2/8/01 **UNITED STATES DISTRICT COURT**
MIDDLE DISTRICT OF PENNSYLVANIA

FIRST UNION NATIONAL BANK, successor by merger to CoreStates Bank, N.A. and Meridian Bank,	:	
Plaintiff,	:	
	:	**NO. 3:CV-00-0732**
v.	:	
	:	**(Chief Judge Vanaskie)**
JOSEPH SOLFANELLI and NATALIE SOLFANELLI,	:	
Defendants.	:	

MEMORANDUM

First Union National Bank has brought this action to enjoin a state court action brought against it by defendants Joseph and Natalie Solfanelli ("the Solfanellis"). First Union seeks relief under 28 U.S.C. § 2283, which, in pertinent part, provides:

> A court of the United States may not grant an injunction to stay proceedings in a State court except . . . where necessary in aid of its jurisdiction, or to protect or effectuate its judgments.[1]

First Union claims that the Solfanellis are attempting to relitigate in the state court action

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[1]Section 2283 is popularly known as the Anti-Injunction Act. See In Re General Motors Corp. Pick-Up Truck Fuel Tank Products Liability Litigation, 134 F.3d 133, 143 (3d Cir. 1998). "The Anti-Injunction Act is 'an absolute prohibition against enjoining State Court proceedings unless the injunction falls within one of three specifically defined exceptions.'" Id. at 144. First Union is relying on the "relitigation exception" of the Anti-Injunction Act, which seeks to protect federal court judgments through the application of res judicata and collateral estoppel principles. Id. at 145-46.

claims previously adjudicated during the course of the Solfanellis' Chapter 11 bankruptcy case.

Invoking the ancillary jurisdiction principle that "the jurisdiction of the court follows that of the original cause," Local Loan Co. v. Hunt, 292 U.S. 234, 239 (1934), and observing that the Honorable John J. Thomas, the Bankruptcy Judge for this District who presided over the Solfanellis' bankruptcy case has retained jurisdiction over the adversary proceeding on which it rests its collateral estoppel and res judicata contentions, First Union requests that this matter be transferred to Judge Thomas on the premise that he would have "greater familiarity with the underlying issues," and thereby be in a better position to determine whether the Solfanellis are seeking to relitigate issues adjudicated in their bankruptcy case and related adversary proceeding. (Brief in Support of Motion to Transfer at 1, 2). Assuming that there exists authority for the "transfer" of this action to Bankruptcy Court, I do not agree that the Bankruptcy Judge would be in a better position to apply the relitigation exception to the anti-injunction statute. Moreover, interests of economy of judicial resources militate against the requested transfer as the Bankruptcy Court's treatment of the issue would be subject to review in this Court. Finally, transfer of the matter would not promote such bankruptcy-related interests as conserving debtor and creditor resources, expediting the bankruptcy process, and promoting uniformity and efficiency of bankruptcy administration in view of the fact that the Solfanellis' bankruptcy

case has been terminated. Accordingly, the motion to transfer will be denied.

I. BACKGROUND

In October of 1990, after Meridian Bank (First Union's predecessor in interest) confessed judgment against the Solfanellis in an amount in excess of $5 million dollars, the Solfanellis filed a joint Chapter 11 bankruptcy petition. During the course of the bankruptcy proceedings, Meridian Bank sold the Solfanellis' stock holdings in First Eastern Bank ("FEB"), which had served as the primary collateral on the underlying indebtedness. The amount ultimately recovered by Meridian on the sale of more than 200,000 shares of FEB stock was insufficient to satisfy the Solfanellis' indebtedness, and Meridian asserted a deficiency claim.

In February of 1992, the Solfanellis commenced an adversary proceeding against Meridian. Among the causes of action asserted by the Solfanellis was the claim that Meridian had acted in a commercially unreasonable manner in connection with its sale of the FEB stock. This claim, in turn, had two components: (1) Meridian's handling of a claim against the broker retained by Meridian to sell the FEB stock, which claim was based upon the broker's undisclosed purchase of the major part of the FEB stock and resale of that stock two days later at a substantial profit; and (2) Meridian's 11-month delay in selling the stock in question, during which period of time the value of the stock declined dramatically.

