SO ORDERED.
SIGNED this 22nd day of April, 2024

THIS ORDER HAS BEEN ENTERED ON THE DOCKET.
PLEASE SEE DOCKET FOR ENTRY DATE.

Suzanne H. Bauknight
CHIEF UNITED STATES BANKRUPTCY JUDGE

IN THE UNITED STATES BANKRUPTCY COURT FOR THE EASTERN DISTRICT OF TENNESSEE

In re

WILLIAM COOPER STOKES, V

Debtor

Case No. 3:24-bk-30329-SHB
Chapter 7

MEMORANDUM AND ORDER ON MOTION FOR RELIEF FROM STAY

This contested matter is before the Court on the Motion for Relief from Stay ("Motion") filed by Axle Logistics, LLC ("Axle") on March 18, 2024 [Doc. 15], and Debtor's Response to Motion for Relief filed on March 28, 2024 [Doc. 19]. At the initial hearing held April 4, 2024, the Court authorized the parties to supplement the Motion and response within ten days and otherwise took the matter under advisement. Debtor filed his Supplemental Response to Motion for Relief on April 15, 2024 [Doc. 24], and this matter is now ripe for adjudication.

FACTUAL BACKGROUND

Axle filed a complaint against Debtor in the Circuit Court for Knox County, Tennessee, styled *Axle Logistics, LLC v. Will Stokes, et al.*, No. 1-285-23 (the "State Court Action") on

October 3, 2023, seeking temporary and permanent injunctive relief and $40,000,000.00 in damages against Debtor based on his alleged commission of various torts related to his alleged misappropriation and misuse of Axle's proprietary information and his alleged solicitation of Axle's customers. [Doc. 15 at 6-83.] On October 6, 2023, the state court entered a Temporary Restraining Order, enjoining Debtor "from using, possessing, or in any way having access to Axle's Trade Secrets and proprietary information, and from soliciting Axle's customers." [*Id*. at 85.] On December 18, 2023, Axle and Debtor entered into an Agreed Temporary Injunction that enjoined Debtor "from using, possessing, or in any way having access to Axle's trade secrets and proprietary information, and from soliciting Axle's Customers." [*Id*. at 91.] On February 15, 2024, Axle filed a motion that asked the state court to hold Debtor in contempt for violations of the Temporary Restraining Order. [*Id.* at 99-101.] Less than a month later, on March 1, 2024, Debtor filed his chapter 7 bankruptcy petition. [Doc. 1.]

Axle seeks relief from the stay to pursue its monetary claims efficiently with its claims for injunctive relief. [Doc. 15 at 3.] Axle argues that the automatic stay of 11 U.S.C. § 362 does not stay an action for injunctive relief, citing *Dominic's Restaurant of Dayton, Inc. v. Mantia*, 683 F.3d 757 (6th Cir. 2012). [*Id.*] Axle also asserts that *Mantia* authorizes stay relief to pursue civil contempt in the state court. [*Id.*] Finally, Axle argues that the automatic stay should be lifted so that it may pursue its damages in the state court efficiently with the unstayed claims for injunctive relief, asserting that cause exists under § 362(d)(1) "to permit all of Axle's claims, which involve common elements of law and fact, to be tried in the [state] [c]ourt." [*Id.*] Axle emphasizes in its Motion that (1) the State Court Action has been pending for almost six months, (2) considerable discovery has been conducted, and (3) the case currently is set for trial on May 22, 2024.

ANALYSIS

The Bankruptcy Code, at 11 U.S.C. § 362, imposes an automatic stay on the filing a bankruptcy petition, with such a stay serving as "one of 'the most fundamental debtor protections in bankruptcy law[,]'" *Hornback v. Polylok, Inc. (In re Hornback)*, No. 21-8006, 2021 WL 5320418 at *3 (B.A.P. 6th Cir. Nov. 16, 2021) (alteration in original) (quoting *In re Tamarack Dev. Assocs., LLC*, 611 B.R. 286, 294 (Bankr. W.D. Mich. 2020)). Section 362(d) authorizes the Court to modify or terminate the stay for cause:

> (d) On request of a party in interest and after notice and a hearing, the court shall grant relief from the stay provided under subsection (a) of this section, such by terminating, annulling, modifying, or conditioning such stay—
>
> (1) for cause, including the lack of adequate protection of an interest in property of such party in interest.

