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6 **UNITED STATES DISTRICT COURT**
7 **SOUTHERN DISTRICT OF CALIFORNIA**
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9 ALEJANDRO DIAZ-BARBA, et al.,
10 Defendants/Appellants,
11 vs.
12 KISMET ACQUISITION, LLC,
13 Plaintiff/Appellee.

Case No. 08cv1446 BTM (BLM)
consolidated with 08cv1572 BTM
(BLM)

**ORDER AFFIRMING JUDGMENT
OF BANKRUPTCY COURT**

14 Alejandro Diaz-Barba and Martha Margarita Barba de la Torre have appealed under
15 28 U.S.C. § 158(a)(1) from a judgment of the United States Bankruptcy Court for the
16 Southern District of California. For the following reasons, the Court **AFFIRMS** the judgment.
17

18 **I. BACKGROUND**

19 This is an appeal from a judgment in two bankruptcy avoidance actions. The object
20 of those avoidance actions was the sale of a coastal villa in Mexico (the “Villa”). The Villa
21 is at the heart of this dispute, and both Appellants and Appellee claim that they are its lawful
22 owners.
23

24 **A. The Icenhowers Purchase the Villa**

25 The Villa has been the object of litigation and bought and sold several times in recent
26 history. In 1995, the D. Donald Lonie, Jr., Family Trust (“Lonie Trust”) owned the beneficial
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1 interest in the Villa.¹ (Excerpts of Record (“ER”) 18–51, June 2, 2008 Consolidated Findings
2 of Fact and Conclusions of Law (“FFCL”) ¶ 3.) The Lonie Trust agreed to sell its interest in
3 the Villa to Jerry and Donna Icenhower (collectively the “Icenhowers” or “Debtors”). (*Id.*) Mr.
4 Icenhower executed promissory notes in exchange for the Villa, but a dispute arose
5 regarding the notes and the Lonie Trust sued the Icenhowers in the United States District
6 Court for the Southern District of California.² (*Id.*)

7 The lawsuit sought a determination of the parties’ respective rights in the Villa. (*Id.*
8 at ¶ 4.) The Lonie Trust prevailed, and in 2003 the district court entered judgment against
9 the Icenhowers. (*Id.* at ¶ 5.) The judgment required the Icenhowers to either (1) pay
10 damages of about \$1.36 million and re-register a lien on the Villa as security for the
11 damages; or (2) reconvey the Villa to the Lonie Trust, free of any encumbrances. (*Id.*)

12 13 **B. The Icenhowers Transfer the Villa to a Shell Corporation**

14 But before the district court entered that judgment, the Icenhowers had already
15 transferred the Villa to Howell & Gardner Investors, Inc. (“H&G”), a shell corporation. (*Id.* at
16 ¶ 16.) The Icenhowers received virtually nothing in exchange for transferring the Villa to
17 H&G. (*Id.*) And under the terms of the sale, Mr. Icenhower retained total control over the
18 Villa. (*Id.* at ¶ 17.) Not only did Mr. Icenhower control the Villa, but Mr. Icenhower also
19 controlled H&G; it had no real corporate existence apart from him and had no business
20 purpose other than as a sham company to hold the Icenhowers’ assets. (*Id.* at ¶ 14.) Thus,
21 when the district court entered judgment against the Icenhowers and ordered them to either
22 pay damages or return the Villa to the Lonie Trust, H&G—and not the
23 Icenhowers—purportedly owned the Villa.

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26 ¹ Under Mexican law, a foreign national may not directly hold title to coastal property
27 in Mexico, but may hold the beneficial interest in a *fideicomiso* bank trust formed to hold title
28 to the real property. Unless stated otherwise, all references to the transfer of the Villa refer
to the transfer of the beneficial interest.

² That action is entitled *Lonie v. Icenhower*, 00cv612.

1 **C. The Icenhowers File for Bankruptcy**

2 Shortly after the district court entered judgment against the Icenhowers, on December
3 15, 2003 the Icenhowers responded by filing a Chapter 7 bankruptcy petition. (FFCL ¶ 6.)
4 During the course of the bankruptcy, the Icenhowers (or “Debtors”) disclosed that they had
5 transferred the Villa to H&G. (*Id.* at ¶ 44.) And in August 2004, the bankruptcy trustee filed
6 a fraudulent conveyance action to avoid the transfer and recover the Villa (the “Fraudulent
7 Transfer Action”). (*Id.* at ¶ 45.) But by the time the Court entered a preliminary injunction
8 preventing H&G from transferring the Villa, Mr. Icenhower had caused the Villa to be
9 transferred yet again—this time to Appellants Martha Barba Diaz³ and her son Alejandro
10 Diaz-Barba (collectively the “Diaz Family”). (*Id.* at ¶ 37.)

11
12 **D. The Diaz Family Agrees to Purchase the Villa and Conducts Due Diligence**

13 Mr. Icenhower met Mr. Diaz through a mutual friend, and Mr. Diaz understood Mr.
14 Icenhower to be the manager of the Villa. (*Id.* at ¶ 27.) Mr. Diaz was interested in
15 purchasing the Villa, and during 2003 and 2004 they negotiated and finally agreed on a
16 purchase price of \$1.5 million. (*Id.* at ¶¶ 28–29.) After agreeing on the price, Mr. Diaz began
17 his due diligence. (*Id.* at ¶ 29.)

18 While Mr. Diaz conducted his due diligence, Mr. Icenhower asked him for a \$100,000
19 personal loan to invest in a golf-pro shop. (*Id.* at ¶ 29.) Mr. Icenhower made only one
20 payment on the loan before he filed for bankruptcy in December 2003. (*Id.* at ¶ 29.)
21 Although Mr. Icenhower did not tell Mr. Diaz of the filing, Mr. Diaz received notice of the
22 bankruptcy because Debtors listed the \$100,000 loan in their filing. (*Id.* at ¶ 31.)

23 Mr. Diaz was shocked and concerned about the bankruptcy, but Mr. Icenhower
24 assured Mr. Diaz that he was forced to file due to an unfair judgment against him. (*Id.* at ¶
25 32.) Mr. Icenhower further assured Mr. Diaz that he would pay back the \$100,000 personal
26 loan through an equivalent reduction in the purchase price of the Villa. (*Id.*) Mr. Diaz

27
28 ³ Appellants’ briefing papers refer to Ms. Barba Diaz as Martha Barba De La Torre. The Court will adhere to the FFCL’s reference to Appellant as Martha Barba Diaz or Ms. Barba Diaz.

1 accepted Mr. Icenhower's explanation and did not believe he needed to separately
2 investigate why, given that H&G purportedly owned the Villa, Mr. Icenhower had authority
3 to lower the sales price of the Villa to repay Mr. Icenhower's personal loan. (*Id.*)

4 The Diaz Family hired Eduardo Sanchez, a lawyer licensed only in Mexico, to conduct
5 due diligence on their purchase of H&G's interest in the Villa. (*Id.* at ¶ 33.) The scope of Mr.
6 Sanchez's due diligence was the following: (1) he confirmed H&G's corporate existence by
7 obtaining its Articles of Incorporation; (2) he confirmed from the State of Nevada that H&G
8 was in good standing; (3) he obtained a corporate resolution authorizing Craig Kelley, H&G's
9 sole office and director, to sell the Villa; and (4) he reviewed the property records in the
10 property office in Autlan, Mexico and determined that the previous transfers of the Villa were
11 legally correct and that there were no liens or claims against it. (*Id.* at ¶ 34.)

