

**UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF KENTUCKY
LEXINGTON DIVISION**

IN RE:

CLASSICSTAR, LLC

CASE NO. 07-51786

DEBTORS

**JAMES D. LYON, CHAPTER 7 TRUSTEE
OF CLASSICSTAR, LLC**

PLAINTIFF

VS:

**ADV. NO. 09-5180
Consolidating ADV. NO. 09-5180,
09-5218, and 10-5023**

WOODFORD THOROUGHBREDS, LLC

DEFENDANT

MEMORANDUM OPINION AND ORDER

This matter having come before the Court on the Defendant Woodford Thoroughbred LLC's Motion for Summary Judgment [Doc. 72], the Court having heard arguments of counsel and being otherwise sufficiently advised, finds as follows:

Facts

The undisputed facts are as follows. On May 31, 2007, the Debtor, through its wholly-owned subsidiary ClassicStar Farms LLC, sold 48 thoroughbred broodmares to the Defendant Woodford Thoroughbreds, LCC ("Woodford") for approximately \$9.8 million. Woodford is a Florida limited liability company. Woodford has two members: Bluegrass Thoroughbreds LLLP ("Bluegrass") and Hyde Park Equity Investments ("Hyde Park"). Bluegrass is a Florida limited liability company with two general partners, or Tony and Deborah Ferguson. Hyde Park is a Florida limited liability company owned and managed by John Sykes. Both Sykes and Ferguson, in addition to having an interest in Bluegrass and Hyde Park, serve

as managers of Woodford. At the time of the sale, Ferguson also served as the manager of ClassicStar Farms, LLC.

The Debtor filed for voluntary Chapter 11 bankruptcy on September 14, 2007. On April 14, 2008, the Debtor's Chapter 11 case was converted to a Chapter 7. James D. Lyon was appointed to serve as the Trustee for the Debtor's estate.

On September 10, 2009, the Trustee filed this adversary proceeding seeking to avoid two alleged transfers made by the Debtor to Woodford. In Count I of his Complaint, the Trustee seeks to avoid a transfer of \$5,894.35 purportedly transferred to Woodford for payment of boarding fees pursuant to 11 U.S.C. § 547. In Count II of his Complaint, the Trustee seeks to avoid not only the \$5,894.35 allegedly transferred, but also a transfer of a \$235,000 credit for breeding fees from Ashford Stud from the Debtor to Woodford as a fraudulent transfer pursuant to 11 U.S.C. § 548.

Woodford moved for summary judgment on both counts. On February 24, 2011, this Court granted Woodford's Motion for Summary Judgment on Count I and II of the Complaint as it relates to the alleged \$5,894.35 transfer for failure of the Trustee to respond to Woodford's Motion for Summary Judgment [Doc. 116]. The only issue that remains is whether Woodford is entitled to summary judgment on the alleged transfer of the \$235,000 credit.

The following facts are undisputed. Between December 2006 and March 2007, Debtor contracted to breed eight of its mares to Ashford Stud ("Ashford") stallions. The mares Debtor bred to Ashford stallions were: Charm A Gendarme (to Tale of the Cat for \$35,245), Dreamy Maiden (to Johannesburg for \$65,455), One and Twenty (to Tale of the Cat for \$35,245), Shawklit Delight (to Grand Slam for \$35,245), Population (IRE) (to Dehere for \$18,550), Tellum Texan (to Grand Slam for \$35,245), Wilzada (to Hennessy for \$47,700) and Classic Approval (to Fusaichi Pegasus for \$53,000). The total stud fees owed by Debtor to Ashford for these eight breedings was \$325,685.

At the time Debtor incurred an obligation to pay Ashford the \$325,685 in stud fees, Debtor had a credit of \$235,000 with Ashford from prior year sales. Ashford applied this credit of \$235,000 to Debtor's \$325,685 debt obligation to reduce the amount owed by the Debtor to Ashford from \$325,685 to \$90,685. Woodford ultimately paid the remaining \$90,685 in breeding fees.

