

**UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
SANTA ANA DIVISION**

In re:	
Richard Clark Farrell	Debtor(s).
<hr/>	
Karen Sue Naylor	Plaintiff(s),
v.	
Betty Farrell	Defendant(s).

CHAPTER 7
Case No.: 8:14-bk-11729-MW
Adv No: 8:16-ap-01123-MW

MEMORANDUM DECISION AND ORDER

Date: October 22, 2019
Time: 9:00 AM
Courtroom: 6C

This adversary proceeding came on for trial on October 22, 2019 to determine whether Betty Farrell (“Ms. Farrell”), defendant herein, breached her fiduciary duties while she was a member of the Official Committee of Holders of Unsecured Claims (the “Committee”) in the main bankruptcy case of Richard C. Farrell.

The Court has subject matter jurisdiction over this proceeding pursuant to 28 U.S.C. § 1334 and General Order 13-05, filed July 1, 2013, of the United States District Court for the Central District of California. This is a core proceeding under 28 U.S.C. § 157(b)(2)(A), (B). Venue is proper pursuant to 28 U.S.C. § 1409.

1 Each of Plaintiff and Defendant have consented to this Court’s final determination
2 of the matters here in controversy under the rule of *Stern v. Marshall*, 564 U.S. 462 (2011) and
3 *Wellness Intern. Network, Ltd. v. Sharif*, 135 S. Ct. 1932 (2015). Joint Status Report, Docket No.
4 46, filed March 7, 2017 at page 4 item F.

5
6 **FINDINGS OF FACT**

7 Richard C. Farrell (“Debtor”) filed a voluntary chapter 11 petition and
8 commenced this bankruptcy proceeding on March 19, 2014 (the “Petition Date”). Prior to the
9 Petition Date, Debtor had been married to the defendant herein, Ms. Farrell. The couple
10 separated on January 14, 1999, Ms. Farrell filed for dissolution of the marriage, and the marriage
11 was terminated on May 23, 2000.

12 As of the Petition Date, the California family law court with jurisdiction over the
13 marital dissolution proceeding had not yet divided the community property nor made a
14 determination whether retroactive or permanent spousal support would be awarded to Ms.
15 Farrell. (Ms. Farrell had, however, been awarded temporary spousal support).

16 Ms. Farrell applied to the Office of the United States Trustee (the “UST”) for
17 membership on the Official Committee of Holders of Unsecured Claims (the “Committee”) on or
18 about April 3, 2014. On the UST’s form, Ms. Farrell estimated her claim at \$6 million. The
19 UST agreed that Ms. Farrell should be on the Committee and appointed her to the Committee on
20 April 8, 2014 along with David J. Harter and James T. Burnes. Ms. Farrell executed the
21 Committee’s By-Laws on April 27, 2014. These By-Laws recited that “[e]ach Member of the
22 Committee is aware of the fiduciary duty it has to all unsecured creditors of the Debtor . . .” By-
23 Laws, Article V(1).

24 It is undisputed that Ms. Farrell was a very active member of the Committee over
25 the course of her tenure (approximately April 2014 through November 2015). She provided
26 information to the Committee and its professionals regarding Debtor’s real and personal
27 property, including condominiums in Newport Beach, California, a 1999 Harley Davidson and
28 an Ansel Adams print. Such information eventually led to the liquidation of these and other

1 assets, greatly augmenting the amount of cash held by the bankruptcy estate.

2 Ms. Farrell filed a proof of claim on May 29, 2014, which the Court designated as
3 Claim No. 9-1 (the “Claim”). The Claim asserts unsecured claims including a first-priority
4 domestic support obligation in an “unliquidated, pending” amount arising from the dissolution of
5 Ms. Farrell’s marriage with Debtor.