11 U.S.C. § 362(d).

Some courts have lifted the automatic stay to permit the court that issued an injunction to adjudicate whether a debtor has violated the injunction and whether a contempt penalty should be imposed. For example, in *Southern Electrical Health Fund v. Bedrock Services*, No. 3:02-0309, 3:03-0871, 2005 WL 3108461, at *5 (M.D. Tenn. Nov. 18, 2005), the district court that had issued a permanent injunction against a sole proprietor who later filed a chapter 7 bankruptcy case acknowledged that the bankruptcy court had authorized the plaintiff to pursue the question of whether the debtor/defendant had "violated the permanent injunction and whether a contempt penalty should be imposed." The bankruptcy court order, however, did not lift the stay to allow the district court "to determine the total amount of damages, including penalties and interest, demanded by [the plaintiffs] from [the defendant]; to enter final judgment; or to vacate its prior attorney's fee award and determine the amount of any attorney's fees due at the entry of final judgment." *Id.*

The Sixth Circuit Bankruptcy Appellate Panel recently addressed the propriety of the bankruptcy court's modification of the automatic stay to permit a district court to adjudicate a request for injunctive relief sought in a prepetition case in *In re Hornback*, 2021 WL 5320418. The prepetition suit alleged claims for breach of contract, unjust enrichment, unfair competition, and patent infringement, as well as violation of the terms of a non-compete covenant that prohibited the debtor from owning, operating, or being employed by any business that sold similar products to the plaintiff's. *Id.* at *2. After the district court entered summary judgment in favor of the plaintiff, the plaintiff sought a five-year injunction in lieu of a monetary judgment against the prepetition debtor. *Id.* After the debtor filed his bankruptcy petition, the district court stayed its action and denied in the request for an injunction without prejudice. *Id.* at *3.

The plaintiff then filed a motion to modify the automatic stay in the bankruptcy court, seeking for authority to pursue the action in the district court, and the bankruptcy court granted the motion, which the debtor appealed to the BAP. *Id*. Noting that "[t]he decision whether to lift the automatic stay resides within the sound discretion of the bankruptcy court," *id.*, the BAP reviewed the factors from *Garzoni v. K-Mart Corp. (In re Garzoni)*, 35 F. App'x 179 (6th Cir. 2002), that a bankruptcy court must review when deciding whether to modify the automatic stay. The BAP concluded that the bankruptcy court did not abuse its discretion when it granted modification of the automatic the stay because it properly reviewed the *Garzoni* factors: "(1) judicial economy; (2) trial readiness; (3) the resolution of preliminary bankruptcy issues; (4) the creditor's chance of success on the merits; and (5) the cost of defense or other potential burden to the bankruptcy estate and the impact of litigation on other creditors." *Id.* at *3 (quoting *In re Garzoni*, 35 F.App'x at 181).

Other courts have applied the *Garzoni* factors to deny stay relief to pursue state-court

litigation. For example, in *In re Motil*, No. 22-10571, 2022 WL 4073666 (Bankr. N.D. Ohio Sept. 1, 2022), the bankruptcy court denied stay relief to two creditors who sought to continue their state-court litigation against the debtor. The bankruptcy court applied the *Garzoni* factors and found that the factors weighed against stay relief. *Id*. at *5. Concerning the first and second factors, judicial economy and trial readiness, the bankruptcy court found that although the action in state court had been pending for more than one year, because "time alone does not mean a case is at a more advanced stage" and no trial date had been set in the state court cases, nor had the parties exchanged discovery, conducted depositions, or filed dispositive motions, judicial economy and trial readiness weighed against granting stay relief. *Id.* at *2-3. Because the meeting of creditors had not yet been concluded, the bankruptcy court also concluded that the third factor, the resolution of preliminary bankruptcy issues, weighed against stay relief. *Id*. at *3. Because the adversary proceedings pending before the bankruptcy court (in which multiple parties objected to the debtor's discharge and others raised nondischargeability claims) were in a similar posture, the bankruptcy court could not assess whether the creditors were likely to prevail on their claims (the fourth factor under *Garzoni*). *Id*. The court determined that the final factor had little impact on the analysis even though the debtor undoubtedly would face additional expense to litigate in the state court and the bankruptcy court but that no party identified any impact on other creditors. *Id*.