12 There were several things, however, that Mr. Sanchez did not review or confirm.
13 Because he viewed the transaction as governed by Mexican law, he did not review any
14 relevant U.S. law. (*Id.* at ¶ 35.) Although Mr. Sanchez had H&G's Articles of Incorporation,
15 which required shareholder authorization for a transaction selling substantially all of H&G's
16 assets, he never requested or obtained that authorization. (*Id.*) Nor was he concerned that
17 Mr. Icenhower asked the Diaz Family to pay consideration to entities other than H&G for
18 transfer of the Villa. (*Id.*) He knew of Mr. Icenhower's personal bankruptcy, but was
19 unconcerned about this too because he viewed the transaction as a purchase from H&G, not
20 Mr. Icenhower. (*Id.*) He did not check either the bankruptcy court or call the bankruptcy
21 trustee. (*Id.*) Lastly, although Mr. Icenhower had warned Mr. Diaz that the trustee was
22 looking into the Debtors' sale of the Villa to H&G, Mr. Sanchez testified that he was unaware
23 that the transaction was under review. (*Id.*)

24 25 **E. Mr. Icenhower and the Diaz Family Close the Deal**

26 Still, Mr. Sanchez and the Diaz Family proceeded with the transaction. In June 2004,
27 the Diaz Family executed a purchase agreement for the Villa. (FFCL ¶ 37.) The actual
28 agreed price was \$1.5 million. (*Id.*) But the stated consideration in the purchase agreement

1 was \$7,508,800 Mexican pesos, equivalent to \$658,071 USD. (*Id.*) The Diaz Family, their
2 lawyer, and Mr. Icenhower admitted that the lower price was a ruse to avoid Mexican taxes.
3 (*Id.*)

4 Mr. Icenhower, Mr. Diaz, Mr. Sanchez, and Mr. Kelley (H&G's sole officer and director)
5 were present at the closing in Chula Vista, California. (*Id.* at ¶ 38.) Although Mr. Kelley
6 signed the transaction documents on behalf of H&G, he was only a passive participant and
7 followed Mr. Icenhower's directions. (*Id.*) The Diaz Family only paid \$25,000 of the
8 purchase price directly to H&G. (*Id.* at ¶ 39.) At the closing, Mr. Icenhower directed them
9 to pay the balance to third parties: \$675,000 USD to Buckeye International Funding, Inc.;
10 \$398,663 USD to Western Financial Assets, Inc.; and \$191,567 USD to Icenhower
11 Investments. (*Id.* at ¶ 39.) The \$675,000 was paid from an account owned by Ms. Barba
12 Diaz, and the other two payments were made from accounts owned by Mr. Diaz. (SER
13 416–18.)

14 Neither Mr. Diaz nor Mr. Sanchez thought it odd that Mr. Icenhower directed them to
15 pay virtually all of the consideration to third parties and not to H&G. (FFCL ¶ 40.) In
16 addition, although the Villa constituted all the property H&G owned, there was no shareholder
17 resolution authorizing the sale as required by H&G's Articles of Incorporation. (*Id.* at ¶ 41.)
18

19 **F. The Bankruptcy Trustee Files Actions to Avoid the Transfers of the Villa**

20 As mentioned above, the bankruptcy trustee filed the Fraudulent Transfer Action to
21 avoid the transfer from Debtors to H&G in August 2004. (FFCL ¶ 45.) Once the trustee
22 learned that H&G had transferred the Villa to the Diaz Family, the trustee added them as
23 defendants in that action. (*Id.* at ¶ 46.) Later, in August 2006, the trustee filed an alter ego
24 and avoidance action, seeking a finding that H&G was the Debtors' alter ego and for
25 substantive consolidation of Debtors and H&G *nunc pro tunc* to the petition date, and to
26 recover the postpetition transfer of the Villa (the "Postpetition Transfer Action") (collectively
27 with Fraudulent Transfer Action, "Avoidance and Recovery Actions"). (*Id.* at ¶ 48.)

28 During the course of the Avoidance and Recovery Actions, Kismet Acquisition, LLC

1 (“Kismet” or “Appellee”) intervened and purchased the estate’s assets, including those
2 actions. (*Id.* at ¶ 50–51.) Kismet replaced the trustee in the actions and is the Appellee
3 here. (*Id.* at ¶ 52.)

4 5 **G. The Bankruptcy Court’s Findings of Fact and Conclusions of Law**

6 After the conclusion of a bench trial in the Avoidance and Recovery Actions, the
7 bankruptcy court issued its findings of fact and conclusions of law. Its findings of fact were
8 substantially similar to the facts recited above. Based on these facts, the bankruptcy court
9 made several conclusions of law.

10 First, based on the claims in the Postpetition Transfer Action, the court held that H&G
11 was Debtors’ alter ego. The Court therefore consolidated H&G’s assets with the bankruptcy
12 estate *nunc pro tunc* to the petition date. The consolidation had the effect of treating the Villa
13 as part of the bankruptcy estate as of the date of filing.

14 Second, based on the consolidation, the Villa’s transfer to the Diaz Family was
15 avoidable under 11 U.S.C. § 549 as an unauthorized postpetition transfer. The bankruptcy
16 court ruled that the Diaz Family had no defense to the avoidance because they admitted
17 knowledge of Debtors’ bankruptcy filing. As a result of the avoidance, the court could
18 recover the Villa under 11 U.S.C. § 550(a)(1);

19 Third, the court alternatively held based on the claims in the Fraudulent Transfer
20 Action, that the Villa’s transfer to H&G was a fraudulent transfer and therefore avoidable.
21 And the court could recover the Villa from the Diaz Family under 11 U.S.C. § 550(a)(2)
22 because, due to their insufficient due diligence in light of all the red flags, they were not good-
23 faith transferees.

24 In its Amended Consolidated Judgment (“ACJ”), the bankruptcy court ordered the Diaz
25 Family to undo the avoided transfer and convey the Villa to a *fideicomiso* trust naming Kismet
26 as the sole beneficiary. Alternatively, Kismet could elect to receive a make-whole monetary
27 judgment. The Diaz Family eventually satisfied an oral amendment to the judgment after the
28 bankruptcy court entered coercive and remedial sanctions.

1 The Diaz Family appeals the ACJ.

3 II. STANDARDS OF REVIEW

4 The Court has jurisdiction over the appeals under 28 U.S.C. § 158(a). The Court
5 reviews the bankruptcy court's factual findings for clear error. *See Harsh Investment Corp.*
6 *v. Bialac (In re Bialac)*, 712 F.2d 426, 429 (9th Cir. 1983). Conclusions of law are subject to
7 *de novo* review, *id.*, as are most mixed questions of fact and law, *Biggs v. Stovin (In re Luz*
8 *Int'l., Ltd.)*, 219 B.R. 837, 840 (B.A.P. 9th Cir. 1998).

10 III. DISCUSSION

11 A. Local-Action Doctrine

12 Appellants first argue that in avoiding the Villa's transfer from H&G to them, and
13 ordering Appellants to transfer the Villa to Kismet, the bankruptcy court exceeded its
14 jurisdiction. The bankruptcy court, they argue, purportedly exercised *in rem* jurisdiction over
15 the Villa. But because the Villa is in Mexico, Appellants contend, it is beyond the *in rem*
16 jurisdiction of the court. In support of this argument, Appellants invoke the local-action
17 doctrine.

18 The local-action doctrine is a common-law doctrine that prevents federal courts from
19 exercising subject-matter jurisdiction⁴ over certain actions involving out-of-state real property.
20 When "the remedies [a party] seeks would act *directly* upon the land itself, jurisdiction is
21 properly exercised in the state where the land is situated." *See U.S. v. Byrne*, 291 F.3d
22 1056, 1060 (9th Cir. 2002) (emphasis added). Local actions are essentially actions *in rem*
23 and may only be prosecuted "where the thing on which they are founded is situated." *Casey*
24 *v. Adams*, 102 U.S. 66, 68 (1880).

25 On the other hand, causes of action that are related to a particular defendant are

27 ⁴ Federal courts disagree over whether the local-action doctrine affects subject-matter
28 jurisdiction or merely venue. 14D Charles Alan Wright et al., *Federal Practice and Procedure*
§ 3822 (3d ed. 2009). The Ninth Circuit, however, has treated the issue as affecting subject-
matter jurisdiction. *McGowan*, 219 F. at 370. The Court follows that rule here.

1 called transitory actions. Unlike local actions, which must be brought where the *res* at issue
2 is located, transitory actions may be brought in any district where the court has *in personam*
3 jurisdiction over that defendant. See *Massie v. Watts*, 10 U.S. (6 Cranch) 148, 160 (1810).