6 Ms. Farrell filed a motion for relief from the automatic stay on May 13, 2014.
7 Her motion requested the Court to lift the stay so that she could proceed in California family
8 court to determine her rights to community and separate property and domestic support. The
9 Debtor and the Committee opposed the motion, and the dispute went into mediation. The
10 mediation resulted in the execution by the Debtor and Ms. Farrell of a Binding Mediation Term
11 Sheet. This Court approved the Binding Mediation Term Sheet by order entered October 14,
12 2014.

13 The Binding Mediation Term Sheet provides, in relevant part, as follows: “To the
14 extent that, after reservation of funds sufficient to pay community claims and any administrative
15 claims determined by the bankruptcy court to be payable from community property, any excess
16 property will be awarded to both Debtor and [Ms. Farrell] as their separate property . . . The
17 family law court shall equally divide the community property pursuant to California law but the
18 court shall not offset creditor claims held by [Ms. Farrell] by awarding her a larger amount of
19 property as her separate property.” Binding Mediation Term Sheet at numbered paragraphs 1
20 and 6.

21 Debtor signed a declaration supporting the Committee’s motion for appointment
22 of a chapter 11 trustee. The Court granted the motion on December 11, 2014 and four days later
23 approved the UST’s appointment Karen Sue Naylor, plaintiff herein (Ms. Naylor”), as chapter 11
24 trustee.

25 After taking office as chapter 11 trustee, Ms. Naylor became very concerned
26 about the magnitude of Ms. Farrell’s claim in the case and its potential first-priority status in
27 whole or in part. A telephone conference ensued among Ms. Naylor, Ms. Farrell’s attorneys and
28 Ms. Naylor’s attorney. One of the major issues that was discussed during this conference was

1 the scope, extent and priority of Ms. Farrell's claims. Reporter's Transcript ("R.T.") at 76, lines
2 17-20. There was extensive discussion on these points. R.T. at 76, line 20. Ms. Naylor
3 repeatedly emphasized that she did not want to administer a case where only one priority creditor
4 gets paid and none of the other unsecured creditors receives any money. R. T. at 76, lines 21-25,
5 77, line 1. She specifically advised Ms. Farrell's counsel that she "would not administer
6 disputed assets solely for the benefit of [Ms. Farrell]." Trial Declaration of Karen Sue Naylor,
7 Docket No. 131, filed September 16, 2019 ("Naylor Declaration") at 2 of 5, lines 17-19.

8 Other meetings between Ms. Naylor and Ms. Farrell's attorneys ensued. Ms.
9 Naylor kept asking for an understanding of Ms. Farrell's claims and, despite these multiple
10 inquiries, was never given a straight answer. Instead, she was told by Ms. Farrell's professionals
11 that "it would all work out." Naylor Declaration at 2 of 5, lines 18-19.

12 While these events were occurring, Ms. Naylor was making arrangements for
13 locating buyers of bankruptcy estate assets, bringing sale motions and performing various other
14 tasks associated with reducing bankruptcy estate property to cash for later distribution to
15 unsecured creditors. Naturally, expenses were run up during this process, including sizable
16 professional fees.

17 After a long period of time of dodging Ms. Naylor's questions about the nature
18 and scope of her claims (while at the same time actively demanding that Ms. Naylor and the
19 Committee take aggressive action to obtain and liquidate estate assets), Ms. Farrell finally
20 showed her hand. Interim fee applications were filed by Ms. Naylor's attorneys, the
21 Committee's attorneys and other professionals on October 9, 2015. Ms. Farrell filed an Omnibus
22 Response on October 21, 2015 (Docket No. 346) to these interim fee applications. The Omnibus
23 Response states: "It is entirely possible it will ultimately be adjudicated that Debtor has little to
24 any remaining interest in community property and that Betty's pre-petition support claim which
25 has the highest priority for payment will consume the property that remains in this estate. As
26 such, on this record, it is impossible for this Court to authorize payment for any allowed fees at
27 this time. Betty is cognizant that Applicants have a right to be paid for their services; however,
28 they do not have a right to be paid from her property or from funds that should be payable to her

1 on account of domestic support.” Omnibus Response at page 2 of 36, lines 18-24. Ms. Farrell
2 then resigned from the Committee on November 1, 2015.