Judge Thomas rejected the latter contention, but agreed with the former. The finding

that Meridian's handling of the claim against the broker was commercially unreasonable triggered a presumption that the value of the stock equaled the amount of the indebtedness. Because Meridian did not rebut the presumption, Meridian's deficiency claim was deemed satisfied.[2]

Meridian appealed the Bankruptcy Court's decision to this Court. The Solfanellis cross-appealed, arguing, inter alia, that their indebtedness to Meridian should also be deemed satisfied on the ground that the delay in selling the stock was, in and of itself, commercially unreasonable. In a decision dated January 22, 1999, I affirmed Judge Thomas' ruling with respect to Meridian's handling of the claim against the brokerage firm. I also found, moreover, that Meridian had acted in a commercially unreasonable manner in holding the FEB stock for a period of approximately 11 months during which time there were opportunities to sell the stock for at least the amount of the indebtedness. Agreeing with the conclusion that Meridian had not rebutted the presumption that the value of the FEB stock equaled the balance due and owing it, I also found that Meridian was precluded from asserting a deficiency claim. Accordingly, the Bankruptcy Court's judgment on the Solfanellis' claim that Meridian had acted in a commercially unreasonable manner in connection with the disposition of the FEB stock was affirmed.[3]

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[2]Judge Thomas' decision is reported at 206 B.R. 699 (Bankr. M.D.Pa. 1996).

[3]A copy of this Court's decision is reported at 230 B.R. 54 (M.D.Pa. 1999).

On February 4, 1999, approximately two weeks after this Court found that Meridian's delay in selling the FEB stock was commercially unreasonable, the Solfanellis filed an action against First Union, as successor to Meridian, in the Court of Common Pleas of Lackawanna County. Relying upon the finding that Meridian's commercially unreasonable delay in disposing of the FEB stock required that the Solfanellis' indebtedness to Meridian be deemed satisfied, the Solfanellis asserted in the state court action a variety of claims based upon actions taken by Meridian during the bankruptcy proceeding to collect on the Solfanellis' indebtedness.

First Union did not remove the state court action to this Court.[4] Instead, First Union filed preliminary objections in the state court proceeding. In addition, First Union appealed this Court's decision that the Solfanellis' indebtedness was satisfied by Meridian's commercially unreasonable actions.

While First Union's appeal was pending, the Bankruptcy Court granted Joseph Solfanelli's motion to dismiss the Chapter 11 case, without prejudice. The Bankruptcy Court Order of March 25, 1999 dismissing the Chapter 11 case retained jurisdiction over the adversary action that was then on appeal.

On January 31, 2000, the Third Circuit affirmed this Court's rulings that the

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[4]Arguably, authority to remove the case was provided by 28 U.S.C. § 1452(a) on the theory that the Solfanellis' state court claims arose in or were related to a case under the Bankruptcy Code.

Solfanellis' indebtedness to Meridian was deemed satisfied as a result of Meridian's commercially unreasonable delay in the sale of the FEB stock and the manner in which it handled the claim against its brokerage firm. Accordingly, the Third Circuit concluded that "Meridian may not seek a deficiency claim." 203 F.3d 197, 202 (3d Cir. 2000).

On April 21, 2000, First Union brought this lawsuit, averring that this "Court has supplemental jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 2283 to protect and effectuate the final judgment entered by the Bankruptcy Court in the Adversary Proceeding." (Complaint at ¶8). Contending that the Solfanellis have asserted claims in the state court action that were or could have been raised in the adversary proceeding, First Union seeks to enjoin the Solfanellis from pursuing Counts 1 through 6, 8 and 9 set forth in the amended complaint filed in the state court action. Specifically, First Union seeks an injunction against the Solfanellis "from bringing any action or claim . . . in any court . . . seeking money damages or the return of collateral based upon or arising out of Meridian's commercially unreasonable sale of FEB stock." (Complaint, p.15).