4 Although the line between transitory and local actions is not always clear, what is clear
5 is that actions for fraud are transitory. *Massie*, 10 U.S. (6 Cranch) at 160 (“[T]his court is of
6 opinion that, in a case of fraud . . . the jurisdiction of a court of chancery is sustainable
7 wherever the person be found, although lands not within the jurisdiction of that court may be
8 affected by the decree.”); *Safeway Stores*, 743 F.2d at 506–09; *Neet v. Holmes*, 19 Cal. 2d
9 605, 611 (1942) (same is true under California law). Similarly, actions filed by a bankruptcy
10 trustee to avoid a fraudulent transfer under 11 U.S.C. § 548 are also transitory. *Coffey v.*
11 *Managed Properties*, 85 F.2d 88, 90 (2d Cir. 1936); *Kalso Systemet, Inc. v. Jacobs*, 474 F.
12 Supp. 666, 668–69 (D.C.N.Y. 1979); see also *Safeway Stores, Inc.*, 743 F.2d at 506–09
13 (listing cases holding actions to avoid fraudulent transfer are transitory); *Sax v. Sax*, 294 F.2d
14 133, 136–37 (5th Cir. 1961) (suit to avoid fraudulent conveyance is transitory); *Tcherepnin*
15 *v. Franz*, 439 F. Supp. 1340, 1345 (D.C. Ill. 1977) (“It is well-settled that in an action to set
16 aside a fraudulent conveyance of land the court has jurisdiction wherever the person can be
17 found, although lands not within the jurisdiction may be affected by the court’s decree.”). But
18 *c.f. Mann v. Hanil Bank*, 900 F. Supp. 1077 (E.D. Wis. 1995) (holding non-bankruptcy
19 fraudulent transfer action is local in nature). The Court holds that actions to avoid a
20 fraudulent conveyance are transitory and may be brought wherever the court has *in*
21 *personam* jurisdiction over the defendant.

22 In transitory actions, a court may use its *in personam* jurisdiction over a defendant to
23 indirectly act upon out-of-state real property. See, e.g., *Fall v. Eastin*, 215 U.S. 1, 8 (1909)
24 (“A court of equity, having authority to act upon the person, may indirectly act upon real
25 estate in another state, through the instrumentality of this authority over the person.”); *Sax*,
26 294 F.2d at 137 (court could declare agreement invalid due to fraud and use coercive
27 sanctions to compel action with respect to out-of-state property). Using its *in personam*
28 jurisdiction, at least one court in this jurisdiction has transferred interests in Mexican land by

1 ordering defendants to effect the transfer themselves. See *Brady v. Brown*, 51 F.3d 810, 819
2 (9th Cir. 1995) (affirming district court's judgment requiring defendants to execute power of
3 attorney transferring interests in Mexican land into *fideicomiso* trust).

4 Here, the bankruptcy court had *in personam* jurisdiction over Appellants and therefore
5 had jurisdiction to hear the Avoidance and Recovery Actions. Avoidance actions are
6 transitory, see, e.g., *Coffey*, 85 F.2d at 90, and cases cited *supra*, and transitory actions may
7 be brought wherever the court has *in personam* jurisdiction over the defendants, e.g., *Watts*,
8 10 U.S. (6 Cranch) at 160. Furthermore, once it had avoided the transfers, the bankruptcy
9 court had the authority to recover the property because it could do so through its *in personam*
10 power over Appellants. See, e.g., *Central Virginia Cmty. Coll. v. Katz*, 546 U.S. 356, 372
11 (2006) (After avoiding transfer in bankruptcy, action to recovery property "might itself involve
12 *in personam* process.")

13 Alternatively, the bankruptcy court's exercise of jurisdiction was proper under 28
14 U.S.C. § 1334(b), which gives district courts (and bankruptcy courts under 28 U.S.C. § 157)
15 original jurisdiction over all civil proceedings arising in or related to bankruptcy cases.⁵
16 *Celotex Corp. v. Edwards*, 514 U.S. 300, 308 (1995); 28 U.S.C. §§ 157, 1334(b). Congress
17 has explicitly granted bankruptcy courts with subject-matter jurisdiction to hear avoidance
18 and recovery actions like the ones at issue here. See 28 U.S.C. §§ 157, 1334(b). Thus,
19 even if an action to avoid a fraudulent transfer was a local action under federal common law,
20 the bankruptcy court would still have jurisdiction because Congress's broad grant of
21 jurisdiction supersedes the common-law doctrine. See *City of Milwaukee v. Illinois*, 451 U.S.
22 304, 313 (1981) (federal statutes supersede federal common law).

23 Appellants cite no case holding that a bankruptcy trustee must bring actions to avoid
24 the transfer of real property in the state where the real property is located. Appellant's most
25

26 ⁵ As the Court mentions above *supra* n. 4, federal courts disagree over whether the
27 local-action doctrine goes to subject matter jurisdiction or venue. 28 U.S.C. § 1334(b)
28 addresses subject-matter jurisdiction and under that statute the bankruptcy court below had
jurisdiction to hear the claims. Even if the Court assumes the local-action doctrine addresses
venue, venue was proper in the bankruptcy court under 28 U.S.C. § 1408(1) because
Debtors and Appellants resided in San Diego County.

1 helpful case held that a district court lacked jurisdiction to hear a fraudulent transfer action
2 regarding property located in Korea. *Mann v. Hanil Bank*, 900 F. Supp. 1077 (E.D. Wis.
3 1995). This holding is not binding on the Court. But more importantly, the avoidance action
4 in *Mann* did not arise from a bankruptcy case. This is a crucial distinction because Congress
5 has granted bankruptcy courts with broad jurisdiction to hear all civil proceedings related to
6 a bankruptcy, see 28 U.S.C. § 1334(b), and this statutory jurisdiction was not present in
7 *Mann*.

8 Appellants also attempt to distinguish between a bankruptcy court's jurisdiction over
9 avoidance and its jurisdiction over recovery. Appellants are correct that a court's avoidance
10 of a transfer of real property under § 548 is distinct from a court's subsequent recovery of
11 that property under § 550. *Dzikowski v. N. Trust Bank of Fl. (In re Prudential of Florida*
12 *Leasing, Inc.)*, 478 F.3d 1291, 1301 (11th Cir. 2007); *Suhar v. Burns (In re Burns)*, 322 F.3d
13 421, 427 (6th Cir. 2003). But in this context the distinction is immaterial. As explained
14 above, the Court may indirectly act upon out-of-jurisdiction real property through its *in*
15 *personam* power over defendants. Furthermore, Congress explicitly granted bankruptcy
16 courts jurisdiction to hear not only avoidance actions, but also recovery actions. *In re Gandy*,
17 299 F.3d 489, 496 (5th Cir. 2002); 28 U.S.C. § 1334 (bankruptcy court has jurisdiction over
18 all civil proceedings related to bankruptcy); 28 U.S.C. § 157 (b)(2)(H) (action to recover
19 property is core proceeding). Thus, even assuming the local-action doctrine would otherwise
20 apply to recovery actions, Congress's grant of jurisdiction overrides the purported application
21 of the common-law doctrine. See *City of Milwaukee*, 451 U.S. at 313.

22 For these reasons, the Court holds that the local-action doctrine did not preclude the
23 bankruptcy court from exercising jurisdiction over, and entering judgment in, the avoidance
24 and recovery actions.

25 26 **B. Extraterritorial Application of Avoidance and Recovery Provisions**

27 Federal laws are presumed to be inapplicable to conduct outside the United States
28 unless Congress "clearly expresses a contrary intent." See *Gushi Bros. Co. v. Bank of*

1 *Guam*, 28 F.3d 1535, 1538–42 (9th Cir. 1994). This is called the presumption against
2 extraterritoriality. *Id.* at 1540. Appellants argue that the bankruptcy court erred in recovering
3 the Villa from them under § 550 because Congress did not intend the avoidance and
4 recovery statutes to apply to extraterritorial transactions. In order to succeed on this
5 argument, Appellants must establish (1) the transaction at issue occurred outside of the
6 United States and (2) the avoidance and recovery statutes do not apply extraterritorially.