3 The Court granted the applications in part, allowing the fees and expenses
4 requested on an interim basis but withholding authorization from Ms. Naylor to pay the approved
5 fees and expenses.

6 The Committee filed a complaint against Ms. Farrell on May 2, 2016,
7 commencing this adversary proceeding. This case was converted to chapter 7 on May 6, 2016,
8 and Ms. Naylor substituted in as plaintiff. The first amended complaint filed September 30,
9 2016 states a cause of action for equitable subordination of Ms. Farrell’s claim, a cause of action
10 for breach of fiduciary duty by Ms. Farrell, and a cause of action for two declaratory judgments
11 relating to the community sub-estate within the main bankruptcy estate. Specifically, the first
12 amended complaint asked the Court to determine that (1) the Binding Mediation Term Sheet has
13 a binding effect upon the liability and equal division of the community property sub-estate, and
14 (2) the “interest of justice” within the meaning of 11 U.S.C. § 726(c)(1) requires that all
15 administrative expense claims against the Estate be paid from the community property sub-
16 estate.

17 Ms. Naylor and Ms. Farrell entered into a Joint Pretrial Stipulation on April 19,
18 2019 (Docket No. 108) which the Court later approved. As mentioned earlier, this adversary
19 proceeding was tried on October 22, 2019.

20 As of this writing, the California family law court has not yet determined whether
21 Ms. Farrell will be awarded permanent and/or retroactive domestic support. Thus, Ms. Farrell’s
22 section 507(a)(1) first priority claim based upon a domestic support order remains unliquidated.
23 However, pursuant to a Judgment filed July 19, 2019 (the “July 2019 Judgment”), the California
24 family law court determined, among other things, that Ms. Farrell has no ownership in the
25 business C3 Lighting, that there is no community interest in real property located at 3322 and
26 3324 Via Lido, 125 Star Crest and 516 West Ocean Front, and that the 2009 Jeep is Debtor’s sole
27 and separate property.

1 Even apart from this adversary proceeding, the waterfall of distributions by Ms.
2 Naylor from bankruptcy estate property pursuant to 11 U.S.C. § 726 remains unknowable at this
3 point in time. First, there is uncertainty concerning the amount of permanent and/or retroactive
4 support that the California family law court will award to Ms. Farrell. Second, uncertainty may
5 exist as to whether community claims will exceed the value of community property held by the
6 estate for the payment of such claims pursuant to 11 U.S.C. §§ 541, 726.

7 8 **CONCLUSIONS OF LAW**

9 **Breach of Fiduciary Duty**

10 A member of a creditors' committee has a fiduciary duty to all the creditors they
11 represent. *In re County of Orange*, 179 B.R. 195, 202-03 (Bankr. C.D. Cal. 1995). In the
12 context of corporations and partnerships, being under a fiduciary duty to others generally is
13 regarded as consisting of a duty of care and a duty of loyalty. *Pfeffer v. Redstone*, 965 A.2d 676,
14 684 (Del. 2009) (corporate director's fiduciary obligations); *Davenport Grp. MG, L.P. v.*
15 *Strategic Inv. Partners, Inc.*, 685 A.2d 715, 722 (Del. Ch. 1996) (general partner's duties
16 generally are parallel to those of corporate directors). Arising from the duties of care and loyalty
17 is a duty of disclosure. *Pfeffer v. Redstone, supra*, 965 A.2d at 684. A duty of disclosure can be
18 breached by omitting the disclosure of material facts. *Id.* The Court concludes that the fiduciary
19 duties owed by creditor committee members to their constituencies include a duty of care, a duty
20 of loyalty and a duty of disclosure.

