

FOR PUBLICATION

**UNITED STATES BANKRUPTCY COURT**

**EASTERN DISTRICT OF CALIFORNIA**

In re: ) Case No. 25-24205-C-11  
 )  
 TOWN & COUNTRY EVENT CENTER LLC, )  
 )  
 Debtor. )  
 \_\_\_\_\_ )

**OPINION AND ORDER IMPOSING RULE 9011 SANCTIONS**

A footnote in this Court’s decision In re Town & Country Event Center LLC, 673 B.R. 445, 449 n.2, 75 Bankr. Ct. Dec. 18 (Bankr. E.D. Cal. 2025) (“Town & Country Decision”), promised a particular lawyer a due process opportunity to explain his dubious activity. This is the rest of the story.

This Court issued to Attorney Lewis Phon an Order to Show Cause why he did not violate Federal Rule of Bankruptcy Procedure 9011 and California’s Rules of Professional Conduct when he filed a third-party motion to sell real property free and clear of liens supposedly pursuant to 11 U.S.C. §§ 363(b) & (f)(4)-(5) on behalf of Prime Party Rentals, LLC ("PPR") as the putative buyer of 11354 White Rock Road, Rancho Cordova, California 93472, which was property of chapter 11 debtor Town & Country Event Center LLC in Case No. 2025-24205.

The Order to Show Cause is Dkt. Item 89 and states the procedural facts.

The response to the Order to Show Cause is Dkt. Item 106, filed October 31, 2025. ("Phon Response"). This Court has taken three months for cogitation and mature reflection regarding appropriate action because it knows this is serious business in

1 the career of a professional.

2 Relevant facts are also stated in Dkt. Item 76 (Findings of  
3 Fact and Conclusions of Law) and Dkt. Item 89 (Order to Show  
4 Cause). No appeal was taken from the associated order that  
5 imposed the multi-year in rem stay-relief remedy that Congress  
6 designed for certain schemes designed to hinder, delay, or  
7 defraud creditors per 11 U.S.C. § 362(d)(4).

8 The salient facts regarding Rule 9011 issues are that  
9 Attorney Lewis Phon participated in an attempt to perpetrate a  
10 fraud on the Court, which this Court has determined to have been  
11 a scheme to delay and hinder creditors that involved multiple  
12 bankruptcy filings.

13 The principal of debtor Town & Country is Waqar Khan, whose  
14 shenanigans regarding Town & Country are documented in the Town &  
15 Country Decision. The Phon Response admits that Phon knows and  
16 has represented Waqar Khan but asserts he was not representing  
17 Waqar Khan in this instance.

18 The specific focus here is on the motion filed by Phon on  
19 September 10, 2025, on behalf of Prime Party Rentals LLC: Motion  
20 to Allow Sale of Real Property, DCN: LP-2, filed 9/10/2025. Dkt.  
21 30. ("PPR Motion").

22 The presentation of the PPR Motion during the time the stay  
23 relief motions that formed the basis for the § 362(d)(4) in rem  
24 order were pending was part of the orchestrated scheme by Waqar  
25 Khan to hinder, delay, or defraud creditors. The purpose of the  
26 putative sale was to erect a roadblock to the pending stay relief  
27 motions. Khan also sued the creditors, threatening a lis pendens  
28 to stall their foreclosures. The terms of the sale, which would

1 be a purchase of chapter 11 estate property by Waqar Khan and his  
2 son Haroon Khan had no credible economic substance and could not  
3 possibly have been authorized under the Bankruptcy Code.

4 Phon's assertion that he was not representing Waqar Khan is  
5 too sly to be believed.

6 The PPR Motion asserts that the proposed sale is permissible  
7 under 11 U.S.C. § 365(f)(4) and is permissible under 11 U.S.C.  
8 § 365(f)(5). The lack of merit of those assertions is assessed  
9 herein.

10 In support of the PPR Motion, Phon presented the Declaration  
11 of Haroon Khan. Dkt. 32.

12 Haroon Khan asserts in his Declaration that he is "an  
13 officer and representative of" PPR and that PPR has a "right of  
14 first refusal." No mention is made of Waqar Khan, who actually is  
15 Managing Member of PPR.

