IT IS SO ORDERED.

Dated: September 10, 2025

Mina Nami Khorrami
United States Bankruptcy Judge

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF OHIO
EASTERN DIVISION

In re:	:	
	:	Case No. 24-51185
SCS Logistics Inc., *et al.*,	:	Chapter 7
	:	Judge Nami Khorrami
Debtor.	:	(Jointly Administered)
	:	

Brian Peters,	:	
Plaintiff,	:	
v.	:	Adv. Pro No. 24-02072
Roy Fernandez,	:	
Defendant.	:	

MEMORANDUM OPINION AND ORDER DENYING DEFENDANT ROY FERNANDEZ'S MOTION TO DISMISS OR, ALTERNATIVELY, STAY THE ADVERSARY PROCEEDING (DOCS. 4, 7, and 8)

I. Introduction

Brian Peters ("Mr. Peters") filed this adversary complaint ("Complaint") in the underlying

bankruptcy case of SCS Logistics Inc. (the "Debtor")[1] against Roy Fernandez ("Mr. Fernandez"). On count one ("Count One") of the Complaint, Mr. Peters seeks declaratory judgment as to ownership of the Debtor and control of any funds that may be remitted to the Debtor in the Main Case under 11 U.S.C. § 726.[2] On count two ("Count Two"), Mr. Peters objects to the allowance of the proof of claim filed by Mr. Fernandez in the Main Case under 11 U.S.C. § 502 and Rule 3007 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules").

In turn, Mr. Fernandez seeks to dismiss the adversary proceeding or alternatively stay the proceeding for lack of subject matter jurisdiction under Rule 12(b)(1) and failure to state a claim under Rule 12(b)(6) of the Federal Rules of Civil Procedure (the "Civil Rules").[3] This Court has been asked to decide two specific issues: 1) under Civil Rule 12(b)(1), whether the Court has subject matter jurisdiction, or should choose not to exercise jurisdiction, to determine declaratory judgment relief requested pursuant to 28 U.S.C. § 2201, and 2) under Civil Rule 12(b)(6), whether this case should be dismissed for failure to state a claim for relief.[4] Mr. Fernandez considers Mr. Peter's objection to his proof of claim as a tag-along and seeks the dismissal of the same.

For the reasons discussed more fully below, the Court concludes that it has subject matter jurisdiction to determine the issues in the adversary proceeding, that it will not dismiss the Complaint for failure to state a claim and will not stay the adversary proceeding. The Motion is thus denied.

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[1] SCS Logistics, Inc., Case No. 24-51185, is the underlying chapter 7 case (the "Main Case").

[2] The chapter 7 trustee has collected $109,644.61 (the "Estate Funds") in the Debtor's Main Case. Tr's Ltd. Obj. 2, ECF No. 70.

[3] Civil Rules 12(b)(1) and (6) are made applicable herein by Rule 7012 of the Bankruptcy Rules.

[4] *Defendant Roy Fernandez's Motion to Dismiss or, Alternatively, Stay Adversary Proceeding* (Doc. 4) (the "Motion"), *Objection of Brian Peters to Defendant Roy Fernandez's Motion to Dismiss or, Alternatively Stay Adversary Proceeding* (Doc. 7) (the "Objection"), *and Fernandez's Reply to Peters' Objection to Motion to Dismiss or, Alternatively, Stay Adversary Proceeding* (Doc. 8) (the "Reply").

II. Background and Position of the Parties[5]

A. The Complaint

Beginning in early 2010, Mr. Peters and Mr. Fernandez were working together, including jointly owning a business, Pick N Pull Appliance Parts, Inc., which eventually dissolved in the fall of 2014. Compl. ¶ 10-11, ECF No. 1. In March of 2016, Mr. Peters formed a business in California, called SCS Logistics ("SCS-California"). Compl. ¶ 15. The articles of incorporation from the state of California show that Mr. Peters owned 10,000 shares of SCS-California stocks and was its president, secretary, and chief financial officer. Compl. ¶ 15, and Ex. D. In 2016, in return for Mr. Fernandez bringing a business opportunity known as Recleim (the "Recleim Business") to SCS-California, Mr. Peters verbally agreed to pay Mr. Fernandez a "finder's fee/consulting fee" in an amount of half of the net profit of SCS-California. Compl. ¶ 18. At the request of Mr. Fernandez, all the fees paid by SCS-California were made to his company, Professional Logistic Services, Inc. ("PLS"). Compl. ¶ 19.