21 Fiduciary duties are generally strict and uncompromising in nature: "Many forms
22 of conduct permissible in a workaday world for those acting at arm's length, are forbidden to
23 those bound by fiduciary ties. A trustee is held to something stricter than the morals of the
24 market place. Not honesty alone, but the punctilio of an honor the most sensitive, is then the
25 standard of behavior. As to this there has developed a tradition that is unbending and inveterate.
26 Uncompromising rigidity has been the attitude of courts of equity when petitioned to undermine
27 the rule of undivided loyalty by the 'disintegrating erosion' of particular exceptions [citation
28 omitted]. Only thus has the level of conduct for fiduciaries been kept at a level higher than that

1 trodden by the crowd. It will not consciously be lowered by any judgment of this court.”

2 *Meinhard v. Salmon*, 249 N.Y. 458, 464, 164 N.E. 545, 546 (N.Y. 1928) (Cardozo, C.J.)

3 Ms. Farrell correctly points out that although creditor committee members owe
4 fiduciary duties, they are hybrids who serve more than one master. Each creditor committee
5 member is by definition a creditor and therefore is in competition with other creditors for a piece
6 of a shrinking pie. If a creditor committee member’s claim is disputed by the debtor either as to
7 amount or priority, it is not a breach of fiduciary duty for such committee member to assert the
8 rights such member is entitled to under the bankruptcy law, even though allowance of the claim
9 almost inevitably will have the result of diluting distributions to other creditors. *Rickel & Assoc.*
10 *Inc. v. Smith*, 272 B.R. 74, 80 (Bankr. S.D.N.Y. 2002); *In re Microboard Processing, Inc.*, 95
11 B.R. 283, 285 (Bankr. D. Conn. 1989).

12 Although Ms. Farrell had and has the full right to seek allowance of domestic
13 support awarded to her by the family law court as a first priority unsecured claim under 11
14 U.S.C. § 507(a)(1), she does not and did not have the right to actively conceal her intentions with
15 respect to such claim by dodging Ms. Naylor’s repeated inquiries on that subject. Her fiduciary
16 duties required her to disclose at the outset of the case what she waited until October 21, 2015 to
17 disclose in the Omnibus Response, namely, her position that the bankruptcy estate’s
18 professionals (and, by implication, general unsecured creditors) “do not have a right to be paid
19 from her property or from funds that should be payable to her on account of domestic support.”
20 She should have disclosed at the outset of the case, in a full and fair response to Ms. Naylor’s
21 pointed inquiries, that she was planning to lure the estate’s professionals into possibly working
22 for free and, when it came time for them to be paid on an interim basis, to oppose payment on the
23 grounds successfully asserted by her in the Omnibus Response. Thus, Ms. Farrell seriously
24 breached her fiduciary duties, including the duty of disclosure and the duty of loyalty, by
25 refusing to answer Ms. Naylor’s questions, concealing her true intentions and using the stock
26 phrase “it will all work out” to lure Ms. Naylor and the estate’s professionals into performing
27
28

1 work and administering the estate for what might end up being her sole benefit.¹

2 In the Court's view, the fiduciary duty of disclosure with respect to specific
3 information is best analyzed by asking, "is this information something the persons or entities for
4 whom I am acting as a fiduciary would have an interest in knowing?" Here, there is no doubt
5 whatsoever that unsecured creditors would have wanted to know if there was a possibility that
6 estate resources would be expended solely for Ms. Farrell's benefit and if Ms. Farrell intended to
7 rely upon her priority creditor position to advocate for this result. If general unsecured creditors
8 had known at the case's outset what they did not learn until October 21, 2015, it seems likely that
9 they would have pressed either for dismissal of the case -- leaving it to Ms. Farrell to spend her
10 own money to recover assets to which she had a claim -- or alternatively to have requested Ms.
11 Naylor to negotiate with Ms. Farrell to establish a carve-out for estate professionals and general
12 unsecured creditors. Ms. Farrell's concealment of her knowledge and intentions concerning her
13 claim deprived general unsecured creditors of the opportunity to negotiate to obtain a distribution
14 of a piece of the bankruptcy estate's assets through a carve out agreement.

