Defendants, who were not parties to the New York litigation, asserted their senior interest and moved for judgment on the pleadings.

PROCEDURAL HISTORY

Plaintiff filed an action seeking declaratory and injunctive relief concerning the priority and enforceability of competing security interests. Plaintiff filed a First Amended Complaint, after which Defendants moved for judgment on the pleadings and Plaintiff moved to file a Second Amended Complaint. The court granted Defendants' motion because Plaintiff could not use a New York consent order against nonparties to that proceeding, but granted leave to amend a separate debt-satisfaction theory and allowed fourteen days for filing.

DISPOSITION

other

REMAND INSTRUCTIONS

Plaintiff may file a Second Amended Complaint within fourteen days, but the amendment may not rely, explicitly or implicitly, on the New York consent order as legally binding on Defendants' rights and interests. The amended complaint may assert that Defendants' senior security interest is unenforceable because the underlying debts were satisfied in full. If Plaintiff does not timely amend, the Clerk is directed to enter judgment for Defendants consistent with the order and terminate the action.

CASES CITED

- Ashcroft v. Iqbal, 556 U.S. 662, 678 (2009)
- United States ex rel. Cafasso v. Gen. Dynamics C4 Sys., Inc., 637 F.3d 1047, 1054 n.4 (9th Cir. 2011)
- Hal Roach Studios v. Richard Feiner & Co., 896 F.2d 1542, 1550 (9th Cir. 1990)
- Fleming v. Pickard, 581 F.3d 922, 925 (9th Cir. 2009)
- Jensen Fam. Farms, Inc. v. Monterey Bay Unified Air Pollution Control Dist., 644 F.3d 934, 937 n.1 (9th Cir. 2011)
- Ascon Props., Inc. v. Mobil Oil Co., 866 F.2d 1149, 1160 (9th Cir. 1989)
- Allen v. City of Beverly Hills, 911 F.2d 367, 373 (9th Cir. 1990)
- DCD Programs Ltd. v. Leighton, 833 F.2d 183, 185-87 (9th Cir. 1987)
- Allen v. McCurry, 449 U.S. 90, 93, 95 (1980)
- Montana v. United States, 440 U.S. 147, 153 (1979)
- In re Bugna, 33 F.3d 1054, 1057 (9th Cir. 1994)
- Gramatan Home Invs. Corp. v. Lopez, 386 N.E.2d 1328, 1331-32 (N.Y. 1979)
- Buechel v. Bain, 766 N.E.2d 914, 919 (N.Y. 2001)

OPINION

Crystal Springs Capital Incorporated v. Franklin Capital Funding LLC, et al.

PER CURIAM.

1 WO 2 3 4 5

6 IN THE UNITED STATES DISTRICT COURT

7 FOR THE DISTRICT OF ARIZONA

8 9 Crystal Springs Capital Incorporated, No. CV-25-01586-PHX-GMS 10 Plaintiff, ORDER 11 v.
12 Franklin Capital Funding LLC, et al., 13 Defendants. 14 15 16 Pending before the Court are
Defendants Franklin Capital Funding, LLC (“Franklin 17 Funding”) and Frankling Capital Group,
LLC’s (“Franklin Group”) (collectively, 18 “Defendants”) Motion for Judgment on the Pleadings
(Doc. 28) and Plaintiff Crystal 19 Springs Capital Inc.’s Motion to Amend the First Amended
Complaint (Doc. 31). For the 20 reasons discussed below, Defendants’ motion is granted and
Plaintiff’s motion is granted 21 in part and denied in part.