To diversify SCS-California, Mr. Peters started a new retail appliance sales company in Columbus, Ohio, named Home Appliance Solutions, Inc. ("HAS") in early 2017. He used SCS-California to get HAS off the ground. Compl. ¶¶ 26-31. Due to the Covid pandemic, inability to collect accounts receivable from the Recleim Business, and loss of business, SCS-California was failing. Compl. 32. Despite Mr. Peters' attempts to revamp the business of SCS-California, its business shrank. Compl. ¶¶ 33-34. To concentrate on HAS and to keep SCS-California operational,

[5] The background cited here is based on the Court's review of the adversary complaint ("Complaint") and all the documents attached to it, the Motion, the Objection, and the Reply. Mr. Fernandez has filed redline versions of the Motion (Doc. 14) and the Reply (Doc. 15), citing to certain stipulations of facts and joint exhibits which were filed in the Main Case; however, the Court will not consider the redline version of the Motion or the Reply. This is consistent with Mr. Fernandez's position that the parties "do not believe that stipulated evidence is appropriate for purpose of the Court ruling upon a motion to dismiss . . . ." Redline of Def.'s Mot. to Dismiss 1 n.1, ECF No. 14. The background provided is for the purpose of determining the issues in the Motion and it is not a finding of facts as the veracity of the allegations of the parties have not been litigated.

Mr. Peters and his wife moved from California to Columbus, Ohio in the fall of 2020. Compl. ¶ 34. At that time, Mr. Peters wanted to convert SCS-California to an Ohio entity, but due to a mistake by his attorney, SCS-California was dissolved instead of being converted to an Ohio entity. Compl. ¶ 35. SCS Logistics, LLC ("SCS-Ohio) was then formed as a new entity in 2021. Compl. Ex. A, at 5.

Mr. Peters obtained loans to keep SCS-California operating and initiated litigation against Recleim to collect on its unpaid accounts. Compl. ¶¶ 36-38. After the litigation started, Recleim and SCS-California entered into a settlement. Recleim, after paying a portion of the settlement amount, stopped paying. Compl. ¶¶ 38. Because Recleim stopped paying all the settlement amount, no profits from Recleim were distributed in 2020 or 2021. Compl. ¶ 40.[6] As a result, in December of 2021, Mr. Fernandez and his company, PLS, sued Mr. Peters, SCS-California, SCS-Ohio, and HAS in the Superior Court of California in Placer County, California, claiming 50% ownership and entitlement to 50% profit of all entities, including HAS (the "California Litigation"). Compl. ¶ 41, Ex. A.

Specifically, the California Litigation seeks declaratory relief regarding the ownership of the Debtor and HAS, breach of oral contract and breach of implied-in-fact contract over ownership and split of the profit from the Debtor and HAS, breach of implied covenant of good faith and fair dealing over the split of profit between the parties, imposition of constructive trust over the profits collected from the Debtor and HAS, conversion of the profit from the Debtor and HAS, accounting of income and profit from the Debtor and HAS, and breach of fiduciary duty with respect to the profits from the Debtor and HAS. Compl. Ex. A. The California court dismissed Mr. Fernandez'

[6] In 2022, Mr. Peters took $85,000 of the net profit from the settlement payments by Recleim. Compl. ¶ 40.

claims against SCS-Ohio and HAS for lack of personal jurisdiction. Mr. Fernandez and PLS then filed suit in the United States District Court for the Southern District of Ohio. Compl. ¶ 41. Mr. Fernandez filed a proof of claim in the Main Case (the "Fernandez Proof of Claim"), claim no. 5. Compl. ¶ 43, Ex. A. Mr. Peters filed a proof of claim in the Main Case (the "Peters Proof of Claim"), claim no. 3. Compl. ¶ 44.