16 Neither the Haroon Khan Declaration nor the PPR Motion  
17 reveals that Haroon Khan is the son of Waqar Khan.

18 The omissions by Phon to reveal in the PPR Motion papers the  
19 relationship of Haroon Khan to Waqar Khan was no accident.  
20 Rather, the omissions were intended to mislead the Court.

21 Although Phon's PPR Motion papers are carefully worded to  
22 create the impression that Haroon Khan is in sole control, the  
23 public records of the California Secretary of State show that  
24 limited liability company Prime Party Rentals LLC was formed  
25 May 2, 2025, by Waqar Khan alone and that the "Managers or  
26 Members are," in the following order, Waqar Khan (2935 Fulton  
27 Avenue, Sacramento, CA 95821) and Haroon Khan (2935 Fulton  
28 Avenue, Sacramento, CA 95821). There is no Chief Executive

1 Officer listed. Cal. Sec'y State File No. BA20250999779  
2 (5/2/2025).

3 The significance of May 2, 2025, is that at the time there  
4 was then pending before Bankruptcy Judge Ronald Sargis a motion  
5 to convert or dismiss the prior jointly administered chapter 11  
6 cases of Town & Country Event Center, No. 24-24492, and Town &  
7 Country West, No. 24-24493, both of which had been filed by Waqar  
8 Khan. The motion to convert or dismiss was filed April 11, 2025,  
9 and was granted by conversion to chapter 7 in June 2025. The  
10 record reflects that Waqar Khan had consistently contended in  
11 those cases that the properties would be sold, but there was no  
12 progress on a sale.

13 The current case, No. 25-24205, was filed by Khan pro se  
14 after the chapter 7 trustees abandoned the property.

15 The Phon Response, made under penalty of perjury, states:  
16 "As to the status of Waqar Khan as an insider, my understanding  
17 is that he has no stock nor ownership in Prime Party Rentals but  
18 he does assist with management of its affairs. Nevertheless, the  
19 final authority to decide for Prime Party affairs rests with his  
20 son, Haroon Khan. Waqar Khan was not the proposed buyer." Phon  
21 Response ¶ 27 (emphasis supplied).

22 The Phon Response further states: "Although I have  
23 represented Waqar Khan in the past, I was not representing him  
24 nor the debtor in this proposed sale." Phon Response ¶ 28.

25 Phon's testimony at Response paragraphs 27 and 28 is sly,  
26 not credible, and is not believed. Waqar Khan was on both sides  
27 of the transaction, and Phon knew it. Phon's phrase "my  
28 understanding is" are classic weasel words and, in the context of

1 this case, should be construed as such and are also probative of  
2 Phon's intent.

3         The Phon Response asserts that, as part of his pre-filing  
4 investigation he consulted with Attorney Jonathan Madison about  
5 the proposed PPR sale. Madison had attempted to represent the  
6 Town & Country debtor at the hearing that resulted in the Town &  
7 Country decision. Madison was engaged by Waqar Khan as counsel  
8 for Town & Country as debtor-in-possession in the corporate case  
9 that had been filed pro se by Waqar Khan and was allowed to be  
10 heard at that hearing on the basis his employment application was  
11 pending. The significance of the Phon response is that it is an  
12 evidentiary admission that Phon was coordinating with Waqar Khan  
13 and Madison in filing the PPR Motion.

14         This Court is persuaded by clear and convincing evidence  
15 that Waqar Khan, as the founding principal Member of the proposed  
16 buyer, was PPR's principal and hence was the buyer. This Court is  
17 likewise convinced that Haroon Khan is no more than a straw man  
18 who neither could nor would defy his father. It, for example, is  
19 not a coincidence that Waqar and Haroon use the same address in  
20 the PPR LLC registration papers filed with the California  
21 Secretary of State.

22         Waqar's contemporaneous acts suing the secured creditors in  
23 state court with the intention of interposing a lis pendens  
24 expose the fiction of the putative sale to PPR as being a  
25 legitimate arm's length transaction. Phon's "my understanding"  
26 language was inserted by Phon to try to create plausible  
27 deniability and elude responsibility.