22 BACKGROUND

23 Plaintiff and Defendants are creditors of non-party Arizona business entities (the 24 “Debtors”).
(Doc. 13 at 4-5). Both Plaintiff and Defendants have certain contractual rights 25 under their
respective agreements with the Debtors and have perfected security interests in 26 the Debtors’
assets. (Id.). The validity and priority of those rights and interests are at issue 27 here. 28 1 I.
Underlying Transactions 2 A series of transactions inform the parties’ rights and interests. 3 Green
Transactions. First, beginning in 2016, Green Capital Funding LLC1 4 (“Green”) “acquired a
percentage of” the Debtors’ “receivables” by “enter[ing] into a series 5 of merchant cash advance
agreements.” (Id. at 4). Green subsequently filed two financing 6 statements—one in 2016 and one
in 2018—with the Arizona Secretary of State, perfecting 7 its “security interests in all of [the]
Debtors’ present and future assets” (the “Green 8 Financing Statements”). (Id.). 9 Crystal
Transaction. Second, in October 2020, Plaintiff agreed to purchase 10 receivables from the
Debtors and filed a financing statement with the Arizona Secretary of 11 State, perfecting its
“security interest in certain assets of Debtors.” (Id. at 4-5). 12 Franklin Transaction. Third, in May
2021, Franklin Group agreed to provide 13 funding to the Debtors and filed a financing statement
with the Arizona Secretary of State, 14 perfecting its “security interest in certain assets” of one of
the Debtors. (Id. at 5). 15 Green-Franklin Assignment. Fourth, in June 2021, Franklin Group
purchased all of 16 Green’s “rights, titles, and interests” under the Green Transactions for
\$250,000. (Id.). 17 Franklin Group then filed an amendment with the Arizona Secretary of State to
designate 18 that the Green Financing Statements were assigned to Franklin Group. (Id.). On July
2021, 19 Franklin Group assigned the Green Financing Statements to Franklin Funding. (Id.). 20
II. Breach & New York State Court Litigation 21 After the May 2021 Franklin Transaction, the
Debtors breached their Crystal 22 Transaction agreement with Plaintiff. (Id.). 23 Over two years
later, “[o]n March 4, 2024, the Attorney General of the State of New 24 York filed suit against”
various entities, including Green, for “engag[ing] in a fraudulent, 25 predatory lending scheme.”
(Id. at 6). Throughout the course of that litigation, Green “was 26 required to, but did not disclose,

the [Green-Franklin] Assignment to the” trial court. (Id. 27 28 1 Green is a defendant in this action, against whom the Clerk of Court has entered default (Doc. 38). 1 at 7). As such, Defendants were not a party to the New York suit. (Doc. 28 at 3-4; see Doc. 2 31 at 2). 3 On January 16, 2025, the state trial court entered a Consent Order and Judgment 4 (the “Consent Order”) against Green. (Doc. 13 at 6, 13-30). Under the terms of the 5 Consent Order, “all obligations owed or purportedly owed” to Green or to Green’s “assigns, 6 in connection with the” predatory lending schemes, “including but not limited to unpaid 7 balances of any kind, fees, attorneys’ fees, settlement amounts, and unsatisfied judgments” 8 were “irrevocably cancelled.” (Id. at 6). Further, Green was ordered to “cease any and all 9 attempts to recover any” such balances, and to “ensure that no . . . assign[] attempts to 10 recover any [such balances] or receives any money or other consideration in connection 11 with” such balances. (Doc. 13 at 6-7). 12 Following the Consent Order, Plaintiff “took steps to enforce its rights” under the 13 Crystal Transaction by sending “a restraining notice to one of [the] Debtors’ customers 14 demanding that any funds owed to [the] Debtors be paid directly to” Plaintiff. (Id. at 7). 15 Defendants contacted the customer, claimed a senior interest in the Debtors’ assets, and 16 instructed the customer not to pay Plaintiff. (Id. at 8). Defendants then contacted Plaintiff 17 to assert the senior interest pursuant to the Green-Franklin Assignment and to demand that 18 Plaintiff “cease and desist” from any further “attempt to exercise dominion or control over” 19 the Debtors’ assets. (Id. at 8, 42-43). 20 Plaintiff now seeks to enforce the Consent Order against Defendants to void 21 Defendants’ senior security interest, asserting that Defendants are improperly seeking “to 22 enforce the contractual rights and security interests in question” and “using those 23 contractual rights and security interests to prevent [Plaintiff] from collecting a valid debt.” 24 (Id. at 2, 8-10). Specifically, in its Corrected First Amended Complaint, Plaintiff seeks 25 (1) a declaratory judgment that its “rights and interests in [the] Debtor’s assets are superior 26 to, and have priority over, any “rights or interests of” Defendants, which “are void and 27 unenforceable”; and (2) an injunction preventing Defendants from “asserting or 28 1 exercising” their “rights and interests” and requiring Defendants to “terminate” the Green 2 Financing Statements. (Id. at 8-10).