15 16 Equitable Subordination

17 A proponent of the equitable subordination of all or part of an allowed claim bears
18 the burden of proving three elements: (1) the claimant engaged in some type of inequitable
19 conduct; (2) the misconduct injured creditors or conferred an unfair advantage on the holder of
20 the claim sought to be subordinated and (3) subordination would not be inconsistent with the
21 Bankruptcy Code. *In re First Alliance Mortg. Co.*, 471 F.3d 977, 1006 (9th Cir. 2006); *In re*
22 *Filtercorp, Inc.*, 163 F.3d 570, 583 (9th Cir. 1998). The remedy of equitable subordination is
23 remedial rather than punitive in nature. *Shubert v. Lucent Tech. Inc. (In re Winstar*
24 *Communications, Inc.)*, 554 F.3d 382, 411 (3d Cir. 2009). A claim should be subordinated only
25 to the extent necessary to offset the harm suffered. *In re USDigital, Inc.*, 443 B.R. 22, 49

26
27 ¹ See *In re Covington*, 368 B.R. 38, 41-42 (Bankr. E.D. Cal. 2006) (discussing the impropriety of a
28 trustee's liquidation of estate property for the benefit of "just one creditor" holding a domestic support
obligation); cf. *Williams v. California First Bank*, 859 F.2d 664, 666-67 (9th Cir. 1988) (improper for
trustee to liquidate claims that benefit only select creditors with the only benefit to the estate being the
recoupment of administrative costs).

1 (Bankr. D. Del. 2011).

2 Here, Ms. Farrell's breach of her fiduciary duties as a member of the Committee
3 as described above rises to the level of inequitable conduct. It was inequitable for Ms. Farrell to
4 push hard for the liquidation of estate assets while at the same time knowing that she intended to
5 assert rights that might enable her to gain all the benefit from such asset liquidation while paying
6 for none of it. Further, her concealment and nondisclosure of her position and intentions was
7 likewise inequitable.

8 Turning to the third element of equitable subordination, Ms. Farrell's argues that
9 subordination of her claim would be inconsistent with the Bankruptcy Code because it would
10 deprive her of the priority position to which she is entitled under 11 U.S.C. § 507(a)(1). If this
11 were the law, then no priority claim could ever be subordinated, and 11 U.S.C. § 510(c) would
12 be a dead letter as to this class of claims. The whole point of an equitable subordination of an
13 allowed claim under section 510(c) is to change the order of distribution otherwise required
14 under 11 U.S.C. § 726 (assuming a chapter 7 case) to the extent necessary to offset the harm
15 suffered. The Bankruptcy Code expressly permits this: “. . . after notice and a hearing, the court
16 may . . . subordinate for purposes of distribution all or part of an allowed claim to all or part of
17 another allowed claim . . .” 11 U.S.C. § 510(c). Thus, Ms. Farrell retains her first-priority
18 position allowed claim for domestic support, but pursuant to section 510(c) the order of payment
19 of that first-priority under section 726 is altered in such a way as to offset the harm done to
20 creditors resulting from her inequitable conduct. The alteration is that other creditors are paid
21 before her to the extent of the harm. There is nothing inconsistent with the Bankruptcy Code in
22 all this. Indeed, section 510(c) expressly provides for it.

23 Turning to the second element of equitable subordination, the Court at this point
24 in time is unable to determine the precise extent to which the unsecured creditor body was
25 harmed by Ms. Farrell's inequitable conduct. This inability is due partly to the fact that the
26 family law court has not yet determined Ms. Farrell's entitlement to retroactive and/or future
27 domestic support.