Count One of the Complaint seeks declaratory judgment over the legal rights and relations of Mr. Peters and Mr. Fernandez to the Debtor as it impacts any distributions of the Estate Funds to be made by the chapter 7 trustee under 726(a)(6). Count Two is an objection to the proof of claim of Mr. Fernandez to reduce the amount of his claim to half of the net profit from the settlement payment by Recleim as an unsecured non-priority claim.

B. Mr. Fernandez's Motion

Mr. Fernandez disputes this Court's subject matter jurisdiction to hear the issues in the adversary proceeding. He first asserts that the Declaratory Judgment Act, 28 U.S.C. § 2201, is not an independent source of jurisdiction and therefore the Court lacks jurisdiction over Count One, which seeks a declaratory judgment. Def.'s Mot. to Dismiss 1-2, ECF No. 4. Second, he claims that the Court's exercise of jurisdiction to grant declaratory judgment, although it is discretionary, requires an examination of five factors specified by the Sixth Circuit in the case of *Bituminous Cas. Corp v. J & L Lumber Co.*, 373 F.3d 807(6th Cir. 2004). *Id.* 4-5. And that Mr. Peters cannot meet the five factors enunciated in *Bituminous.* Specifically, because the declaratory judgment will not settle the controversy between the parties, Mr. Fernandez claims that Mr. Peters filed the Complaint to forum shop. That the declaratory action would increase the friction between the federal and state courts since California court is the proper forum to determine the ownership issue of the Debtor. And that this issue has been pending in the California court for three years. Mr.

Fernandez also claims that declaratory judgment is not a proper adversary proceeding action contemplated by Bankruptcy Rule 7001. Viewing Count Two as a tag-along claim, Mr. Fernandez requests that it be dismissed as well.

C. Mr. Peters' Objection

Mr. Peters maintains that the Court has jurisdiction over the Complaint because Count One satisfies the "arising under," "arising in," and "related to" tests for jurisdiction set forth in 28 U.S.C. § 1334(b). Because the Fernandez Proof of Claim asserts that Mr. Fernandez owns fifty percent of the Debtor, Mr. Peters argues that the declaratory relief request in Count One arises in the bankruptcy case. Pl.'s Obj .3-4, ECF No. 7. He also contends that Count One arises under Title 11 because it involves the interpretation of 11 U.S.C. § 726(a)(6). Pl.'s Obj. 4-5. Finally, he argues that Count One is related to the Main Case because it seeks a determination of who may be entitled to share in a distribution to the Debtor under § 726(a)(6) and therefore could conceivably have an impact upon the estate being administered. Pl.'s Obj. 6-7. Mr. Peters disagrees that the discretionary factors cited in the *Bituminous* case apply in Count One here, and that even if they do, the Court should exercise its discretion in favor of jurisdiction here. Pl.'s Obj. 7-8.

III. Legal Analysis

When the Court is presented with a motion to dismiss under 12(b)(1) for lack of subject matter jurisdiction and 12(b)(6) for failure to state a claim for relief, the court should first consider the jurisdictional challenge under 12(b)(1). *Singh v. Deloitte LLP*, 650 F. Supp. 3d 259, 264 (S.D.N.Y. 2023) (citing *Rhulen Agency, Inc. v. Ala. Ins. Guar. Ass'n*, 896 F.2d 674 (2d Cir. 1990)). The party claiming jurisdiction has the burden to show that the court has jurisdiction over the subject matter based upon the allegations of the Complaint. *Newman v. Bamberger (In re Newman)* 2016 Bankr. LEXIS 579, at *4-5 (Bankr. S.D. Ohio Feb. 17, 2016) (citing *Ohio Nat'l Life Ins. Co.*

v. United States, 922 F.2d 320, 324 (6th Cir. 1990)). Mr. Peters here bears the burden of demonstrating that the claims asserted in the Complaint fall within the jurisdiction of this Court.