7
8 1. Appellants Have Not Waived the Presumption Against Extraterritoriality

9 As a threshold matter, Appellee argues that Appellants have waived this argument by
10 submitting to the jurisdiction of the bankruptcy court. Appellee correctly states that when a
11 party affirmatively invokes the jurisdiction of the bankruptcy court, the presumption against
12 extraterritoriality does not apply to that party. *In re Simon*, 153 F.3d at 997. But here
13 Appellants did not voluntarily submit to the jurisdiction of the bankruptcy court. They were
14 made defendants in an adversary proceeding and moved to dismiss the adversary complaint.
15 Only after they were made defendants and their motion to dismiss was denied did they
16 voluntarily participate in the bankruptcy proceedings to protect their interests. Appellants,
17 therefore, have not waived this argument

18
19 2. Did the Transaction At Issue Occur Within the United States?

20 The presumption against extraterritoriality does not apply to “conduct occurring within,
21 or having effect within, the territory of the United States” *Omega S.A. v. Costco*
22 *Wholesale Corp.*, 541 F.3d 982, 987 (9th Cir. 2008). But acts inside the United States that
23 are merely preparatory or incidental to the conduct at issue are, by themselves, insufficient
24 to confer federal jurisdiction. *Gushi Bros. Co. v. Bank of Guam*, 28 F.3d 1535, 1538 (9th Cir.
25 1994).

26 The Villa was transferred twice—first from the Icenhowers to H&G and then from H&G
27 to Appellants. The parties dispute which transfer should be the subject of the
28 extraterritoriality analysis. There are only two choices: either (1) the transfer from the

1 Icenhowers to H&G or (2) the transfer from H&G to Appellants.

2 The parties fail to recognize that the relevant transfer is different depending on the
3 action. As mentioned above, the trustee filed both a Fraudulent Transfer Action and a
4 Postpetition Transfer Action. These actions focus on different transfers. The Postpetition
5 Transfer Action necessarily focuses on the transfer from H&G to Appellants. This is because
6 under the theory of this action, H&G was the alter ego of Debtors and H&G's asset—the
7 Villa—was consolidated with the Debtors' estate. When H&G later transferred the Villa to
8 Appellants, it would therefore be treated as a postpetition transfer depleting the assets of the
9 estate. Therefore, the only transfer at issue in the Postpetition Transfer Action is the one
10 from H&G to Appellants.

11 With respect to the Fraudulent Transfer Action, the focus is different. In this action,
12 the trustee sought to avoid the transfer from Debtors to H&G as a fraudulent transfer
13 because H&G paid no consideration for the Villa. After H&G then transferred the Villa to
14 Appellants, the trustee sought to recover the Villa from them under § 550(a)(2) as immediate
15 transferees of H&G. Under the Fraudulent Transfer Action, the Court affirms the bankruptcy
16 court's ruling that the relevant transfer was the first transfer from the Icenhowers to H&G.
17 This is because the first transfer is the *only* transfer that the bankruptcy court avoided in its
18 ACJ.

19 The bankruptcy court entered judgment against Appellants in the Fraudulent Transfer
20 Action based only on 11 U.S.C. § 550(a)(2) and its authority under that section to recover
21 improperly transferred property. Indeed, in its February 13, 2007 order the bankruptcy court
22 dismissed any avoidance claims aimed directly against the Diaz Family. (ER 55.) Thus, the
23 Court looks exclusively to § 550 to determine which transfer is relevant to the
24 extraterritoriality analysis.

25 With some exceptions, the bankruptcy court's authority under § 550(a) to recover
26 property is coextensive with its authority to avoid fraudulent transfers. *In re Richmond*
27 *Produce Co.*, 195 B.R. 455, 463 (N.D. Cal. 1996) (“[O]nce the trustee proves that a transfer
28 is avoidable under section 548, he may seek to recover against any transferee”) In

1 other words, when a transfer may be avoided, generally the property may also be recovered.
2 28 U.S.C. § 550(a) ([T]o the extent that a transfer is avoided . . . the trustee may recover, for
3 the benefit of the estate, the property transferred”) Thus, although avoidance and
4 recovery are distinct claims, *In re Burns*, 322 F.3d at 427, they are not completely
5 independent because a transfer must be avoided before the property may be recovered.

6 Because a § 550 claim is dependent on the avoidance of a transfer, and because a
7 court’s recovery power is generally coextensive with its avoidance power, the relevant
8 transfer for purposes of determining whether the presumption against extraterritoriality
9 applies is only the transfer that has been avoided. And in this case, that is the first transfer
10 from the Icenhowers to H&G.

11 But even when the focus of the extraterritoriality analysis is the transfer from H&G to
12 the Appellants—as in the Postpetition Transfer Action—the presumption against
13 extraterritoriality still will not apply. This is because both the transfer to H&G and the transfer
14 to Appellants occurred within the United States.

15
16 i. *The Transfer from the Icenhowers to H&G Occurred Within the United States*

17 The bankruptcy court found that the transfer from Debtors to H&G occurred within the
18 territorial jurisdiction of the United States. (ER 55.) The Court reviews this finding for clear
19 error. *In re Bialac*, 712 F.2d at 429.

20 Debtors are U.S. citizens and residents of San Diego County, California.⁶ H&G was
21 a Nevada corporation and Debtors’ alter ego. The transfer between these parties was
22 executed in the United States, and it had significant effects on the suit initiated by the Lonie
23 Trust and on the bankruptcy proceedings. Indeed, by transferring the property to H&G,
24 Debtors intended to thwart the Lonie Trust’s attempts to recover the property.

25 Under these circumstances, when the acts central to the avoided transaction occurred
26 within the United States, the parties to the transaction are domestic, and the transfer had

27
28 ⁶ Although the FFCL does not explicitly state that Debtors reside in San Diego County, the Court takes judicial notice of this fact based on the venue of the bankruptcy filing and numerous references to Debtors’ residence in the record.

1 significant, intentional effects within the territory of the United States, the presumption against
2 extraterritoriality does not apply. See *Hong Kong & Shanghai Banking Corp. v. Simon (In re*
3 *Simon)*, 153 F.3d 991, 995 (9th Cir. 1998) (holding presumption does not apply when
4 conduct is “intended to, and results in, substantial effects within the United States”).

5 Appellants focus on Debtors’ and H&G’s purported actions in Mexico to complete the
6 transfer. Essentially, Appellants argue that because Debtors and H&G went to Mexico to
7 sign documents transferring the Villa to H&G, the transfer occurred in Mexico. But the
8 execution of that document in Mexico was made in furtherance of the principal agreement
9 to transfer the property. The object of the avoidance action is not the document signed in
10 Mexico, but the contract signed in the United States.

11
12 ii. *The Transfer from H&G to the Diaz Family Also Occurred Within the United States*

13 For similar reasons, the Villa’s transfer from H&G to the Diaz Family also occurred
14 within the United States and the presumption against extraterritoriality is therefore
15 inapplicable.⁷

16 First, although Ms. Barba Diaz and Mr. Diaz are citizens of Mexico, they are residents
17 of San Diego County. (FFCL ¶ 22.) Both Ms. Barba Diaz and Mr. Diaz are officers,
18 directors, or members of numerous limited liability companies and corporations having a
19 principal place of business in San Diego County. (*Id.* at ¶ 23.)

20 Second, Mr. Diaz and Mr. Icenhower had several contacts in San Diego related to the
21 Diaz Family’s purchase of the Villa. Mr. Diaz and Mr. Icenhower first met in Pacific Beach
22 in San Diego County. When Mr. Diaz learned that Mr. Icenhower filed for bankruptcy, they
23 met at Mr. Diaz’s home in San Diego to discuss Mr. Diaz’s concerns about the bankruptcy.
24 And at the same meeting, they discussed a reduction in the Villa’s price. Importantly, Mr.
25 Diaz and Mr. Kelley (H&G’s sole officer) signed the closing documents in Chula Vista,
26 California, which is within this district’s territorial jurisdiction . Furthermore, it is evident from

27
28 ⁷ The bankruptcy court did not make a factual finding regarding this point. Nevertheless, the record amply supports a finding that this transaction also occurred within the United States.

1 the record that in causing H&G to transfer the Villa, Mr. Icenhower intended to thwart the
2 efforts of the bankruptcy trustee to recover the property.

3 Under these circumstances, when the parties reside in San Diego, negotiation largely
4 occurred in the United States, the transfer was executed in the United States, and the
5 transfer had the intended effect of stymying the Villa's recovery for the bankruptcy estate, the
6 presumption does not apply. See *In re Simon*, 153 F.3d at 995.