1 Damages for wrongful conduct are sometimes determined by analyzing what
2 likely would have happened if such wrongful conduct had not occurred. Here, if Ms. Naylor had
3 known soon after her appointment of Ms. Farrell's true intentions with respect to her claim, she
4 likely would have declined to administer the estate. Naylor Declaration at 2 of 5, lines 17-19. In
5 the absence of estate administration (and a likely dismissal of Debtor's case), professional fees
6 would not have been incurred after Ms. Naylor made a decision not to administer bankruptcy
7 estate assets. For this reason, the Court determines that Ms. Farrell's claim in its entirety is
8 equitably subordinated to all professional fees for work performed by Ms. Naylor's professionals
9 and the Committee's professionals from and after fifteen (15) days after Ms. Naylor's
10 appointment as chapter 11 trustee on December 15, 2014.

11 Damages to non-administrative priority creditors (other than Ms. Farrell) and
12 general unsecured creditors are more difficult to determine. Such creditors may have been able
13 to collect from Debtor after his bankruptcy case was dismissed, but this is very speculative.
14 Alternatively, such creditors may have benefited from a carve-out agreement negotiated by Ms.
15 Naylor as consideration for keeping the case in bankruptcy. This also is speculative. Further, if
16 the numbers are such that no assets of value in the estate remain after payment of Ms. Naylor's
17 trustee fee and the payment of professional administrative claims, the issue of any payment to
18 non-administrative priority creditors and general unsecured creditors would be moot. Therefore,
19 the Court reaches no determination on this matter at this time and invites further briefing on the
20 issue. Ms. Naylor and Ms. Farrell shall each file opening briefs on or before December 15, 2019
21 and a responsive brief on or before January 15, 2020.

22 23 **Declaratory Judgments**

24 The Court determines that the Binding Mediation Term Sheet has a binding effect
25 in this court upon the liability and equal division of the community property sub-estate. After
26 all, the Court approved the Binding Mediation Term Sheet, and there is simply no reason why it
27 would be unenforceable here. The enforceability or non-enforceability of the Binding Mediation
28 Term Sheet in the California family law court is a matter entirely in the hands of the California

1 family law court.

2 Ms. Naylor requests a declaratory judgment that all administrative expense claims
3 be paid from the community property sub-estate pursuant to the “interest of justice” rule of 11
4 U.S.C. § 726(c)(1). Ms. Farrell counters that this relief is moot by virtue of the July 2019
5 Judgment of the California family law court (unless such judgment is reversed on appeal). Ms.
6 Farrell contends that under the July 2019 Judgment community claims exceed community
7 property and so it is certain that all allowed administrative claims will be paid from community
8 property. Defendant’s Trial Brief, Docket No. 1235, filed September 16, 2019 at 13-14 of 19.

9 Had Ms. Farrell not argued as she has, the Court would be reluctant to reach the
10 conclusion that the “interest of justice” standard in 11 U.S.C. § 726(c)(1) requires all
11 administrative expenses to be allocable to community property. Rather, it would seem that any
12 administrative expense costs allocable to work done to reduce the Debtor’s separate property to
13 cash for later distribution to creditors should be allocable under the “interest of justice” standard
14 to the Debtor’s separate property and not to community property. 6 *Collier on Bankruptcy* ¶
15 726.05[2] (16th Ed.) Administrative expense costs allocable to work done for reducing
16 community property to cash would be allocable to community property.

17 Ms. Farrell’s argument, however, seems to concede that (1) under the facts as they
18 now stand it is inevitable that all administrative expenses will be paid from community property,
19 and (2) Ms. Farrell does not consider this result to be objectionable.