A. Lack of Subject-Matter Jurisdiction - Civil Rule 12(b)(1)

Motions to dismiss based on subject matter jurisdiction under Civil Rule 12(b)(1) are either based on a facial attack or factual attack. *Ohio Nat'l Life Ins. Co.*, 922 F.2d at 325. A facial attack relates to the sufficiency of the allegations in the pleadings and a trial court can take those allegations as true; however, under a factual attack, the court does not presume that the facts as alleged in the complaint are true. *Id*. In a review of a complaint under a factual attack, a court has discretion to consider other documents such as affidavits and even hold a limited evidentiary hearing to resolve jurisdictional disputes. *Id*.

Here, none of the parties have requested an evidentiary hearing, and indeed, Mr. Fernandez has asserted that consideration of matters outside the pleadings would be inappropriate. *See* Redline of Def.'s Mot. to Dismiss 1 n.1, ECF No. 14. The Court thus concludes that Mr. Fernandez is asserting a facial challenge based upon the allegations of the Complaint. The inquiry for the Court is now to determine if there are sufficient assertions in the Complaint to establish the Court's subject matter jurisdiction under Civil Rule 12(b)(1).

When a facial challenge to jurisdiction is brought under Civil Rule 12(b)(1), the inquiry relates to the sufficiency of facts that would provide a basis for the court's jurisdiction. There must be sufficient factual matter asserted to make it plausible that there is a basis for the exercise of jurisdiction. *Silha v. ACT, Inc.*, 807 F.3d 169, 174 (7th Cir. 2015) ("[W]e join many of our sister circuits and hold that when evaluating a facial challenge to subject matter jurisdiction under Rule 12(b)(1), a court should use *Twombly-Iqbal*'s 'plausibility' requirement, which is the same standard used to evaluate facial challenges to claims under Rule 12(b)(6)."). "With respect to

12(b)(1) motions in particular, '[t]he plaintiff must assert facts that affirmatively and plausibly suggest that the pleader has the right he claims (here, the right to jurisdiction), rather than facts that are merely consistent with such a right.'" *In re Schering-Plough Corp. Intron/Temodar Consumer Class Action*, 678 F.3d 235, 244 (3d Cir. 2012) (alteration in original) (quoting *Stalley v. Catholic Health Initiatives*, 509 F.3d 517, 521 (8th Cir. 2007)).

Here, Mr. Peters has met his burden to show that this Court has jurisdiction over the Complaint. The priority of the distribution of the Estate Fund under 726(a) is clearly within this Court's jurisdiction. Also, the dispute over ownership of the Debtor is directly implicated by the Fernandez Proof of Claim and Mr. Peters' objection to it. A decision which impacts the administration of the bankruptcy estate is certainly within the purview of the jurisdiction of the bankruptcy court.

B. Failure to State a Claim for Relief – Civil Rule 12(b)(6)

If the motion to dismiss under 12(b)(1) relates to the sufficiency of the allegations in the complaint, then the same standard applies to the court's determination of a motion to dismiss under 12(b)(6). *Ohio Nat'l Life Ins. Co. v. United States*, 922 F.2d 320, 325 (6th Cir. 1990); *Bavellis* v. *Doukas (In re Bavelis)*, 453 B.R. 832, 850-851 (Bankr. S.D. Ohio 2011). The Supreme Court has provided instructions on this issue: "[t]o survive a motion to dismiss, a complaint must contain sufficient factual matter, accepted as true, to 'state a claim to relief that is plausible on its face.'" *Ashcroft v. Iqbal*, 556 U.S. 662, 678, 129 S. Ct. 1937, 173 L. Ed. 2d 868 (2009) (quoting *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570, 127 S. Ct. 1955, 167 L. Ed. 2d 929 (2007)).

"A claim has facial plausibility when the plaintiff pleads factual content that allows the court to draw a reasonable inference that the defendant is liable for the misconduct alleged." *Iqbal*, 556 U.S. at 678 (citation omitted). Although a complaint that is challenged by a 12(b)(6) motion

to dismiss does not need detailed facts, a plaintiff is obligated to provide sufficient grounds of his entitlement to relief. *Twombly*, 550 U.S. at 555. Recitation of the elements of a cause of action by making conclusory statements are not sufficient. *Iqbal*, 556 U.S. at 678; *Twombly*, 550 U.S. at 555. Rather, the issue is whether the claims have sufficient factual matter to make them plausible. *Iqbal*, 556 U.S. at 678; *Twombly*, 550 U.S. at 555-556.