28         It is beyond cavil that Waqar Khan is on both sides of the

1 proposed sale transaction. Phon's assertions that he did not know  
2 that he was promoting a sham transaction and that he did not know  
3 about the pending stay relief motions are not credible and are  
4 not believed. Phon knew. Phon was a full-fledged participant in  
5 Waqar Khan's orchestrated scheme.

6 The immediate concern in this OSC proceeding is Phon's  
7 compliance with his duties regarding Rule 9011(b) certifications.  
8 His filing of motion papers on the PPR Motion operated, as a  
9 matter of law, as certifications that: (1) he had made an  
10 "inquiry reasonable under the circumstances"; (2) that the PPR  
11 Motion was not being presented for any improper purpose; (3) that  
12 the claims, defenses, and other legal contentions are warranted  
13 by existing law; and (4) that the factual contentions have  
14 evidentiary support. Fed. R. Bankr. P. 9011(b).

15 The adequacy of Phon's Responses to the various  
16 certification issues will be considered seriatim. The violation  
17 of any one of the issues could warrant imposition of sanctions.  
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19 I

20 Inquiry Reasonable Under the Circumstances.

21 Phon was required to have made an inquiry reasonable under  
22 the circumstances.

23 Failure to make an inquiry reasonable under the  
24 circumstances may warrant Rule 9011 sanctions. Golden One CU v.  
25 Fiedler (In re Fiedler), 654 B.R. 787 (Bankr. E.D. Cal. 2023);  
26 aff'd, 2024 Westlaw 2137356 (9th Cir. BAP 2024); aff'd, 2025  
27 Westlaw 1219007 (9th Cir. 2025) (prefiling restriction Rule 9011  
28 sanction).

1 An inquiry by a party into its standing is also part of the  
2 reasonable inquiry requirement. In re Estate of Taplin, 641 B.R.  
3 236, 71 Bankr. Ct. Dec. 165 & 2022 Westlaw 2714513 (Bankr. E.D.  
4 Cal. 2022) (\$10,000 Rule 9011 sanction for no standing).

5 A reasonable inquiry for Phon would have included verifying  
6 the bona fides of his LLC client by checking the  
7 readily-available on-line California Secretary of State public  
8 records that identify the Managers and Members of his client.

9 If Phon had checked the public records, he would have  
10 recognized that Waqar Khan was on both sides of the proposed sale  
11 transaction that Phon was seeking to have approved.

12 Reasonable inquiry would also have included verifying the  
13 conclusory representation that PPR had a right of first refusal  
14 and determining who had granted such a right, when, and on what  
15 terms and how it fit into the transaction. Failure to have done  
16 so does not suffice to cloak Phon with an excuse of plausible  
17 deniability. At a minimum, Phon had a duty to disclose Waqar  
18 Khan's relationship to PPR.

19 Moreover, a facet of Phon's "reasonable inquiry" duty was  
20 for him to monitor the docket with respect to his own motion.  
21 Phon's claim he was not aware of the various oppositions that  
22 were filed to the PPR Motion is unpersuasive because he had a  
23 continuing duty to monitor the docket regarding the PPR Motion,  
24 which is readily available electronically. Once again, Phon's  
25 effort to feign plausible deniability is unavailing.

26 The fact that Phon did not withdraw the PPR Motion, or at  
27 least make corrective disclosures at the time of the hearing,  
28 functioned as "later advocating it" for purposes of Rule 9011(b).

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II

Improper Purpose - Rule 9011(b) (1).

Phon was required by Rule 9011(b) (1) to avoid any improper purpose, such as to harass, cause unnecessary delay, or needlessly increase litigation costs. Phon was mindful of the overall context in which foreclosures were pending and that the purported "sale" would, if approved, function to forestall a foreclosure that Waqar Khan was doing everything in his power, fair and foul, including suing the foreclosing creditors in state court, to prevent. The PPR Motion to sell for a sum considerably less than the debt occasioning foreclosure is a paradigm example of an improper purpose to cause both unnecessary delay and needlessly to increase litigation costs within the meaning of Rule 9011(b) (1).

III

Claims, Defenses or Other Legal Contentions, Warranted by Existing Law - Rule 9011(b) (2).

Phon made three specific legal contentions in the PPR Motion.