3 DISCUSSION

4 Defendant moves for judgment on the pleadings, arguing that Plaintiff’s attempt to 5 enforce the Consent Decree is an impermissible use of offensive collateral estoppel, such 6 that Plaintiff’s suit fails as a matter of law. (Doc. 28 at 1, 4-7). 7 III. Legal Standards 8 A. Judgment on the Pleadings 9 Under Federal Rule of Civil Procedure 12(c), a party may move for judgment on the 10 pleadings “[a]fter the pleadings are closed—but early enough not to delay trial.” To survive 11 a Rule 12(c) motion, a claimant must allege sufficient facts to state a claim to relief that is 12 plausible on its face. See Fed. R. Civ. P. 8(a); *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009). 13 The standard governing Rule 12(c) is “functionally identical” to that governing a rule 14 12(b)(6) motion. *United States ex rel. Cafasso v. Gen. Dynamics C4 Sys., Inc.*, 637 F.3d 15 1047, 1054 n.4 (9th Cir. 2011). When analyzing a Rule 12(c) motion, the court must accept 16 the nonmovant’s

allegations as true, see *Hal Roach Studios v. Richard Feiner & Co.*, 896 F.2d 1542, 1550 (9th Cir. 1989), and construe factual allegations in a complaint in the light most favorable to the nonmovant. *Fleming v. Pickard*, 581 F.3d 922, 925 (9th Cir. 2009). Thus, “[j]udgment on the pleadings under Rule 12(c) is proper when the moving party establishes on the face of the pleadings that there is no material issue of fact and that the moving party is entitled to judgment as a matter of law.” *Jensen Fam. Farms, Inc. v. Monterey Bay Unified Air Pollution Control Dist.*, 644 F.3d 934, 937 n.1 (9th Cir. 2011). Even where judgment on the pleadings is appropriate, leave to amend should be given “freely . . . when justice so requires.” Fed. R. Civ. P. 15(a)(2). A “district court’s discretion to deny leave to amend is particularly broad where [the] plaintiff has previously amended the complaint.” *Ascon Props., Inc. v. Mobil Oil Co.*, 866 F.2d 1149, 1160 (9th Cir. 1989). Indeed, “whether [a] plaintiff has previously amended his complaint” is one of 28 “[f]ive factors . . . frequently used to assess the propriety of a motion for leave to amend.” 1 *Allen v. City of Beverly Hills*, 911 F.2d 367, 373 (9th Cir. 1990) (citing *Ascon Props.*, 866 F.2d at 1160). The other four factors are: “(1) bad faith, (2) undue delay, (3) prejudice to 3 the opposing party, [and] (4) futility of amendment,” but the Court need not apply all five 4 factors. *Id.* (declining to apply all five factors because futility and the chance to previously 5 amend “plainly reveal[ed]” that plaintiff’s claim should be dismissed with prejudice). The 6 Ninth Circuit favors amendment and directs the district courts to apply these standards 7 “with extreme liberality.” *DCD Programs Ltd. v. Leighton*, 833 F.2d 183, 185 (9th Cir. 8 1987). The party opposing amendment bears the burden of establishing that the motion to 9 amend should be denied. *Id.* at 186-87. 10 1. Collateral Estoppel 11 “Under collateral estoppel, once a court has decided an issue of fact or law necessary 12 to its judgment, that decision may preclude relitigation of the issue in a suit on a different 13 cause of action involving a party to the first case.” *Allen v. McCurry*, 449 U.S. 90, 93 14 (1980) (citing *Montana v. United States*, 440 U.S. 147, 153 (1979)). “[C]ollateral estoppel 15 relieve[s] parties of the cost and vexation of multiple lawsuits, conserve[s] judicial 16 resources, and, by preventing inconsistent decisions, encourage[s] reliance on 17 adjudication.” *Id.* When state court decisions are involved, collateral estoppel also 18 “promote[s] comity between state and federal courts.” *Id.* at 95. Thus, “[i]n determining 19 the collateral estoppel effect of a state court judgment, federal courts must, as a matter of 20 full faith and credit, apply that state’s law of collateral estoppel.” *In re Bugna*, 33 F.3d 21 1054, 1057 (9th Cir. 1994). 22 B. Analysis 23 Plaintiff here concedes that the Consent Order may not be enforceable against 24 Defendants. (Doc. 31 at 2). And indeed, Defendants cannot be bound by the Consent 25 Order. 26 Under New York law, “a person [generally] may not be precluded from litigating 27 issues resolved in an action in which that person was not a party.” *Gramatan Home Invs. Corp. v. Lopez*, 386 N.E.2d 1328, 1331 (N.Y. 1979). Indeed, “[c]onsiderations of due 1 process prohibit personally binding a party by the results of an action in which that party 2 has never been afforded an opportunity to be heard.” *Id.* at 1331-32. But in certain cases, 3 where (1) there is an “issue which has necessarily