On May 4, 2000, First Union moved to "transfer" this action to Judge Thomas. The Solfanellis have filed a brief in opposition to the motion, First Union has filed a reply brief, and the motion to transfer is ripe for disposition.

II. DISCUSSION

Mechanically applying the hoary principle that "the jurisdiction of the court follows

that of the original cause," Local Loan, 292 U.S. at 239, First Union asserts that "[b]ecause the original federal court jurisdiction was with the Bankruptcy Court, this matter should also be heard by the Bankruptcy Court." (Brief in Support of Motion to Transfer at 1). First Union, however, does not cite any authority that this action must be heard in the first instance by the Bankruptcy Court. On the contrary, First Union acknowledged in its complaint that this Court "has supplemental jurisdiction over the subject matter of this action . . . ." (Complaint, ¶8).[5]

Bankruptcy courts are units of the district courts. The authority of bankruptcy courts to entertain any case is dependent upon a district court order that refers "cases under Title 11 and any and all proceedings arising under Title 11 or arising in or related to a case under Title 11 . . . to the bankruptcy judges for the district." 28 U.S.C. § 157(a). There is no Title 11 case presently pending in the matter sub judice, Judge Thomas having dismissed the Solfanellis' Chapter 11 proceeding in March of 1999. Thus, this case does not fall within this Court's standing order of reference, which contemplates a pending case under Title 11.

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[5]Notably, Samuel C. Ennis & Co., Inc. v. Woodmar Realty Co., 542 F.2d 45 (7th Cir. 1976), cert. denied, 429 U.S. 1096 (1977), upon which First Union relies for the principle that "the jurisdiction of the court follows that of the original cause," involved a district court's decision in the first instance as to the applicability of 28 U.S.C. § 2283 in an action brought after a 28-year-old bankruptcy case had been concluded. The applicability of exceptions to the Anti Injunction Act depended upon an examination of proceedings in the protracted bankruptcy case. The Seventh Circuit did not suggest that under these circumstances the appropriate forum for an initial determination of any exception to the Anti-Injunction Act was the bankruptcy court, and not the district court.

See In Re: Referral of Bankruptcy Matters, Misc. No. 84-0203 (M.D.Pa., July 26, 1984).[6]

First Union points out that Judge Thomas retained jurisdiction over the adversary proceeding. That fact, however, does not mean that this action must be transferred to the Bankruptcy Judge. First Union evidently eschewed the filing of a motion in the adversary proceeding, asking Judge Thomas to intervene in connection with the state court action, in favor of bringing an action in this Court. Having failed to invoke the retained jurisdiction, First Union cannot now claim any entitlement to have an action properly brought in this Court "transferred" to the Bankruptcy Judge.[7]

Au fond, First Union's motion attempts to invoke some discretionary authority to transfer this matter to Bankruptcy Judge Thomas. Aside from the fact that there does not appear to be any basis for the existence of such discretionary authority, a consideration of the factors that ordinarily attend a withdrawal of the reference from the bankruptcy court

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[6]As noted above, although the Solfanellis' bankruptcy case was still pending when they brought their state court action, First Union did not seek to remove the state court action under 28 U.S.C. §1452 on the theory that the state court action was related to a case under title 11. It should also be noted that First Union does not claim that this action falls within the standing order of reference.

[7]First Union claims that In Re Baudoin, 981 F.2d 736 (5th Cir. 1993), supports its request for a transfer of this matter to bankruptcy court. In Baudoin, unlike this case, the Baudoins' personal bankruptcies were re-opened after the bank had filed its action under 28 U.S.C. § 2283 and before the matter was transferred to the bankruptcy court. In this case, the Solfanellis' bankruptcy case has not been re-opened. Moreover, there is no indication in Baudoin of the substantive basis for the transfer. Indeed, there is no discussion as to whether the transfer was contested. Thus, Baudoin does not provide any support for the transfer sought by First Union here.

militate against a transfer in this case.[8]