Here, Axle seeks relief for "cause" pursuant to 11 U.S.C. § 362(d)(1) and argues that the state court should be allowed to determine whether Debtor's prepetition conduct was contemptuous and if so, to determine the appropriate penalty, including damages such conduct caused Axle. The Bankruptcy Code does not define what constitutes "cause" for purposes of § 362(d)(1). Instead, "whether cause exists to lift the stay is a fact-intensive inquiry made on a

case-by-case basis." *In re Shivshankar P'ship, LLC*, 517 B.R. 812, 817 (Bankr. E.D. Tenn. 2014).

The Court recognizes that the "automatic bankruptcy stay 'protects interests in a debtor's property, not tortious uses of that property by the debtor.'" *Mantia*, 683 F.3d at 760 (quoting *Larami Ltd. v. Yes! Entm't Corp.,* 244 B.R. 56, 60 (D.N.J. 2000)). Further, although "[t]he automatic stay provision 'was intended to prevent interference with a bankruptcy court's orderly disposition of the property of the estate, it was not intended to preclude post-petition suits to enjoin unlawful conduct." *Id.* (quoting *Larami Ltd.*, 244 B.R. at 60). As recognized by the Sixth Circuit Court of Appeals, if § 362 "were read to prevent the injunctive relief . . . sought here, bankrupt businesses which operated post-petition could violate [plaintiffs'] rights with impunity." *Id.* at 760-61 (alteration in original) (quoting *Larami Ltd.*, 244 B.R. at 60). Finally, the Court acknowledges that the automatic stay did not free Debtor of the injunctions entered prepetition. *Cf. Seiko Epson Corp. v. Nu-Kote Int'l, Inc.*, 190 F.3d 1360, 1364 (Fed. Cir. 1999), *cited in Mantia*, 683 F.3d at 761.

The Court perceives that three distinct issues are implicated by the Motion: (1) whether the automatic stay precludes Axle's continuing pursuit of a permanent injunction in the State Court Action (and if so, whether the stay should be modified to permit Axle to seek the permanent injunction against Debtor); (2) whether the automatic stay should be modified to permit the state court to enforce the Agreed Temporary Injunction by adjudicating the civil contempt question, including assessment of damages for any prepetition contemptuous conduct of Debtor; and (3) whether the automatic stay should be modified to permit Axle to pursue liquidation of its state-court claims in the State Court Action.[1] The Court will take each of these

[1] At the April 4 hearing, Axle's counsel asserted that it should be allowed to liquidate its claims in the State Court Action and that it anticipates filing a nondischargeability action in this Court. It asserts that the facts relating to the injunction are tied to the facts relating to the other causes of action for which Axle seeks $40,000,000.00 in actual damages.

issues in turn.

First, the Court finds that the *Mantia* case supports the Court's construing the automatic stay as not precluding Axle's pursuit of a permanent injunction against Debtor in the State Court Action. The Court finds unpersuasive Debtor's argument in opposition to the request for stay relief to pursue a permanent injunction that continued litigation in the State Court Action will be costly. Debtor argues that he stopped operating any business in the fall of 2023 and is not engaging in any ongoing violation of the Agreed Temporary Injunction or employment contracts. [Doc. 19 at 1; Doc. 24 at 1.] Indeed, Debtor already consented to the Agreed Temporary Injunction, but it is effective only until June 19, 2024.[2] The Court finds that Axle should be allowed to seek protection from Debtor engaging in any continuing tort.[3]

The Court will review the *Garzoni* factors to determine whether the stay should be modified to allow the state court to adjudicate (1) the question of civil contempt, including any related damages and (2) the question of Debtor's liability under Axle's various legal theories and any related damages under such theories.