First, by filing the PPR Motion to sell pursuant to § 363, Phon certified that PPR had standing to make the motion. However, there is no theory under which PPR has standing to make a § 363 motion to sell because the plain language of Bankruptcy Code § 363 limits the sale power to the trustee or to the person performing the duties of the trustee (i.e., debtor in possession). The opening words of § 363(b) (1) ("the trustee, after notice and a hearing, may use, sell, or lease, other than

1 in the ordinary course of business, property of the estate") and  
2 § 363(f) ("the trustee may sell property under subsection (b) of  
3 this section free and clear of any interest in such property of  
4 an entity other than the estate, only if") - are not hard to  
5 understand.

6 PPR was neither the trustee nor the person performing the  
7 duties of the trustee. In short, PPR had no standing to make a  
8 motion under § 363.

9 Phon's assertion that he was "unaware" that § 363 is an  
10 exclusive trustee power, rings hollow from a lawyer with decades  
11 of bankruptcy experience practicing in the Northern and Eastern  
12 Districts of California. Free and clear sales are common  
13 proceedings in bankruptcy courts. CM-ECF records of the  
14 Bankruptcy Court Clerks of the Northern and Eastern Districts  
15 identify Phon as a counsel of record in a total of 441 cases (407  
16 Northern; 34 Eastern). That is too much experience to believe  
17 that Phon was "unaware" of the terms of § 363. It follows that  
18 Phon violated Rule 9011(b) (2) by making an unwarranted legal  
19 contention.

20 Second, Phon certified that § 363(f) (4) permits the proposed  
21 sale on the basis that the secured interest was in bona fide  
22 dispute. But Phon provided no factual basis to support the  
23 proposition that there was a bona fide dispute.

24 One of the functions of the Order to Show Cause was to  
25 afford Phon a due process opportunity to support his assertion of  
26 the existence of a bona fide dispute. On that point, the Phon  
27 Response provided nothing - zilch. There is no bona fide dispute.  
28 Phon violated Rule 9011(b) (2) regarding § 363(f) (4).

1 Third, Phon certified that § 363(f) (5) permits the proposed  
2 sale on the basis the secured creditors could be compelled, in a  
3 legal or equitable proceeding, to accept a money satisfaction.  
4 But Phon provided no basis to support the proposition that such a  
5 legal or equitable proceeding is available in this situation.

6 One of the functions of the Order to Show Cause was to  
7 afford Phon a due process opportunity to support his assertion  
8 that such a legal or equitable proceeding is available. On that  
9 point, the Phon response provided nothing - zilch. There is no  
10 such legal or equitable proceeding available. Phon violated Rule  
11 9011(b) (2) regarding § 363(f) (5).

12 When Phon did not withdraw the PPR Motion and remained  
13 silent in the face of questions of standing, and applicability of  
14 §§ 363(f) (4) & (5) raised separately by the U.S. trustee and by  
15 the major creditors in filings and at the hearing, Phon placed  
16 himself, within the meaning of Rule 9011(b), as "later  
17 advocating" the bogus position supporting the sham insider sale  
18 in further violation of Rule 9011(b) (2).

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20 IV

21 Evidentiary Support for Allegations and Factual Contentions -  
22 Rule 9011(b) (3).

23 Phon certified that there is evidentiary support for  
24 allegations and factual contentions in the PPR Motion. None was  
25 provided in support of the PPR Motion as filed.

26 One of the functions of the Order to Show Cause was to  
27 afford Phon a due process opportunity to provide the requisite  
28 evidentiary support. None was provided - zilch. Phon violated

1 Rule 9011(b) (3) in this respect.

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Bad Faith.

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Lest there be any doubt, this Court is persuaded that Attorney Lewis Phon filed and advocated for the PPR Motion in bad faith.

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VI

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Sanctions.

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This is a situation in which the Court on its own initiated the sanctions proceeding by issuing an order to show cause pursuant to Rule 9011(c) (3).

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The Rule 9011 violations are particularly serious because this Court is persuaded Lewis Phon was acting in bad faith in promoting what amounted to an attempted fraud on the Court, as well as furthering a scheme to hinder, delay, or defraud creditors in concert with Waqar and Haroon Khan and in coordination with Attorney Jonathon Madison.