Thus, if the factual allegations are "well-pleaded" in the complaint, a court can assume their veracity and then decide whether the facts could support the requested relief. *Tese-Milner v. Bon Seung Kim (In re Level 8 Apparel, LLC)*, 2021 Bankr. LEXIS 182, at *9-10 (Bankr. S.D.N.Y. Jan. 26, 2021). This is "context-specific, requiring the reviewing court to draw on its experience and common sense." *Think3 Litig. Tr. v. Zuccarello (In re Think3, Inc.)*, 529 B. R. 147, 169 (Bankr. W.D. Tex. 2015) (quoting *Iqbal*, 556 U.S. at 663-64). This does not mean that the court must determine if a plaintiff will prevail on the merits, but rather whether a plaintiff is entitled to provide evidence in support of his claim – the court is to assess the legal feasibility of the complaint, not to weigh the evidence. *Tese-Milner*, at *10-11. The court can review and consider the complaint in its entirety, including any documents attached to the complaint, or incorporated into the complaint by reference, and matters which a court may take judicial notice. *Tese-Milner*, at *11.

In the Complaint, Mr. Peters lays out the history of the dealings between him and Mr. Fernandez and outlines specific facts. He provides supporting documents in his Complaint which shed light on the assertions in the Complaint. The ownership of the Debtor is a critical issue which, once determined, will allow the remainder of the case to proceed to finality. While there are other state law issues between the parties, the determination of the ownership of the Debtor will be germane to the resolution of the other issues. Also, the ownership of the Debtor will be the basis for who will have control over the distribution of the Estate Funds to the Debtor. The objection to

the claim of Mr. Fernandez will impact the administration of the bankruptcy estate. The factual allegations in the Complaint are well-pleaded to make them plausible and support the remedies requested.

C. The Court's Jurisdiction

Mr. Fernandez challenges this Court's jurisdiction to determine the issues raised in the adversary proceeding. The Supreme Court has held that a lower federal court, despite being a court with limited jurisdiction, has the authority to determine whether it has subject matter jurisdiction. *Chicot Cty. Drainage Dist. v. Baster State Bank*, 308 U.S. 371, 376-377, 60 S. Ct. 317, 84 L. Ed. 329 (1940); *Sprout v. IRS*, 2020 Bankr. LEXIS 1305 (Bankr. S.D. Ohio 2020); *Bavelis v. Doukas* 453 B.R. 832 (Bankr. S.D. Ohio 2011). In other words, "it is familiar law that a federal court always has jurisdiction to determine its own jurisdiction." *United States v. Ruiz*, 536 U.S. 622, 628, 122 S. Ct. 2450, 153 L. Ed. 2d 586 (2002) (citation omitted).

Generally, a bankruptcy court's jurisdiction is derived from the two code sections, 28 U.S.C. § 1334(a) and 28 U.S.C. § 157(a). Section 1334(a) provides that "the district court shall have original and exclusive jurisdiction of all cases under title 11 [the Bankruptcy Code]." Section 157(a) provides that "[e]ach district court may provide that any or all cases under title 11 and any or all proceedings arising under title 11 or arising in or related to a case under title 11 shall be referred to the bankruptcy judges for the district." The District Court for the Southern District of Ohio has issued Amended General Order 05-02, referring all bankruptcy matters to this Court.

Specifically, Section 1334(b) lists three categories of civil matters which this Court has original, but not exclusive jurisdiction, namely 1) those cases "arising under title 11," 2) cases "arising in" bankruptcy cases, and 3) cases that are "related to cases under title 11." 28 U.S.C. 1334(b). Section 1334(b) gives this Court original but not exclusive jurisdiction over matters

"arising under title 11," "arising in a case under title 11," or "related to a case under title 11." 28 U.S.C. § 157(b) and (c) divide all bankruptcy proceedings into two categories, core proceedings and noncore proceedings. In general, core proceedings are those matters "arising under title 11," or "arising in a case under title 11." 28 U.S.C. § 157(b)(1); *Mich. Emp. Sec. Comm'n v. Wolverine Radio Co., (In re Wolverine Radio Co.)*, 930 F.2d 1132, 1144 (6th Cir. 1991).