1. Judicial Economy

Judicial economy concerns the time and energy another court has already spent on the proceedings. *In re Hornback,* 2021 WL 5320418, at *3. As explained in *Hornback*, "the further along the litigation, the more unfair it is to force the plaintiff suing the debtor-defendant to

[2] The Agreed Temporary Injunction expires on June 19, 2024, unless the trial date is extended by any request of the State Court Action defendants.

[3] Although the Court finds that, under the reasoning of *Mantia*, an order should enter that authorizes Axle to pursue the permanent injunction in the State Court Action, the Court also finds that the *Garzoni* factors weigh in favor of allowing Axle to pursue the permanent injunction in the State Court Action because the state court has already engaged in the injunction issue, a permanent injunction does not impact the bankruptcy estate, Debtor's consent to the Agreed Temporary Injunction would seem to weigh in favor of Axle's chance of success on the merits; and the cost of defense will not impact the bankruptcy estate.

duplicate all of its efforts in the bankruptcy court." *Id.* at *4 (citation omitted). Here, Axle argues that "[t]he Circuit Court action has been pending for almost six months," "[c]onsiderable discovery has been conducted, and the case is currently set for trial on May 22, 2024." [Doc. 15 at 3]. Axle, however, acknowledged at the April 4 hearing that while written discovery has been exchanged, only one deposition has been taken, with the deposition of Debtor having not been conducted because of the bankruptcy filing. Because Debtor's deposition has not been conducted, Axle indicated at the April 4 hearing that the trial of the State Court Action will need to be continued.

Concerning Axle's prepetition civil-contempt motion, the Court determines that judicial economy weighs in favor of allowing the state court to adjudicate the contempt motion *and* determine any related damages. As stated by the Sixth Circuit in *Mantia*, the Court "cannot conceive that Congress intended to strip [a] court of th[e inherent power of a court to ensure compliance with that court's orders] and instead permit a party to blatantly violate direct orders of the court and then seek shelter" in bankruptcy. *Mantia*, 683 F.3d at 761 (quoting *Rook v. Rook (In re Rook)*, 102 B.R. 490, 493 (Bankr. E.D. Va. 1989)). Determining damages related to any contemptuous conduct is part of the state court's enforcement of its orders, even though any such award would be discharged in this bankruptcy case absent a nondischargeability finding here.

As for Axle's request to pursue liquidation of its various claims, the Court finds that judicial economy weighs against modifying the stay for Axle to litigate its state-law claims when this Court would still be required to adjudicate a nondischargeability action for any damages judgment entered in state court. The question of dischargeability of a debt includes two determinations, only one of which is within the jurisdiction of the state court: (1) whether liability exists such that a debt is owed and (2) whether such a debt is dischargeable. *See Long v.*

Piercy (In re Piercy), 21 F. 4th 909, 918 (6th Cir. 2021). Bankruptcy courts have exclusive jurisdiction to determine whether a debt is nondischargeable. *Id.* Thus, even if this Court were to modify the automatic stay for Axle to pursue the merits of its state-law claims against Debtor in the State Court Action, which would require this Court to wait an indeterminate for the state court to rule, Axle would still need to bring a timely nondischargeability action here and prove each of the elements for any claim that any state-court adjudicated liability is nondischargeable. This would be the definition of judicial inefficiency.

