

DEC 13 2005

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF ARIZONA**

U.S. BANKRUPTCY COURT
FOR THE DISTRICT OF ARIZONA

1	In re:)	Chapter 13
2)	
3)	
4	RICHARD I. SMITH,)	No. 4-05-bk-02224-JMM
5)	
6)	MEMORANDUM DECISION
7	<u>Debtor.</u>)	(Opinion to Post)

This court has been asked to alter or amend its order of October 13, 2005. The grounds are that the court made a manifest error of law in concluding that the Debtor's tort liability was only \$90,700.

The moving party, Sovereign Equity Management Partners, argued that pursuant to California law, apportionment only acted to allocate the loss as and among the joint tortfeasors. Such an apportionment does not limit, Sovereign maintains, its ability to collect the full amount of the judgment from any tortfeasor. That tortfeasor, in turn, has a proportionate right of contribution from the others. *See, e.g., American Motorcycle Ass'n v. Superior Court*, 20 Cal. 3d 578 (1978).

While this statement is generally accurate, the judgment submitted by Sovereign in support of its § 109(e) eligibility challenge does not contain any judgment whatsoever against the Debtor in this chapter 13 case, Richard J. Smith.

Thus, while the jury may have felt that Richard ("Rick") Smith was 10% at fault, the judgment is silent to his liability, either jointly or severally. Perhaps this is because by the time the judgment was entered on November 14, 2005, Mr. Smith had filed for bankruptcy relief and had obtained the benefit of the automatic stay.

No judgment was ever entered by the Superior Court Judge Makino against the Debtor in this action.

1 Eligibility for chapter 13 is established under § 109(e), which provides:

2 Only an individual with regular income that owes, on the date of the filing
3 of the petition, noncontingent, liquidated, unsecured debts of less than
4 \$307,675 and noncontingent, liquidated, secured debts of less than
5 \$922,975 . . . may be a debtor under chapter 13 of this title.

6 11 U.S.C. § 109(e).

7 Only contingent or unliquidated debts are excluded from the § 109(e) eligibility
8 computation. Disputed debts are not excluded solely on that basis. *See Sylvester v. Dow Jones & Co.,*
9 *Inc. (In re Sylvester)*, 19 B.R. 671, 673 (9th Cir. BAP 1981) (disputed contract claim was liquidated).
10 One basis for excluding a disputed debt may be where the nature of the dispute renders the debt
11 unascertainable and, therefore, unliquidated. *See Ho v. Dowell (In re Ho)*, 274 B.R. 867, 875 (9th Cir.
12 BAP 2002).

13 Debtor's original Schedule F indicated a total of \$90,700 in noncontingent, liquidated,
14 unsecured debts other than Sovereign's claim. Debtor designated the debts to Sovereign/Britt and David
15 Schmidt as disputed, contingent and unliquidated debts in "unknown" amounts

16 The rule in the Ninth Circuit is that chapter 13 eligibility under § 109(e) "should normally
17 be determined by the debtor's originally filed schedules, checking only to see if the schedules were made
18 in good faith." *Scovis v. Henrichsen (In re Scovis)*, 249 F.3d 975, 982 (9th Cir. 2001) (citing
19 *Comprehensive Accounting Corp. v. Pearson (Matter of Pearson)*, 773 F.2d 751, 757 (6th Cir. 1985)).
20 If a bad-faith objection has been brought by a party in interest, "a bankruptcy court should look past the
21 schedules to other evidence submitted," so long as the debt computation for eligibility is determined as
22 of the petition date. *Scovis*, 249 F.3d at 981 (quoting *Quintana v. I.R.S. (In re Quintana)*, 107 B.R. 234,
23 239 n.6 (9th Cir. BAP 1989) (citation omitted), *aff'd*, 915 F.2d 513 (9th Cir. 1990)).

24 In *Ho*, the nature of the dispute was such that an extensive evidentiary hearing would have
25 been necessary to resolve the liability issue. The BAP had previously held that where an extensive
26 evidentiary hearing would be required to determine liability, such debt was not readily ascertainable and
was therefore unliquidated. *Id.* at 874-75 (citing *Nicholes v. Johnny Appleseed of Wa. (In re Nicholes)*,

1 184 B.R. 82, 90-91 (9th Cir. BAP 1995)). In *In re Slack*, 187 F.3d 1070 (9th Cir. 1999), the Ninth Circuit
2 agreed with this approach when it stated:

3 Whether the debt is subject to ‘ready determination’ will depend on
4 whether the amount is easily calculable or whether an extensive hearing
5 will be needed to determine the amount of the debt, or the liability of the
6 debtor.

6 187 F.3d at 1074.

7 The definition of “readily ascertainable” is clearly set forth in the Ninth Circuit precedents
8 of *Slack* and *In re Wenberg*, 902 F.2d 768 (9th Cir. 1990). In *Wenberg*, the Ninth Circuit explained:

9 The definition of “ready determination” turns on the distinction between
10 a simple hearing to determine the amount of a certain debt, and an
11 extensive and contested evidentiary hearing in which substantial evidence
12 may be necessary to establish amounts or liability. On this issue, the
13 bankruptcy judge has the best occasion to determine whether a claim will
14 require an overly extensive hearing or whether the claim is subject to a
15 bona fide dispute; therefore not subject to “ready determination.”

14 *FDIC v. Wenberg (In re Wenberg)*, 94 B.R. 631, 634-35 (9th Cir. BAP 1988) (emphasis added), cited
15 with approval in *Ho*, 274 B.R. at 875 and *Slack*, 187 F.3d at 1074.

