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.

PRECEDENTIAL VALUE	nonprecedential

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)