2. Trial Readiness

The second factor, trial readiness, emphasizes that parties in litigation that are further along are more prepared to go to trial. *See In re Garzoni*, 35 F. App'x at 181; *In re Motil,* 2022 WL 4073666, at *3. It is appropriate to deny stay relief when the state-court case is not ready for trial, as, for example, when "not a single deposition has been taken, nor have interrogatories been served, nor have any documents been produced[.]" *In re United Imports, Inc.*, 203 B.R. 162, 167 (Bankr. D. Neb. 1996), *cited with approval in In re Garzoni*, 35 F. App'x at 181. Similarly, the court in *In re Motil* declined to lift the stay because none "of the necessary intermediate steps have yet to occur" and the case was nowhere nearing trial. 2022 WL 4073666, at *3. *But see In re Martin*, 542 B.R. 199, 203 (B.A.P. 6th Cir. 2015) (affirming the bankruptcy court's decision to lift the stay because "[d]iscovery ha[d] commenced and thousands of pages of written discovery ha[d] been exchanged and reviewed").

Because presumably the contempt motion can be heard and decided by the state court without extensive pre-hearing preparation as to whether Debtor violated the Agreed Temporary Injunction and damages caused by any such violation, this factor weighs in favor of modifying the automatic stay to permit the state court to enforce its orders, including adjudicating any

damages for any such violation.

Concerning trial readiness for the state-law claims against Debtor in the State Court Action, although written discovery has been exchanged there, Axle acknowledges that only one deposition has been taken in a case that has five defendants, three of which are individuals. Notwithstanding the trial date currently set for May 22, 2024, the State Court Action admittedly is not ready to proceed to trial. Thus, this factor weighs against modifying the stay to permit Axle to liquidate its state-law claims.

3. Resolution of Preliminary Bankruptcy Issues

This factor concerns the procedural posture of the bankruptcy case. *See In re Garzoni*, 35 F. App'x at 181; *In re Motil,* 2022 WL 4073666, at *3. In *Motil*, the section 341 meeting had been concluded (after several adjournments), but the chapter 7 trustee had not issued a report on the debtor's assets nor set a bar date for proofs of claim. *Id.* Likewise here, the meeting of creditors was held on April 2, 2024 [Doc. 22], but the chapter 7 trustee has not filed his report. The deadline to object to discharge or seek a determination of nondischargeability is June 3, 2024. [Doc. 10.] Although preliminary bankruptcy issues remain to be resolved, the Court finds that this factor is neutral for the propriety of stay relief for either the contempt or merits proceedings in the State Court Action.

4. Creditor's Chance of Success on the Merits

The fourth factor questions the movant's likelihood of success on the merits in the state court action. *In re Garzoni*, 35 F. App'x at 181; *In re Motil,* 2022 WL 4073666, at *3. The court in *In re Hornback* noted that "a bankruptcy court is not required to be clairvoyant regarding the movant's chance of success on the merits when determining whether to lift the automatic stay." 2021 WL 5320418, at *5. The court in *Motil* found it was in no position to determine whether the

creditors were likely to prevail on their claims. *In re Motil,* 2022 WL 4073666, at *3.

Here, the bankruptcy court is in no position to determine the merits of the contempt motion. Although the bankruptcy court is not currently in a position to determine the likelihood of Axle's merits of the six claims against Debtor,[4] as noted above, the Court will eventually need to determine whether any liability of Debtor for those claims is nondischargeable under the Code. Because the Court is unable to determine the likelihood of success on the merits for either the contempt motion or the underlying causes of action, this factor is neutral in the stay-relief analysis.

5. Cost of Defense or Other Potential Burden to the Bankruptcy Estate and the Impact of Litigation on Other Creditors

The fifth factor weighs the cost of defense or other potential burden to the bankruptcy estate and the impact of litigation on creditors. *In re Garzoni*, 35 F. App'x at 181; *In re Motil,* 2022 WL 4073666, at *3. The debtor in *Motil* argued that "it would be burdensome to litigate the state court claims in their 'current fractured state in multiple venues.'" *Id.* The court concluded that while both cases were in Ohio, the debtor faced some additional expense to litigate in two courts rather than one. *Id.* However, no party identified any impact and this last factor had little effect on the analysis. *Id.*