Section 157(c)(1) provides the bankruptcy judge with the power to hear "a proceeding that is not a core proceeding but that is otherwise related to a case under title 11." In such an event, the bankruptcy court provides findings of facts and conclusions of law to the district court. *Wolverine*, 930 F.2d at 1144. Section 157(b)(1) provides a non-exclusive list of proceedings that are considered core proceedings. Section 157(b)(2)(B) lists, among several others, "allowance or disallowance of claims" as core proceedings. The Supreme Court has held that "by filing a claim against a bankruptcy estate the creditor triggers the process of 'allowance and disallowance of claims,' thereby subjecting himself to the bankruptcy court's equitable power." *Langenkamp v. Culp*, 498 U.S. 42, 44, 111 S. Ct. 330, 112 L. Ed. 2d 343 (1990) (quoting *Granfinanciera v. Nordberg,* 492 U.S. 33, 58, 109 S. Ct. 2782, 106 L. Ed. 2d 26 (1989)). "A proof of claim functions as consent to a bankruptcy court's equitable jurisdiction." *Harker v. Webb*, 2021 U.S. Dist. LEXIS 170708, at *18 (S.D. Ohio Sept. 9, 2021) (citation omitted).

Thus, by filing the Fernandez Proof of Claim, which is based upon the claims that were asserted in the California Litigation, Mr. Fernandez submitted the issues asserted in the California Litigation to the claims allowance process that lies at the very core of this Court's jurisdiction. *In re Yellow Corp*., 2024 Bankr. LEXIS 745, at *24-25 (Bankr. D. Del. Mar. 27, 2024) ("The Supreme Court has made clear that the claims allowance process is at the heart of a bankruptcy court's jurisdiction over the property of the bankruptcy estate.") (citing *Gardner v. New Jersey*,

329 U.S. 565, 574, 67 S. Ct. 467, 91 L. Ed. 504 (1947)). It is therefore beyond dispute that the Court has jurisdiction over Count Two. And given the high degree of overlap between the allegations in the Fernandez Proof of Claim and the declaratory judgment claim in Count One, the Court does not see any reason to treat Count One differently.

Here, the adversary proceeding was initiated in the Main Case and impacts the administration of the Estate Funds. The declaratory judgment is seeking a determination of the ownership interest of Mr. Fernandez and Mr. Peters and the control of any distribution of the Estate Funds to the Debtor in the Main Case. This impacts the administration of the bankruptcy estate, and at a minimum this meets the standard for "related to" jurisdiction under § 1334(b).

The Court also concludes that this adversary proceeding "arises in" the Main Case, because Mr. Fernandez has filed a proof of claim, and Count Two of the Complaint states an objection to that claim. The test for "arising in" jurisdiction is whether the matter at issue is something that could only arise in bankruptcy. It is essentially a "but for" test: could the dispute exist but for the bankruptcy? *Lowenbraun v. Canary (In re Lowenbraun)*, 453 F.3d 314, 321 (6th Cir. 2006). The question is not whether the claims arise under bankruptcy law or state law, but rather whether they have arisen in a context that is unique to bankruptcy. *Id.* (holding that claims for libel and slander against counsel to a chapter 7 trustee could only occur in bankruptcy); *Murray v. Wilkie Farr & Gallagher (In re Murray Energy Holdings Co.)*, 654 B.R. 469, 488 (Bankr. S.D. Ohio 2023), *aff'd* 2025 WL 771586 (S.D. Ohio Mar. 11, 2025) (claim for legal malpractice in advising chapter 11 debtor during case could only occur in bankruptcy). Under this test, objections to claims are matters arising in a bankruptcy case because they do not exist outside of bankruptcy. *Logan Med. Found., Inc. v. Hayflich & Steinberg (In re Logan Med. Found., Inc.)*, 346 B.R. 184, 188 (Bankr. S.D. W. Va. 2006) (holding that where a claims objection was included in an adversary proceeding,

the bankruptcy court had "arising in" jurisdiction over that objection because the claims objection process does not exist outside of bankruptcy).