7 Appellants again focus on the execution of documents in Mexico. But H&G and the
8 Diaz Family executed the principal purchase agreement in San Diego. Any later actions
9 were in furtherance of, and incidental to, the original purchase agreement, which
10 documented the bargained-for exchange. Appellants also argue that because they are
11 Mexican citizens, the transaction did not occur in the United States. But Appellants resided
12 in San Diego County, and they executed the principal purchase agreement there.
13 Furthermore, even though a Mexican bank was the trustee for the interests in the Villa, Mr.
14 Icenhower or H&G exercised control over those property rights. Even when taken together,
15 the transaction's connections to Mexico are insufficient to invoke the presumption in light of
16 the parties' substantial actions in the United States.

17 18 3. The Bankruptcy Code Applies Extraterritorially to Protect Property of the Estate

19 Even if either transaction at issue did occur within Mexico, the bankruptcy court could
20 recover the property under the holding of *In re Simon*, 153 F.3d at 996. The bankruptcy court
21 may exercise jurisdiction over all property of the bankruptcy estate, even if it is located
22 outside the territorial jurisdiction of the United States. *Id.* The provisions of the Bankruptcy
23 Code, as they relate to property in the bankruptcy estate, apply extraterritorially. *Id.* ("[W]e
24 conclude that congress intended extraterritorial application of the Bankruptcy Code as it
25 applies to the property of the estate.")

26 In this case, the bankruptcy court ruled that H&G, as Debtors' alter ego, would be
27 consolidated *nunc pro tunc* to the petition date. Consequently, the Villa was part of the
28 bankruptcy estate upon filing the petition. The bankruptcy court therefore properly exercised

1 its jurisdiction over the Villa in ordering its recovery and transfer to Appellee. See *id.*

2 Appellants cite cases holding that Congress did not intend the avoidance statutes to
3 apply extraterritorially. *Maxwell Commc'n Corp. PLC v. Societe General PLC (In re Maxwell*
4 *Commc'n Corp. PLC)*, 186 B.R. 807 (S.D.N.Y. 1995); *Barclay v. Swiss Fin. Corp. (In re*
5 *Midland Euro Exch., Inc.)*, 347 B.R. 708 (Bankr. C.D. Cal. 2006). But these cases are
6 distinguishable because the property at issue in those cases was not already a part of the
7 bankruptcy estate. Here, as a result of the bankruptcy court's judgment, the Villa was a part
8 of the bankruptcy estate from the date Debtors filed their petition. And under the reasoning
9 of *In re Simon*, the bankruptcy court properly exercised jurisdiction over it.

11 **C. The Forum Selection Clause**

12 Appellants next contend that the bankruptcy court erred in refusing to enforce a forum
13 selection clause contained in the five *escrituras*.⁸ The Court reviews the bankruptcy court's
14 refusal to enforce a forum selection clause for an abuse of discretion. *Fireman's Fund Ins.*
15 *Co. v. M.V. DSR Atl.*, 131 F.3d 1336, 1338 (9th Cir. 1997).

16 As a preliminary matter, the Court questions whether the purported forum selection
17 clauses even apply to this dispute. The relevant provision in the *escrituras* states

18 JURISDICTION AND COMPETENCE

19 For everything relative to the *Interpretation* and *compliance* of this agreement,
20 the parties expressly submit to the Laws and Tribunals of the City of
21 Guadalajara, Jalisco or Mexico . . . [T]hey also accept to be considered as
22 Mexicans, in regards to the rights derived from this agreement, and that they
23 will not invoke therefore the protection of their Government, in case of
24 breaching this agreement, they would forfeit in favor of Mexico, the rights
25 acquired. (Emphasis added.)

28 ⁸ *Escrituras* are the Mexican legal documents that transferred interests in the Villa
from the Icenhowers to H&G, and from H&G to Appellants.

1 The avoidance and recovery actions do not interpret or enforce the *escrituras*. Rather,
2 the actions void a transfer of property under United States bankruptcy law. But even if the
3 provision applied to these actions, the bankruptcy court did not err in declining to enforce it.

4 Generally, international forum-selection clauses are enforceable absent a strong
5 showing that they should be set aside. *M/S Bremen v. Zapata Off-Shore Co.*, 407 U.S. 1,
6 12–15 (1972). Forum-selection clauses should not be enforced if litigation in the selected
7 forum would be “seriously inconvenient” or if their enforcement would violate a strong public
8 policy of the forum in which the suit is brought. *Bremen*, 407 U.S. at 12–18. Public policy
9 strongly favors centralization of core bankruptcy proceedings. *N. Parent, Inc. v. Cotter & Co.*
10 (*In re N. Parent, Inc.*), 221 B.R. 609, 621–22 (Bankr. D. Mass. 1998) (see listed cases
11 holding same); *Official Comm. of Unsecured Creditors v. Transpacific Corp. (In re*
12 *Commodore Int’l, Ltd.)*, 242 B.R. 243, 261 (Bankr. S.D.N.Y. 1999), *aff’d on other grounds*,
13 2000 WL 977681 (S.D.N.Y. July 17, 2000) (see listed cases). And the Avoidance and
14 Recovery Action are core proceedings. 28 U.S.C. § 157(b)(2)(F), (H).

15 Here, the *Bremen* factors weigh against enforcing the forum selection clause because
16 the avoidance recovery actions are core proceedings. There is a strong public policy
17 favoring consolidating these core proceedings in the bankruptcy court. *E.g., In re N. Parent*,
18 221 B.R. at 621–22. Based on this strong public policy alone, the bankruptcy court did not
19 abuse its discretion in declining to enforce the forum selection clause. Furthermore, forcing
20 Appellee to litigate its claims in Mexico would likely be extremely difficult because the causes
21 of action are based on United States statutory law.⁹

22 Additionally, the forum selection clauses are not binding on Appellee. This is because
23 Appellee, standing in the shoes of the trustee as plaintiff in the avoidance and recovery

24 //

25 actions, is not in privity with Debtors or Appellants. *See Corzin v. Fordu (In re Fordu)*, 201

27 ⁹ The Court notes that the bankruptcy court did not make specific findings regarding
28 the difficulty of Appellee pursuing its claims in Mexico. Even absent these findings, the public
policy favoring consolidation of core proceedings is sufficient to support the bankruptcy
court’s decision.

1 F.3d 693, 705 (6th Cir. 1999) (trustee not in privity with debtor). Debtors and Appellants are
2 the only parties to these proceedings who signed the *escrituras*; Appellee was never a party
3 to the *escrituras* and therefore is not bound by the documents' forum selection clauses.

4 For these reasons, the bankruptcy court did not abuse its discretion in declining to
5 enforce the forum selection clause in the *escrituras*.

7 **D. International Comity**

8 Appellants also contend that the bankruptcy court erred in declining to exercise
9 jurisdiction over the Avoidance and Recovery Actions based on international comity. The
10 Court reviews the bankruptcy court's refusal to abstain based on international comity for an
11 abuse of discretion.¹⁰ See *Sarei v. Rio Tinto, PLC*, 487 F.3d 1193, 1211 (9th Cir. 2007).

13 1. Comity Requires a True Conflict Between Domestic and Foreign Law

14 "Under the international comity doctrine, courts sometimes defer to the laws or
15 interests of a foreign country and decline to exercise jurisdiction that is otherwise properly
16 asserted." *Id.* "Comity is neither a matter of absolute obligation, on the one hand, nor of
17 mere courtesy and good will, upon the other." *Dependable Highway Express, Inc. v.*
18 *Navigators Ins. Co.*, 498 F.3d 1059, 1067 (9th Cir. 2007) (citation omitted). In order for the
19 doctrine to apply, there must be a true conflict between domestic and foreign law. *Sarei*,
20 487 F.3d at 1211.

21 Here, the Court is unpersuaded that there is a true conflict between United States and
22 Mexican law. Appellants argue that Mexican and United States law differ in that Mexican law
23 does not permit courts to affect interests in land through their *in personam* jurisdiction. They
24 also argue that Mexican courts do not recognize foreign judgments concerning Mexican real
25 property. Lastly, they argue that Mexican courts have exclusive jurisdiction over interests

26
27 ¹⁰ It appears that although Appellants moved the bankruptcy court to abstain based
28 on comity, the bankruptcy court never ruled on the motion. It was never formally withdrawn,
but at a pre-trial hearing on January 21, 2008, Appellants did not include it in a list of
outstanding motions. Nevertheless, because it was not explicitly withdrawn, the Court
considers Appellants' comity argument.