The Debtor's general ledger shows a transfer of a \$235,000 credit to Woodford. Woodford's ledger produced by Woodford in discovery shows payment of stud fees due to Ashford with the \$235,000 credit. The breeding contracts with Ashford prohibit an assignment to any third party without the consent of Ashford and require payment of all breeding fees upon the sale of the mare.

Analysis

Woodford has moved for summary judgment on the basis that the Debtor never transferred the \$235,000 credit and even if the \$235,000 credit was transferred, the Trustee cannot prevail because the Debtor received reasonably equivalent value in a dollar for dollar reduction of its debt owed to Ashford.

Section 548(a)(1)(B) of the Bankruptcy Code permits the avoidance of any transfer of an interest of the debtor in property, or any obligation incurred by the debtor, that was made or incurred on or within 2 years before the date of the filing of the petition, if the debtor, voluntarily or involuntarily:

(i) received less than a reasonably equivalent value in exchange for such transfer or obligation; and

(ii) (i) was insolvent on the date that such transfer was made or such obligation was incurred, or became insolvent as a result of such transfer or obligation;

11 U.S.C. § 548(a)(1)(B). The Trustee bears the burden of proof of all elements by a preponderance of the evidence. *In re Empire Interiors, Inc.*, 248 B.R. 305 (N.D. Ohio. 2000).

See also *Lackawanna Pants Mfg. Co. v. Wiseman*, 133 F.2d 482 (6th Cir. 1943).

Woodford first argues that no transfer of the \$235,000 credit occurred, as the breeding contracts required application of the credit upon the sale of the mares on May 31, 2007. But Woodford's own record shows that regardless the arrangement between the Debtor and Ashford, Woodford applied the Ashford credit as payment towards these stud fees subsequent to the May 31, 2007 sale and paid the remaining \$90,685.00 in stud fees still owed. This is consistent with the Debtor's general ledger which shows a transfer of the Ashford credit. The evidence is clear that the Debtor transferred the \$235,000 credit to Woodford and Woodford used it as payment of the outstanding stud fees.

Woodford also argues that even if the Court were to find a transfer of the \$235,000 Ashford credit, the Trustee cannot prove that the Debtor received less than reasonably equivalent value because the transfer was a dollar for dollar exchange for which the Debtor received an indirect benefit. "Reasonably equivalent value can come from one other than the recipient of the payments, a rule which has become known as the indirect benefit rule." *In re Wilkinson*, 196 Fed. Appx. 337, 341 (6th Cir. 2006) (quoting *In re Northern Merchandise, Inc.*, 371 F.3d 1056, 1058 (9th Cir. 2004)).

"A court considering [reasonably equivalent value] should first determine whether the debtor received any value in the exchange." *In re Wilkinson*, 196 Fed. Appx. at 343. "If so, the Court should determine if the value received was reasonably equivalent." *Id.*

The Trustee does not dispute that the \$235,000 Ashford credit was used as payment of breeding fees owed by the Debtor to Ashford in the amount of \$325,685, or that Woodford paid the remaining amount of that debtor, or \$90,685. The Debtor received value in an indirect economic benefit of the application of this \$235,000 credit in the payment of \$235,000 of the \$325,685 in debt owed by it to Ashford, thus preserving the Debtor's net worth. The exchange was a dollar for dollar exchange, making it reasonably equivalent. Because of this dollar for

dollar exchange, the Trustee cannot prove that the Debtor received less than reasonably equivalent value and Woodford is entitled to summary judgment as a matter of law.

Conclusion

Based on the foregoing, IT IS HEREBY ORDERED that the Defendant Woodford Thoroughbred LLC's Motion for Summary Judgment [Doc. 72] is GRANTED.

Copies To:

Barbara Edleman, Esq.

Graham Morgan, Esq.

Joseph Click, Esq.

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***The affixing of this Court's electronic seal below is proof this document has been signed by the Judge and electronically entered by the Clerk in the official record of this case.***



**Signed By:**  
**Joseph M. Scott, Jr.**  
**Bankruptcy Judge**  
**Dated: Friday, February 25, 2011**  
**(jms)**