16 Most cases holding that the schedules control despite other evidence as to liability are
17 those where the liability has been fixed pursuant to a judgment, statute, or specific contract terms. *See*
18 *Scovis*, 249 F.3d at 984 (listing of both homestead exemption and a judgment lien on schedules provided
19 a sufficient degree of certainty to regard a debt as unsecured for eligibility purposes); *Sylvester v. Dow*
20 *Jones & Co., Inc. (In re Sylvester)*, 19 B.R. 671, 673 (9th Cir. BAP 1981) (contract debt); *Fostvedt v.*
21 *Dow (In re Fostvedt)*, 823 F.2d 305, 306 (9th Cir. 1987) (promissory notes); *In re Monroe*, 282 B.R. 219,
22 223 (Bankr. D. Ariz. 2002) (prepetition judgment); *In re Madison*, 168 B.R. 986, 989 (D. Haw. 1994)
23 (taxes and deficiencies determined by IRS); *United States v. Verdunn*, 89 F.3d 799, 802 (11th Cir. 1996)
24 (tax liabilities and penalties); *In re Knight*, 55 F.3d 231, 235 (7th Cir. 1995) (statutory penalty owed by
25 judge for failure to report traffic violations); *Barcal v. Laughlin (In re Barcal)*, 213 B.R. 1008, 1014 (8th
26 Cir. BAP 1997) (assessed taxes).

1 These cases are concerned that a debtor may abuse the bankruptcy system by using the
2 “dispute” technique as a stalling device, and that the debtor should not have unbridled authority to
3 determine his or her eligibility. *See Madison*, 168 B.R. at 989 (discussing cases).

4 The majority of cases which involve a bona fide dispute as to liability which will entail
5 extensive hearings in order to resolve fall within the *Ho* analysis, which looks at the potential for
6 creditor-inspired abuse. For example, creditors might assert inflated or invalid claims that exceed the
7 § 109(e) limits, which then would be a “disincentive for debtors to provide accurate, complete and candid
8 schedules” *Ho*, 274 B.R. at 875; *In re Baird*, 228 B.R. 324, 330 (Bankr. M.D. Fla. 1999) (creditors
9 may file duplicate or triplicate claims or allege treble damages). In such factual situations, the BAP said
10 that “if [Ninth Circuit precedent] were interpreted to preclude consideration of the remoteness of liability,
11 we would have created a dilemma that inevitably will lead to schedules that are shaded to omit debts at
12 the margin of liability.” *Ho*, 274 B.R. at 875.

13 Therefore, cases that are not capable of ready and precise determination without an
14 extensive evidentiary hearing because of a bona fide dispute usually, but not always, involve pending tort
15 or personal injury litigation. *See id.*; *In re Allen*, 241 B.R. 710, 717 (Bankr. D. Mont. 1999), *aff'd in*
16 *part*, 23 Fed. Appx. 859 (9th Cir. 2002) (debtor disputed ex-wife's assault claim and amount of requested
17 damages); *Baird*, 228 B.R. at 329-30 (dispute as to corporate or personal liability for treble damages);
18 *In re King*, 9 B.R. 376, 379 (Bankr. D. Or. 1981) (fraud action). The instant case falls within this
19 category.

20 Here, a resolution of the liability and damages issues would require extensive hearings and
21 evidence from both parties. The result is not clear. In fact, the allocation of 10% liability raises questions
22 as to whether a jury might find Debtor Richard Smith liable for the acts of his company at all.

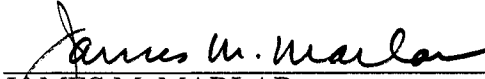
1 **CONCLUSION.**

2
3 Therefore, I must conclude that Sovereign/Britt's claim was unliquidated at the petition
4 date and, thus, Debtor properly scheduled that claim as "unknown." Thus, Debtor is eligible for
5 chapter 13 relief pursuant to § 109(e).

6
7 **RULING**

8
9 The motion to alter or amend will, therefore, be DENIED. A separate order will be
10 entered.

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12 DATED: December 13, 2005.

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15 _____
16 JAMES M. MARLAR
17 UNITED STATES BANKRUPTCY JUDGE
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25
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1 COPIES served as indicated below this 13
2 day of December, 2005, upon:

3 Thomas A. Denker
4 2321 E. Speedway Blvd
5 Tucson, AZ 85719-4730
6 Attorney for Debtor
7 E-mail Tad@TADenker.com

8 Cameron M. Jolly
9 Mixon, Valk & Jolly, LLP
10 5757 Anton Blvd., Suite 670
11 Costa Mesa, CA 92626
12 Attorneys for Sovereign Equity Management
13 U.S. Mail

14 Steven M. Cox
15 Waterfall Economidis Caldwell Hanshaw & Villamana, P.C.
16 5210 E. Williams Cir., #800
17 Tucson, AZ 85711
18 Attorneys for Sovereign Equity Management
19 Email smcox@wechv.com

20 Dianne C. Kerns
21 7320 N. La Cholla #154
22 PMB 413
23 Tucson, AZ 85741-2305
24 Email andrea.hopkins@dcktrustee.com
25 Chapter 13 Trustee

26 Office of the United States Trustee
230 North First Avenue, Suite 204
Phoenix, AZ 85003-1706
U.S. Mail

19 By MB Thompson
20 Judicial Assistant