1 in Mexican land.

2 But the judgment at issue here affected Appellants directly and Mexican land only
3 indirectly. The bankruptcy court only exercised jurisdiction over Appellants through its *in*
4 *personam* power and did not exercise jurisdiction over the Villa itself. Thus, the judgment
5 does not require recognition by Mexican courts in order to be effective against Appellants.
6 Compare *Remington Rand Corp. v. Bus. Sys. Inc.*, 830 F.2d 1260, 1273 (3d Cir. 1987)
7 (requiring Dutch court to recognize judgment, which directly attached assets in Holland, as
8 a precondition to enforcing judgment) with *Brady v. Brown*, 51 F.3d 810, 817 (9th Cir. 1995)
9 (approving order requiring defendant to transfer Mexican property to *fideicomiso* trust, even
10 without prior approval of Mexican court). See also *Perry v. O'Donnell*, 749 F.2d 1346, 1351
11 (9th Cir. 1985) (“It is well settled that although a court may have in personam jurisdiction to
12 order one of the parties to convey to the other party a deed to property in another state, it
13 cannot directly affect or determine title to that real property.”) (citing, *inter alia*, *Fall*, 215 U.S.
14 at 11).

15 In addition, the portion of the judgment regarding transferring the Villa to Kismet via
16 a *fideicomiso* trust is now moot. The bankruptcy court later orally amended the ACJ and
17 directed Appellants to transfer the Villa “to Axolotl or other assignee that Kismet may
18 designate . . . for the purpose of effectuating the transfer directed to be effectuated in the
19 Court’s judgment of June 2.” (Appellants’ RJN, Ex. 7.) The bankruptcy court’s oral
20 modification is not before the Court on this appeal, and therefore the Court declines to
21 address the legality of its original order requiring Appellants to transfer the Villa to Kismet
22 through a *fideicomiso* trust. The transfer to Axolotl, however, was still accomplished by the
23 creation of a *fideicomiso* trust.¹¹ Accordingly, the Court addresses the whether the ACJ
24 properly compelled Appellants to transfer the Villa to such a trust.

25 *Fideicomiso* trusts are explicitly permitted under Mexican law. *Brady*, 51 F.3d at 819
26 (referencing *fideicomiso* trusts and stating “[s]uch an arrangement, if it can be accomplished,

28 ¹¹ During a status conference on May 10, 2010, the parties agreed and represented to the Court that the transfer to Axolotl still required the creation of a *fideicomiso* trust.

1 does not violate Mexican law.”). These trusts are the means by which foreigners can own
2 interests in restricted coastal land, and their creation must be approved by the Mexican
3 government. *Brady*, 51 F.3d at 817. In *Brady v. Brown*, the Ninth Circuit approved a district
4 court’s order requiring the defendant to effect the transfer of Mexican property to a
5 *fideicomiso* for the benefit of plaintiffs. *Id.* at 819. The district court retained jurisdiction to
6 consider alternative remedies if the transfer could not be completed. *Id.* For these reasons,
7 the Ninth Circuit found that the district court’s order did not violate Mexican law and,
8 therefore, comity abstention did not apply. *Id.*

9 Here, the substance of the bankruptcy court’s order was very similar. The bankruptcy
10 court ordered Appellants to “take all actions necessary to execute and deliver any and all
11 documents needed to undo the avoided transfer, and to take all actions necessary to cause
12 the property to be reconveyed to a *fideicomiso* trust naming Plaintiff as the sole beneficiary
13 for the benefit of the bankruptcy estate.” The bankruptcy court did not require the Mexican
14 government to approve the transaction, but only required Appellants to make every effort to
15 effect the transfer and creation of the trust. And, like in *Brady v. Brown*, the district court
16 effectively reserved jurisdiction to enter a monetary award if Appellee so chose or, by
17 implication, if Appellants were somehow unable to effect the transfer.

18 The Court agrees with Appellee that the distinction between whether interests in a
19 *fideicomiso* trust are *in rem* or *in personam* rights is largely academic in this context. The
20 important facts are that the bankruptcy court did not order Appellants to do anything illegal,
21 *Brady*, 51 F.3d at 81, and it effectively retained jurisdiction to consider alternative remedies.
22 The ruling in *Brady* virtually forecloses Appellants’ argument here and there is no true conflict
23 of law for purposes of comity abstention. *Id.*; *cf. Hartford Fire Ins. Co. v. California*, 509 U.S.
24 764, 799 (1993) (no true conflict where entity subject to regulation in two countries may
25 comply with both sets of regulations).

26 //

27 //

28 //

1 2. The Seven-Factor Comity Abstention Test

2 But even if there was a true conflict, abstention would be inappropriate. Courts should
3 consider seven factors when deciding whether to abstain. First, the court should consider
4 the degree of conflict with foreign law or policy. *Timberlane Lumber Co. v. Bank of America*,
5 749 F.2d 1378, 1384 (9th Cir.), *overruled on other grounds by Hartford Fire Ins. Co. v.*
6 *California*, 509 U.S. 764, 799 (1993). As explained above, the degree of conflict, if any, is
7 low.

8 Second, the court should consider the nationality or allegiance of the parties and the
9 location of a corporation's principal places of business. *Id.* Here, the parties to the
10 Avoidance and Recovery Actions were (1) Appellants, citizens of Mexico, but residents and
11 owners of several businesses in San Diego; (2) Appellee, a United States corporation owned
12 by a German citizen who resides in Mexico; (3) trustee, a United States citizen; and (4)
13 Debtors, who are United States citizens and residents of San Diego. The Court finds that
14 this factor weighs against abstention, given that each party has substantial ties to the United
15 States.

16 Third, the court should consider the extent to which enforcement by either state can
17 be expected to achieve compliance. *Id.* This factor also weighs against abstention, given
18 that the bankruptcy court's judgment was permissible under Mexican law. *See Brady*, 51
19 F.3d at 819.

20 Fourth, the court should consider the relative significance of effects on the United
21 States as compared with those elsewhere. *Timberlane*, 749 F.2d at 1384. The Fourth
22 Circuit addressed this issue in a similar case involving Bahamian real property and held that
23 the United States's "strong interest" in efficiently administering bankruptcy estates,
24 preventing the estates' depletion, and protecting creditor rights outweighed Bahamas'
25 interest. *French v. Liebmann (In re French)*, 440 F.3d 145, 153–54 (4th Cir. 2006). Mexico's
26 interest here, however, is stronger than the interest in *French* because Appellants are
27 Mexican citizens and the Villa is in Mexico. This factor is therefore neutral.

28 Fifth, the court should consider the extent to which there is explicit purpose to harm

1 or affect American commerce. *Timberlane*, 749 F.2d at 1385. The bankruptcy court found
2 that Debtors set up H&G as a sham corporation to hide their assets. They therefore intended
3 to harm their creditors and affected American commerce. Appellants knew, or should have
4 known, of Debtors' bankruptcy and the effect that their purchase of the Villa would have on
5 Debtors' creditors.

6 Sixth, the court should consider the foreseeability of such effect. *Id.* The effects of
7 transferring assets out of the bankruptcy estate was foreseeable and obvious to Debtors and
8 Appellants.

9 And seventh, the court should consider the location of the alleged conduct in order to
10 assess the appropriateness of the exercise of extraterritorial jurisdiction. *Id.* As set forth
11 *supra*, much of the conduct at issue, including the negotiation and consummation of the
12 various transfers, occurred in the United States. Although the parties executed additional
13 documents in Mexico, they were only in furtherance of the principal agreements signed in the
14 United States. This factor weighs against abstention.

15 In sum, all the relevant factors weigh against abstention. Accordingly, the bankruptcy
16 court did not abuse its discretion in declining to abstain based on international comity.

