UNITED STATES BANKRUPTCY COURT FOR THE WESTERN DISTRICT OF KENTUCKY, LOUISVILLE DIVISION

Stephen Barnes, Chapter 7 Trustee v. UB II (Lyons), LLC

Barnes v. UB II (Lyons), LLC · No. Adv. No. 25-03004 · Decided June 16, 2026

SUMMARY

The United States Bankruptcy Court for the Western District of Kentucky denied Chapter 7 Trustee Stephen Barnes’s motion for summary judgment and granted UB II (Lyons), LLC’s cross-motion. The court held that UB II maintained a perfected possessory lien in the debtor’s commercial real estate security deposit without filing a UCC financing statement. The court further held that the debtor’s settlement with Simmons Bank did not release or impair UB II’s lien, and that the trustee could not avoid it under 11 U.S.C. § 544.

CASE DETAILS

COURT	United States Bankruptcy Court for the Western District of Kentucky, Louisville Division
WRITING FOR THE COURT	Joan A. Lloyd
JURISDICTION	United States Bankruptcy Court for the Western District of Kentucky, Louisville Division
DECIDED	June 16, 2026
DOCKET	Adv. No. 25-03004
DISPOSITION	other
PROCEDURAL POSTURE	Adversary proceeding involving competing motions for summary judgment concerning the Chapter 7 Trustee's attempt to recover a commercial lease security deposit and avoid the landlord's asserted possessory lien.
STANDARD OF REVIEW	Summary judgment is appropriate where the material facts are undisputed and the moving party is entitled to judgment as a matter of law.
PRECEDENTIAL VALUE	Unknown
PARTIES	Stephen Barnes, in his capacity as Chapter 7 Trustee v. UB II (Lyons), LLC, a Delaware Limited Liability Company, a/k/a UB II (Hannibal), LLC, successor by assignment to NL Ventures VI Electron, LLC

TOPICS

secured transactions · chapter 7 · bankruptcy · adversary proceedings · summary judgment

PRACTICE AREAS

bankruptcy · secured transactions · commercial real estate · civil procedure

QUESTIONS PRESENTED

1. Whether UB II perfected its security interest in the lease security deposit by possession without filing a UCC-1 financing statement.
2. Whether the security deposit constituted an account requiring perfection by filing under Kentucky's Uniform Commercial Code.
3. Whether the Landlord Agreement and the later settlement agreement released or otherwise eliminated UB II's possessory lien without UB II's consent.
4. Whether the Chapter 7 Trustee could avoid UB II's lien under the strong-arm powers of 11 U.S.C. § 544(a).
5. Whether the Trustee could determine the validity, priority, or extent of UB II's lien without commencing an adversary proceeding.

HOLDINGS

1. UB II perfected its security interest in the security deposit by maintaining possession of the collateral and was not required to file a UCC-1 financing statement to preserve perfection.
2. The security deposit was not an account requiring perfection by filing under Kentucky's UCC provisions.
3. Neither the Landlord Agreement nor the settlement agreement released or waived UB II's possessory lien because UB II did not clearly and unambiguously agree to relinquish it and did not sign the settlement agreement.
4. The Trustee could not avoid UB II's lien under 11 U.S.C. § 544(a) because the Trustee did not possess an interest in the security deposit superior to UB II's perfected possessory lien.
5. A party seeking to contest or obtain a declaration concerning the validity, priority, or extent of a lien must proceed by adversary proceeding.

KEY QUOTATIONS

> *"The Chapter 7 Trustee does not hold an interest in the Security Deposit superior to UB II."*

> *"Absent this, UB II is entitled to claim perfection by possession of the Security Deposit under UCC § 9-313(a)(1)."*

> *"Despite the Trustee's efforts, UB II holds a possessory lien on the Security Deposit that is superior to the claim of the Trustee and is not subject to the avoidance pursuant to 11 U.S.C. § 544 et seq."*

FACTUAL BACKGROUND

The Debtor leased commercial real estate and was required to provide a security deposit of approximately $245,000. UB II, the Debtor's landlord and successor by assignment, had retained possession of the deposit since at least September 2016 and asserted a possessory lien against it for the Debtor's substantial monetary defaults. Triumph Bank, later succeeded by Simmons Bank, held a perfected security interest in the Debtor's personal property, and UB II subordinated certain landlord rights to that interest under a Landlord Agreement. Simmons Bank later released its own liens through a court-approved settlement with the Debtor, but UB II did not sign the settlement and continued to assert its possessory lien.

PROCEDURAL HISTORY

The Chapter 7 Trustee filed an adversary proceeding against UB II and sought recovery of a $245,059.53 commercial lease security deposit under 11 U.S.C. § 544(a). The parties filed competing motions for summary judgment, stipulated to the material facts, briefed the motions, and presented oral argument on April 14, 2026. The bankruptcy court denied the Trustee's motion and granted UB II's motion.

DISPOSITION

other

CASES CITED

- In re Loloee, 241 B.R. 655, 660 (B.A.P. 9th Cir. 1999)

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