20 The Court disagrees with Ms. Farrell that the sought-after declaratory relief is
21 moot. The Court still needs to decide how allowed administrative claims are allocated between
22 (i.e., paid from) community property and separate property. The parties’ seeming agreement that
23 all administrative claims should be paid from community property in the estate would appear to
24 be beneficial because it will spare Ms. Naylor from the somewhat onerous task of trying to figure
25 out mathematically how much money was spent dealing with community property and how
26 much dealing with separate property. An elimination of expenses associated with an
27 unnecessary mathematical analysis would seem to be in the interests of justice under 11 U.S.C.
28 § 726(c)(1). For all these reasons, the Court will require Ms. Naylor to first apply all allowed

1 administrative expenses against community property in the estate and, if such property is fully
2 consumed, to then apply them against Debtor's separate property. To that extent, the Court
3 grants Ms. Naylor's request for a declaratory judgment on this point, subject to modification by
4 the Court in the event that the July 2019 Judgment is reversed on appeal.

5 6 **SUMMARY AND CONCLUSION**

7 As the Court envisions it, the Debtor and Ms. Farrell will return to the California
8 family law court to obtain a ruling on Ms. Farrell's entitlement to domestic support.
9 Concurrently, if she is currently holding the 2000 Porsche referred to in the July 2019 Judgment,
10 Ms. Naylor will convey the vehicle to Ms. Farrell based upon the California family law court's
11 determination that it is Ms. Farrell's sole and separate property. The Court is uncertain whether
12 the California family law court determined that Ms. Farrell's sole and separate property includes
13 a \$204,000 interest in the 3328 Via Lido condominium or, alternatively, that Ms. Farrell merely
14 has a \$204,000 community property interest in the 3328 Via Lido condominium. If the former is
15 the case, and if Ms. Naylor is currently holding these funds, then Ms. Naylor would convey
16 \$204,000 to Ms. Farrell because Ms. Farrell's sole and separate property is not included in the
17 bankruptcy estate. 11 U.S.C. § 541. If the \$204,000 interest is a community property interest
18 held by Ms. Farrell, Ms. Naylor would use this property interest to pay community claims as
19 discussed above.

20 Also concurrent with the California family law process, Ms. Naylor would
21 distribute to her professionals and the Committee's professionals all fees and expenses for
22 services performed by them on or after December 30, 2014 and that are allowed by this Court on
23 a final basis. She would also distribute to non-administrative priority creditors an amount equal
24 to the subordination of Ms. Farrell's claims to the claims of these creditors after this Court
25 determines such amount (see references to the briefing schedule above). If funds remain after
26 making these distributions, she would make a distribution to general unsecured creditors.
27 Throughout this process she would create a reserve for the payment of her own fees. If there is
28 an insufficiency of funds to make these distributions and create the reserve, Ms. Naylor is

1 authorized to adjust downward the amounts distributed to professionals (and any other creditors
2 entitled to payment under the waterfall described above) so that there is a pro rata distribution
3 among the professionals (and, if applicable, priority creditors and/or general unsecured creditors)
4 and Ms. Naylor.

5 If at that point there is still remaining property to distribute (and assuming the
6 California family law court has by that time determined the amount of Ms. Farrell's permanent
7 and/or retroactive domestic support), the parties will return to this Court for a determination of a
8 waterfall of distributions consistent with the provisions of bankruptcy law. The Court will need
9 to address the effect, if any, of 11 U.S.C. §§ 507(a)(1)(C), 726(a), (b), (c)(1)-(2) on any
10 remaining distributions required to be made by Ms. Naylor.

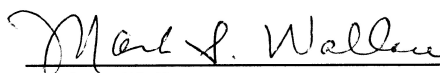
11 The Court recognizes that the distribution procedures described above are
12 intricate and complicated. Ms. Naylor and/or other interested parties may return at any time to
13 this Court for additional guidance by filing a pleading to that effect.

14 The Court sets a status conference for this adversary proceeding for Wednesday,
15 March 11, 2020 at 9:00 a.m. An updated status report shall be filed on or before February 27,
16 2020.

17 IT IS SO ORDERED.

18 ###

24 Date: November 15, 2019

24 
25 Mark S. Wallace
26 United States Bankruptcy Judge