been decided in [a] prior action and is 4 decisive to the present action, and” (2) the party against whom the collateral estoppel will 5 apply had “a full and fair opportunity to contest the decision now said to be controlling.” 6 *Buechel v. Bain*, 766 N.E.2d 914, 919 (N.Y. 2001). The second requirement is decisive 7 here. 8 Under the second requirement, “the party sought to be collaterally estopped in the 9 current action need not have been the one for or against whom judgment was rendered in 10 the previous action.” *Gramatan*, 386 N.E.2d at 1332. Rather, New York law “permits 11 utilization of collateral estoppel . . . against persons who were not parties to the previous 12 action but who were connected with” an existing party through privity—“a mutually 13 successive relationship of the same rights to the same property.” *Id.* But the State’s law 14 also imposes an important limitation on privity: “In the assignor-assignee relationship, 15 privity must have arisen after the event out of which the estoppel arises.” *Id.* In other 16 words, “an assignee is deemed to be in privity with the assignor where the action against 17 the assignor is commenced before there has been an assignment.” *Id.* Only in such cases 18 can the assignee be “charged with notice that his rights to the assignment are subject to 19 competing claim.” *Id.* 20 Here, Green and Defendants entered the Green-Franklin Assignment in June 2021 21 and the New York litigation did not begin until March 2024. (Doc. 13 at 5-6). Defendants 22 cannot be considered in privity with Green because the Green-Franklin Assignment “was 23 made well before commencement of the” action against Green. *Gramatan*, 386 N.E.2d at 24 1332. Thus, Defendants are not “bound by the terms of” the Consent Order and cannot be 25 collaterally estopped by Plaintiff. *Id.* Plaintiff’s claim—which asks the Court to declare 26 that “all the rights and interests conveyed to Franklin Group by Green Capital via the 27 Assignment are void and unenforceable” because of the Consent Order (Doc. 13 at 9-10)— 28 therefore fails as a matter of law. Plaintiff may not rely on the terms of the Consent Order 1 as grounds to invalidate or render unenforceable Defendants’ rights and interests. 2 Accordingly, Defendants’ Motion for Judgment on the Pleadings is granted. And 3 to the extent that Plaintiff’s proposed Second Amended Complaint continues to rely—even 4 implicitly—on the Consent Order as legally binding on Defendants’ rights and interests, 5 Plaintiff’s Motion to Amend is denied. 6 But Plaintiff’s Motion to Amend is not denied in its entirety. The proposed Second 7 Amended Complaint also alleges that Defendants’ senior security interest is no longer 8 enforceable because the underlying debts were satisfied in full. (Doc. 31 at 2, 5 (describing 9 Doc. 31-1)). Though Defendants argue that Plaintiff has already previously amended its 10 complaint, and that further amendment would cause prejudice and undue delay, reflecting 11 bad faith by Plaintiff, Defendants do not argue that such amendments would be futile. 12 (Doc. 32 at 3-5). Nor is the Court convinced that Plaintiff’s Motion to Amend was made 13 in bad faith, or that granting the motion would cause undue delay or any harm to 14 Defendants. Plaintiff’s proposed amendment alleges a new legal theory but bases that 15 theory on the same series of transactions at issue in the First Amended Complaint. Further, 16 Plaintiff made this motion within a few months of filing its initial Complaint (Doc. 1) and 17 has only amended its complaint once

(Doc. 13) as a matter of course. Fed. R. Civ. P. 18 15(a)(1). As such, applying the Ninth Circuit's standards favoring amendment, the Court 19 grants Plaintiff's Motion to Amend to the extent that the proposed Second Amended 20 Complaint alleges that Defendants' senior security interest is no longer enforceable because 21 the underlying debts were satisfied in full. (Doc. 31 at 2, 5 (describing Doc. 31-1)). 22 Defendant's Motion for Judgment on the Pleadings is thus granted with leave to 23 amend. Plaintiff may file an amended complaint consistent with this Order.

24 CONCLUSION

25 IT IS THEREFORE ORDERED that Defendants' Motion for Judgment on the 26 Pleadings (Doc. 28) is GRANTED. 27 IT IS FURTHER ORDERED that Plaintiff's Motion to Amend (Doc. 31) is 28 DENIED in part and GRANTED in part. 1 IT IS FURTHER ORDERED that Plaintiff shall have fourteen (14) days from the || date of this Order to file an amended complaint. If an amended complaint is not timely 3|| filed, the Clerk of Court is directed to enter judgment in favor of Defendants consistent with this order and to terminate this action. 5 Dated this 31st day of March, 2026. ° sf. War flow 8 Senior United States District Judge 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 -8-