Among the factors to be considered in determining whether to withdraw the reference from the bankruptcy court are "the goals of promoting uniformity in bankruptcy administration, reducing forum shopping and confusion, fostering the economical use of the debtors' and creditors' resources, and expediting the bankruptcy process." In Re Pruitt, 910 F.2d 1160, 1168 (3d Cir. 1990). In this case, none of these factors would be advanced by having the matter transferred to the Bankruptcy Court at this time. The Solfanellis' Chapter 11 proceeding is concluded, there are no issues of bankruptcy administration, First Union eschewed the opportunity to trump the Solfanellis' forum selection by removing the action to this Court when it apparently could have done so in early 1999, and adding another level of judicial review would not foster the economical use of either the parties' or the judiciary's scarce resources. Finally, this Court undertook an exhaustive review of the record in connection with the parties' appeals from Bankruptcy Judge Thomas' 1996 decisions, and this Court is equally capable of applying the relitigation exception to the Anti Injunction Act.

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[8]Under 28 U.S.C. §157(d), "[t]he district court may withdraw, in whole or in part, any case or proceeding referred under this section, on its own motion or on timely motion of any party, for cause shown." In determining whether to withdraw a proceeding otherwise properly before the bankruptcy court under a standing order of reference, the district court essentially makes a determination as to what forum is best suited to resolve the controversy. Because the essence of First Union's motion to transfer is that Bankruptcy Judge Thomas is in the best position to decide the § 2283 issue in the first instance, it is appropriate to consider the factors governing withdrawals of the reference in deciding First Union's motion.

In short, neither judicial economy nor bankruptcy law interests would be served by a transfer of this action to Bankruptcy Judge Thomas.[9]

III. CONCLUSION

For all of the foregoing reasons, First Union's Motion to Transfer will be denied. An appropriate order is attached.

Thomas I. Vanaskie, Chief Judge
Middle District of Pennsylvania

[9]First Union asserts that this action under 28 U.S.C. §2283 would be a "core" proceeding, a factor that would ordinarily favor having the matter decided by a bankruptcy judge in the first instance. "[T]he phrase [core proceeding] has been interpreted to apply to those rights that are created by federal bankruptcy law: 'if the proceeding involves a right created by the federal bankruptcy law [or if it] is one that would arise only in bankruptcy, it is [a core proceeding]." In Re Continental Airlines, 125 F.3d 120, 131 (3d Cir. 1997), cert. denied, 522 U.S. 1114 (1998). In a core proceeding, the bankruptcy judge may issue a final judgment, with appeal to this Court. As to the bankruptcy court's factual findings in a core proceeding, this Court's review is limited to ascertaining whether they are clearly erroneous. But a bankruptcy judge's legal conclusions are subject to plenary review. See Solfanelli v. CoreStates Bank, 203 F.3d 197, 200 (3d Cir. 2000). In this case, the parties seem to be in agreement that the application of the relitigation exception presents a question of law, as both sides have moved for summary judgment. Thus, even if viewed as a core proceeding, final determination by a bankruptcy judge in this matter would be subject to plenary review. A decision in this matter does not involve application of bankruptcy law principles. Instead, it requires ascertaining the scope of the relitigation exception to the Anti Injunction Act, a matter that does not implicate matters within a bankruptcy judge's peculiar expertise. Under these circumstances, judicial economy is best served by not transferring this matter to the bankruptcy court, even if it were viewed as a core proceeding.

UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF PENNSYLVANIA

FIRST UNION NATIONAL BANK, successor by merger to CoreStates Bank, N.A. and Meridian Bank,	:	
Plaintiff,	:	
	:	**NO. 3:CV-00-0732**
v.	:	
	:	**(Chief Judge Vanaskie)**
JOSEPH SOLFANELLI and NATALIE SOLFANELLI,	:	
Defendants.	:	

ORDER

_____**NOW**, this _____ day of February, 2001, for the reasons set forth in the foregoing Memorandum, **IT IS HEREBY ORDERED** that First Union's Motion to Transfer (Dkt. Entry 4) is **DENIED**.

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Thomas I. Vanaskie, Chief Judge
Middle District of Pennsylvania

Filed: 2/8/01
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