17
18 3. Requirement That Bankruptcy Court Obtain Recognition of Judgment by Mexico

19 Lastly, Appellants argue that under the doctrine of comity, the bankruptcy court was
20 required to determine whether its judgment could be enforced under Mexican law and to
21 retain jurisdiction to consider alternative remedies if enforcement under Mexican law was not
22 possible. Although Appellants cite examples of courts making similar orders, they cite no
23 binding authority requiring such orders. Nevertheless, even if the bankruptcy court was
24 required to "retain[] jurisdiction to consider alternative remedies if the trust could not be
25 established under Mexican law," *Brady*, 51 F.3d at 819, the bankruptcy court here satisfied
26 that requirement. In the ACJ, the court stated that it "reserves jurisdiction to issue any and
27 all orders necessary to carry out and enforce this judgment." This reservation of jurisdiction
28 satisfied the requirement—if indeed such a requirement exists—that the court retain the

1 ability to issue further orders should the judgment be unenforceable in its original form.¹²

3 **E. Mexico As a Required Party Under Rule 19**

4 Appellants next claim that Mexico is a necessary party under Federal Rule of Civil
5 Procedure 19, and that because it cannot be joined, the ACJ should be vacated and the
6 avoidance actions dismissed. In order for Appellants to succeed on their claim, they must
7 establish under Rule 19 that (1) Mexico is a required party and (2) the action cannot proceed,
8 in equity and good conscience, without it. *Cachil Dehe Band of Wintun Indians of the Colusa*
9 *Indian Cmty. v. State of California*, 547 F.3d 962, 969 (9th Cir. 2008).

10 Appellants must first establish that Mexico is a required party. A party might be
11 required under Rule 19 for two alternative reasons: (A) in that party's absence, the court
12 cannot accord complete relief among existing parties; or (B) the party has a legally protected
13 interest in the proceedings. Fed. R. Civ. P. 19(a)(1); *Cachil*, 547 F.3d at 970.

14 Here, complete relief is possible between the parties. The avoidance and recovery
15 actions related to transfers and rights in the Villa between Debtors, Appellants, and Appellee.
16 Furthermore, Mexico does not have a legally protected interest in the litigation. The interest
17 must be more than one of convenience. *N. Alaska Environmental Ctr. v. Hodel*, 803 F.2d
18 466, 468 (9th Cir. 1986). Mexico has a generalized interest in compliance with its laws, but
19 the ACJ did not violate Article 27 of Mexico's Constitution, which merely requires that foreign
20 nationals not acquire direct ownership of coastal lands. Here, the bankruptcy court did not
21 order direct ownership, but only ordered Appellants to take all necessary action to transfer
22 the Villa into a government-sanctioned *fideicomiso* trust.

23 Furthermore, as Appellants state in their brief, "Mexico was neither involved in the
24 allegedly avoidable transaction nor holds the property" (Appellants' Br. 20.) These
25 interests are not strong enough to be legally protected. Indeed, from a practical perspective
26 it is difficult to imagine how Mexico would assert any rights at all if it were joined in the

28 ¹² This is precisely what the bankruptcy court did in ultimately requiring Appellants to transfer the Villa through a *fideicomiso* trust to Axototl, Kismet's assignee.

adversary proceedings. It has no claim of ownership over the Villa.

F. Appellants' Good Faith Defense Is Governed By United States Law

Appellants' argue that the bankruptcy court erred in applying United States law, instead of Mexican law, to Appellants' good faith defenses under 11 U.S.C. §§ 549(c), 550(b)(1).¹³ Appellants argue that under Mexican law their due diligence was sufficient and would have provided a defense to the avoidance and recovery actions.

Appellants cite primarily *In re Tippet* to support their argument. 542 F.3d 684, 686 (9th Cir. 2008). Appellants argue that *Tippet* stands for the proposition that the "Bankruptcy Code does not preempt the *law of the situs of a property* as it applies to a transfer of title to such property." (Appellants' Br. 38) (emphasis added.) Therefore, they argue, the Bankruptcy Code does not preempt Mexican law regarding what constitutes a good faith purchaser. But this is an imprecise statement of *Tippet's* holding. *Tippet* does not require application of the law of the situs of the property in every instance. In that case, there was no dispute about whether California law applied to the transaction at issue. See *id.* at 689–90. It merely held that in a case where California fraudulent-transfer law *does* apply, it is not preempted by the Bankruptcy Code. See *id.* at 690.

Here, there are several reasons why Mexican law does not apply to the transactions at issue, even though the situs of the property was Mexico. The most important reason is that the two sales of the Villa occurred in the United States. See *supra* § B. The negotiations took place in the United States. And the parties to the sales resided in the United States. Under these circumstances, it was not error for the bankruptcy court to apply United States law to Appellants' good-faith-purchaser defense.

¹³ Appellants state that all the parties, including the bankruptcy court, agreed that the transfer to Appellants was governed by Mexican law. This is incorrect. First, the Appellee's expert only agreed that the transfer of the *fideicomiso* rights was governed by Mexican law. This is axiomatic, since *fideicomiso* rights are a creation of Mexican law. The bankruptcy court later reiterated Appellee's expert's statement and did not state its own opinion. (ER 1238.) Moreover, neither Appellee's expert nor the bankruptcy court agreed that the purchase agreement executed in San Diego between H&G and Appellants was governed by Mexican law.

1 Appellants do not contest that under United States law Appellants were not good-faith
2 purchasers.

3
4 1. Good Faith Under Mexican Law

5 Even under Mexican law Appellants are not good-faith purchasers. The Court does
6 not analyze whether Appellants were good-faith purchasers in a vacuum, and looks to the
7 findings of the bankruptcy court. Although the Court reviews de novo the bankruptcy court's
8 interpretation of foreign law, *Brady*, 51 F.3d at 816, the Court reviews for clear error the
9 determination that Appellants were not good-faith purchasers under Mexican law,¹⁴ see
10 *United States v. McConney*, 728 F.2d 1195, 1203 (9th Cir. 1993) (mixed questions of law
11 and fact which are essentially factual reviewed for clear error); *Hollywood Nat'l Bank v. Int'l*
12 *Bus. Machines Corp.*, 38 Cal. App. 3d 607, 614 (1974) (analyzing facts to determine whether
13 purchaser was bona fide).

14 Appellants cite to the testimony of their Mexican-law expert, Professor Jorge Vargas,
15 to support their contention that Appellants' diligence was adequate under Mexican law.
16 Based on Professor Vargas's testimony, Appellants argue that under Mexican law Appellants
17 were only required to obtain a certificate of no liens from the Mexican Public Registry of
18 Property.

19 The bankruptcy court, however, rejected the opinions of Appellants' Mexican-law
20 expert as contradictory. For example, Professor Vargas testified that rights in *fideicomiso*
21 trusts are *in rem* rights under Mexican law because of the Calvo clause in the Mexican
22 Constitution.¹⁵ But on cross examination, he admitted that in 2006 he wrote in an article that
23 the Calvo clause was a legal relic. More importantly, Professor Vargas admitted on cross
24 examination that the due diligence requirements are heightened in a cross-border transaction

25
26 ¹⁴ The Court notes that even if it were to review the bankruptcy court's findings *de*
novo, it would reach the same result.

27 ¹⁵ The Calvo clause is a doctrine of Mexican law which holds that judgments rendered
28 by foreign courts purporting to affect real property in Mexico are unenforceable as against
the public interest of Mexico, and contrary to the exclusive sovereignty of Mexico over its
realty.

1 with a United States corporation. He admitted, among other things, that (1) some
2 investigation into the nature of the business and the reputation of the corporation should be
3 conducted to avoid involvement in money laundering by drug or arms dealers; (2) some
4 contact with the corporation by telephone should be attempted; (3) some information about
5 the capitalization of the corporation should be obtained; and (4) generally, that getting into
6 the “intricacies” of the corporation was a necessary part of the due diligence in a cross-
7 border transaction. (ER 892–904.) He further opined that the Mexican counsel or an
8 associate United States counsel should conduct this heightened diligence, and that failure
9 to do so might be negligence in performing due diligence. (ER 899.)

10 The bankruptcy court found Appellee’s expert to be more credible and consistent.
11 Appellee’s Mexican-law expert testified that Appellants exercised insufficient due diligence
12 under Mexican law, and the bankruptcy court adopted the expert’s findings.