Here, Debtor argues that he "is currently unemployed at the time of filing and seeking employment. The Debtor was unable to continue payments to pre-petition State Court counsel to defend the litigation, the subject of the Motion for Relief by Axle Logistics, LLC." [Doc. 19 at 1.] Debtor reiterates that if forced to litigate the contempt motion or the merits in the State Court

[4] Axle's complaint alleges the following causes of action against Debtor: (1) breach of contract, (2) violation of the Tennessee Uniform Trade Secrets Act, (3) breach of the duty of loyalty, (4) conversion, (5) violation of the statutory prohibition of inducement to breach, and (6) a request for an injunction. [Doc. 15 at 30-37.]

Action, he would need to "employ expensive counsel." [Doc. 24 at 2.] The mere costs of defense, however, have been deemed an insufficient basis to deny stay relief. *See, e.g., In re Wolsonovich*, No. C/A No. 19-06136-JW, 2020 WL 5607738, at *5 (Bankr. D.S.C. Apr. 1, 2020) (citing *Wiley v. Hartzler (In re Wiley),* 288 B.R. 818, 823 (B.A.P. 8th Cir. 2003); *Peterson v. Cundy (In re Peterson),* 116 B.R. 247, 250 (D. Colo. 1990); *Smith v. Tricare Rehab. Sys., Inc. (In re Tricare Rehab. Sys., Inc.)*, 181 B.R. 569, 575 (Bankr. N.D. Ala. 1994); *In re Anton*, 145 B.R. 767, 770 (Bankr. E.D.N.Y.1992); *In re Horn,* No. 12-50207, 2012 WL 1978287, at *3 (Bankr. M.D.N.C. June 1, 2012)).

The Court finds that this factor weighs slightly in favor of stay relief because it will not impact the bankruptcy estate or other creditors if Axle is permitted to pursue all of its claims against Debtor in the State Court Action.

Conclusion

After consideration of the five factors, the Court finds that the state court should be allowed to enforce its order by adjudicating the question of whether Debtor is in civil contempt of the Agreed Temporary Injunction. The Court also finds it appropriate to allow the state court to adjudicate the issue of damages for any contemptuous violation of the state court's orders. If the state court finds that Debtor violated a state court order and that damages are appropriate, such damages -- which would constitute an unliquidated prepetition debt -- will be discharged absent this Court finding that they are nondischargeable in an adversary proceeding brought under 11 U.S.C. § 523(a)(2), (4), or (6) and Federal Rule of Bankruptcy Procedure 7001.

Concerning Axle's request for the Court to modify the stay for Axle to liquidate its six state-court claims against Debtor, consideration of the five factors leads to the conclusion that the stay should not be modified to permit adjudication by the state court when this Court still would

need to adjudicate facts in light of anticipated claims of nondischargeability. Simply, the court believes that the better option is for "all claims and proceedings involving . . . [D]ebtor to be heard in a single forum before a single judge, and that this Court is in the best position to achieve, so far as possible, the just, speedy, and inexpensive determination of all such claims." *In re Motil*, 2022 WL 4073666, at *5.

For these reasons, the Court directs the following:

1. The Motion for Relief from Stay filed on March 18, 2024 [Doc. 15], is GRANTED in part and DENIED in part.

2. To the extent that Axle Logistics, LLC seeks stay relief to pursue the request for a permanent injunction against Debtor in the Knox County Circuit Court, the Motion for Relief from the Stay is GRANTED for cause under 11 U.S.C. § 362(d)(1).

3. To the extent that Axle Logistics, LLC seeks stay relief to pursue Plaintiff's Motion for Contempt of Court as to Defendant Stokes in the Knox County Circuit Court, the Motion for Relief from the Stay is GRANTED for cause under 11 U.S.C. § 362(d)(1) to permit not only adjudication of contempt but also any damages related to any such contempt.

4. To the extent that Axle Logistics, LLC seeks stay relief to pursue its remaining claims against Debtor in the Knox County Circuit Court, the Motion for Relief from the Stay is DENIED.

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