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A sanction imposed under Rule 9011 must, per Rule 9011(c) (4) (A), be limited to what suffices to deter repetition of the conduct or to deter comparable conduct by others similarly situated.

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Because no party made a timely motion for sanctions under Rule 9011(c) (2), there is no Rule 9011 authority for shifting fees and expenses. Rule 9011(c) (4) (A) (iii). The lack of such a motion means that this Court cannot use Rule 9011 to order Phon to pay the fees and costs of the various counsel who were

1 required to contend with the PPR Motion, notwithstanding that, in  
2 true justice, there is a compelling case to be made for such fee  
3 shifting.

4 Available options for Rule 9011 sanctions when the court  
5 initiates a sanctions proceeding are: a nonmonetary directive  
6 (Rule 9011(c)(4)(A)(I)); or an order to pay a penalty into court  
7 (Rule 9011(c)(4)(A)(ii)).

8 This Court has considered and rejected nonmonetary  
9 sanctions, including the nonmonetary sanctions of requiring  
10 professional education, barring all appearances for a reasonable  
11 rehabilitative period, or of recommending to the District Court  
12 that it strike Phon from the rolls of attorneys admitted to  
13 practice in the U.S. District Court Eastern District of  
14 California.

15 Because this is a situation involving a bad faith attempt by  
16 a party without standing working in league with other parties to  
17 perpetrate a fraud on the court and a fraud on creditors, the  
18 interests of deterrence are particularly powerful in this case.

19 While an appropriate individual sanction would be to require  
20 payment of a penalty of \$10,000.00 into court, the deterrence  
21 concern to stop this nonsense on the part of Phon, Khan, and of  
22 others similarly situated before it gets out of hand warrants  
23 ordering a penalty of \$30,000.00 to be paid into court.

24 This Court is also mindful that this sanction might not be  
25 the end of the matter in light of Cal. Bus. & Prof. Code  
26 § 6068(o)(3) (reporting to the State Bar non-discovery sanctions  
27 exceeding \$1,000.00). Although the Order to Show Cause required  
28 Phon to address the California Rules of Professional Conduct,

1 this Court will defer to the State Bar of California, which will  
2 decide whether and how to deal with Phon.

3 Finally, this Rule 9011 sanctions award is without prejudice  
4 to a party in interest attempting to pursue a remedy under a  
5 theory other than Rule 9011. See, e.g., Caldwell v. Unified  
6 Capital Corp. (In re Rainbow Magazine, Inc.), 77 F.3d 278, 284  
7 (9th Cir. 1996) (holding Chambers v. NASCO, Inc., 501 U.S. 32, 43  
8 (1991) applies in Bankruptcy Courts of the Ninth Circuit).  
9 Whether to make such an attempt is left to the genius of counsel.

10 Accordingly,

11 IT IS ORDERED that Attorney Lewis Phon pay sanctions in the  
12 amount of thirty thousand dollars (\$30,000.00) for violation of  
13 Federal Rule of Bankruptcy Procedure 9011(b) to the credit of the  
14 United States;


15 IT IS FURTHER ORDERED that Payment shall be remitted to the  
16 Clerk of the Bankruptcy Court for deposit into the United States  
17 Treasury no later than March 11, 2026;

18 IT IS FURTHER ORDERED that a check payable to the Clerk of  
19 the Court, U.S. Bankruptcy Court, shall include Case Number 25-  
20 24205 with the words "Sanctions Due" along with a copy of this  
21 Order. The payment shall be mailed or delivered to Clerk, U.S.  
22 Bankruptcy Court, 501 I Street, Room 3-200, Sacramento,  
23 California, 95814, Attention: Finance Department (Sanctions);

24 IT IS FURTHER ORDERED that if the \$30,000.00 is not paid  
25 timely, then the United States may collect by any legal means.

26 A separate judgment shall be entered.

27 Dated: February 11, 2026

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United States Bankruptcy Judge

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**INSTRUCTIONS TO CLERK OF COURT  
SERVICE LIST**

The Clerk of Court is instructed to send the attached document, via the BNC, to the following parties:

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