13 According to Appellee’s Mexican-law expert, there were several red flags that should
14 have prompted further inquiry by Appellants. These include (1) the purchase agreement
15 between H&G and Appellants conveyed vehicles on the Villa property, but the agreement did
16 not provide a warranty that the vehicles were legally within Mexico; (2) there was a significant
17 disparity between the actual purchase price (\$1,500,000 USD) and the stated price
18 (\$678,071 USD); (3) payment of consideration to entities other than H&G required additional
19 diligence to avoid Mexican money-laundering laws; and (4) the previous purchase agreement
20 between Mr. Icenhower and H&G, which gave Mr. Icenhower total control over management
21 and sale of the Villa, should have raised questions about the relationship between Mr.
22 Icenhower and H&G.

23 Furthermore, because of irregularities in the transfers between previous holders of the
24 *fideicomiso* trust interests, the expert testified that at a minimum Appellants should have
25 contacted the prior owners (e.g., the Lonie Trust, its beneficiaries, or their counsel). Had
26 Appellants done so, they would likely have learned that the Lonie Trust had obtained a
27 judgment against the Icenhowers and that the Villa might not have free title.

28 The Court affirms the bankruptcy court’s findings and conclusions regarding the due

1 diligence requirements under Mexican law. The Court further holds that, for the reasons
2 stated above, the bankruptcy court correctly held that Appellants exercised insufficient due
3 diligence in their cross-border transaction with H&G and Debtors and did not act in good
4 faith.

5
6 2. Appellants' Knowledge of Debtors' Bankruptcy Precludes the Good-Faith Defense

7 As an alternative, even if Mexican law applies and Appellants were good-faith
8 purchasers under Mexican law, the Court holds that Appellants' knowledge of Debtors'
9 bankruptcy precludes the good-faith defenses under § 549(c) and § 550(b)(1). Section
10 549(c) states that a transfer is not avoidable if made by a "good faith purchaser without
11 knowledge of the commencement of the case" 11 U.S.C. § 549(c). Section 550(b)(1)
12 similarly states that a transfer is not voidable if made by a transferee that takes "in good faith,
13 and without knowledge of the voidability of the transfer avoided" 11 U.S.C. § 550(b)(1).
14 "Knowledge of the voidability" does not require actual knowledge; knowledge of facts to
15 induce a reasonable person to investigate is enough. *In re Richmond Produce Co., Inc.*, 195
16 B.R. 455, 464 (N.D. Cal. 1996) (citing *Bonded Fin. Servs., Inc. v. European Amer. Bank*, 838
17 F.2d 890, 897–98 (7th Cir. 1988). Appellants do not dispute that they had knowledge of the
18 commencement of the bankruptcy, so they cannot be good-faith purchasers under § 549(c).
19 Only § 550(b)(1) is at issue.

20 Appellants argue that because H&G held title to the Villa when Appellants purchased
21 it, knowledge of Debtors' bankruptcy did not give it notice that the transfer might be
22 avoidable. This argument is unconvincing.

23 First, Appellants admit knowledge of the bankruptcy case, which would put a
24 reasonable person on notice about the potential voidability of the transfer. See *In re*
25 *Richmond Produce*, 195 B.R. at 464. Second, there were several facts found by the
26 bankruptcy court that put Appellants on notice of the connection between H&G and Debtors,
27 including (1) Mr. Icenhower exercised control over the management and sale of the Villa; (2)
28 Mr. Icenhower was able to reduce the purchase price of the Villa by \$100,000 to satisfy a

1 debt owed personally by Mr. Icenhower; (3) at the closing, Mr. Icenhower exercised control
2 over and directed the H&G's purported officer; (4) Appellants paid part of the consideration
3 for the Villa to Icenhower Investments; (5) Icenhower told Appellants that the trustee was
4 challenging the Villa's transfer from Debtors to H&G; and (6) Appellants knew the trustee was
5 trying to tie Debtors to H&G.

6 Under these circumstances, Appellants knew or should have known of the connection
7 between Debtors and H&G under § 549(c). And they knew or should have known of the
8 voidability of the transfer under § 550(b)(1). See *Hayes v. Palm Seedlings Partners (In re*
9 *Agric. Research & Tech. Group, Inc.*, 916 F.2d 528, 535–36 (9th Cir. 1990) (applying
10 objective standard of good faith).

11 For these reasons, the Court affirms the bankruptcy court's ruling that Appellants did
12 not purchase the Villa in good faith under either United States or Mexican law.

14 **G. The Case Against Ms. Barba Diaz**

15 Finally, Appellants argue that the bankruptcy court erred in finding Ms. Barba Diaz
16 liable in the avoidance actions. They contend that Ms. Barba Diaz had a good-faith defense
17 against the avoidance and recovery actions because she had no knowledge of Mr.
18 Icenhower, H&G, or the bankruptcy. The bankruptcy court's finding that Ms. Barba Diaz
19 lacked good faith is reviewed for clear error.¹⁶ See *United States v. McConney*, 728 F.2d
20 1195, 1203 (9th Cir. 1993) (mixed questions of law and fact which are essentially factual
21 reviewed for clear error).

22 The burden was on Appellants to prove that Ms. Barba Diaz was a good-faith
23 transferee.¹⁷ *Kendall v. Sorani (In re Richmond Produce Co.)*, 195 B.R. 455, 464 (N.D. Cal.

24 ¹⁶ The Court notes that even if it were to review the bankruptcy court's findings *de*
25 *novo*, it would reach the same result.

26 ¹⁷ Appellants are correct that the original purchase agreement was between H&G and
27 Mr. Diaz only—not Ms. Barba Diaz. But Ms. Barba Diaz wired \$675,000 of the purchase
28 money directly to an entity controlled by Mr. Icenhower, and her testimony reveals that she
believed she was purchasing the Villa. More importantly, she later took ownership of the
Villa by deed. Thus, she would still have to prove she was a good faith transferee under 11
U.S.C. § 550(b)(1) or (b)(2).

1 1996). The record supports the bankruptcy court's conclusion that Ms. Barba Diaz failed to
2 carry her burden for several reasons.

3 First, the bankruptcy court found that Ms. Barba Diaz and Mr. Diaz hired Eduardo
4 Sanchez, a Mexican lawyer, to conduct due diligence and execute the purchase of the Villa.
5 Mr. Sanchez acted as Ms. Barba Diaz's agent during the transaction. She testified at length
6 about how she trusted him to handle the transaction for her. Thus, every fact known to Mr.
7 Sanchez can be imputed to Ms. Barba Diaz. *See, e.g., Garcia v. INS*, 222 F.3d 1208, 1209
8 (9th Cir. 2000) ("[E]ach party is deemed bound by the acts of his lawyer-agent and is
9 considered to have 'notice of all facts, notice of which can be charged upon the attorney.'")

10 Second, Mr. Sanchez knew of the facts underlying the bankruptcy court's finding that
11 the Appellants lacked good faith. Mr. Sanchez knew of Debtors' bankruptcy. He knew of the
12 irregularities in H&G's documentation. He knew there was no shareholder authorization
13 permitting H&G to sell the Villa. He was aware that Mr. Icenhower requested Appellants pay
14 most of the consideration to third parties other than H&G, including to Icenhower
15 Investments. The bankruptcy court lists several other red flags in its FFCL. Ms. Barba Diaz
16 was on notice of all of these facts. *Garcia*, 222 F.3d at 1209.

17 Third, even without imputation of facts from her lawyer Ms. Barba Diaz had knowledge
18 of the red flags. Instead of wiring money to H&G, which purportedly owned the Villa, she
19 wired \$675,000 to an entity associated with Mr. Icenhower. More importantly, her son told
20 her that Mr. Icenhower was in bankruptcy. (ER 1262.)

21 Under these circumstances, the bankruptcy court did not clearly err in finding that Ms.
22 Barba Diaz was not a good-faith transferee.

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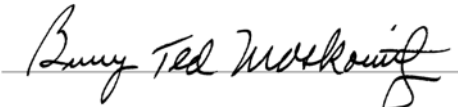
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IV. CONCLUSION

For the foregoing reasons, the Court **AFFIRMS** the judgment of the bankruptcy court. The clerk shall enter judgment affirming the order and judgment of the bankruptcy court appealed herein.

IT IS SO ORDERED.

DATED: May 20, 2010


Honorable Barry Ted Moskowitz
United States District Judge