The factual and legal issues in Counts One and Two are quite similar if not identical. Both counts directly implicate the claims allowance process. Therefore, both counts arise in this bankruptcy case. In the context of this case, where the dispute over ownership of the Debtor is directly implicated by the Fernandez Proof of Claim and Mr. Peters' objection to it, the issue here could not arise but for the bankruptcy.

D. Declaratory Judgment Relief

"The Declaratory Judgment Act generally authorizes district courts to issue declaratory judgments as a remedy." *Balsam v. United States*, 2025 U.S. App. LEXIS 6227, *10 (11th Cir. March 18, 2025) (citing 28 U.S.C. § 2201(a)). 28 U.S.C. § 2201 in pertinent part provides:

> (a) In a case of actual controversy within its jurisdiction, . . . any court of the United States upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such."

28 U.S.C. § 2201(a).

The Declaratory Judgment Act, 28 U.S.C. § 2201 (the "Act"), is not an independent source of jurisdiction. Rather, it permits a federal court to issue declaratory judgments in cases "of actual controversy within its jurisdiction." The Act thus creates a remedy, but federal jurisdiction must arise under a different statute. *California v. Texas*, 593 U.S. 659, 672, 141 S. Ct. 2104, 210 L. Ed. 2d 230 (2021) ("The Declaratory Judgment Act, 28 U.S.C. § 2201, alone does not provide a court with jurisdiction.") (citations omitted).

The Act has "'a broad, remedial purpose and, therefore, should be construed liberally.'" *Fusco v. Rome Cable Corp.*, 859 F. Supp. 624, 629 (N.D.N.Y. 1994) (quoting *Akzona Inc. v. E.I.*

du Pont de Nemours & Co., 662 F. Supp 603, 615 (D. Del. 1987)). Bankruptcy courts are authorized to issue declaratory judgments in adversary proceedings which are within their jurisdiction. *Korthumel Inc. v. Korthumel Indus. Inc*., 103 B.R. 917, 921 (N.D. Ill. 1989).

"[T]he bankruptcy court has the power to issue declaratory judgments when the matter in controversy regards the administration of a pending bankruptcy estate." *Sears, Roebuck & Co. v. O'Brien*, 178 F.3d 962, 964 (8th Cir. 1999) (citation omitted); *Rex-Tech Int'l, LLC v. Rollings (In re Rollings)*, 451 F.App'x 340, 345 (5th Cir. 2011); *see also In re Stamps* 644 B.R. 760, 765 (Bankr. N.D. Ill. 2022); *Scott v. Am. Sec. Ins. Co. (In re Scott)*, 572 B.R. 492, 521 (Bankr. S.D.N.Y. 2017). In other words, if the issue on which declaratory judgment is sought would otherwise be within the Court's subject matter jurisdiction, it has the authority to issue a declaratory judgment. Count One of the Complaint in this case is a request by Mr. Peters for the Court to enter a declaratory judgment under the Act that Mr. Fernandez does not own any interest in the Debtor. And, as discussed above, Count One plainly raises issues that satisfy the "arising in" and "related to" prongs of 28 U.S.C. § 1334(b), and therefore this Court has jurisdiction over it.

A declaratory judgment request by a party must present an "actual controversy" between the parties for a court to issue a declaratory judgment. *Fourth Branch Assocs. v. Mohawk Paper Mills* 185 B.R. 431, 437 (N.D.N.Y. 1995). It is difficult to determine a precise test for identifying an actual controversy. *Think3 Litig. Tr. v. Zuccarello (In re Think3, Inc.)*, 529 B.R. 147, 206 (Bankr. W.D. Tex. 2015). The Supreme Court guides us to decide if the "question in each case is whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment." *Md. Cas. Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273, 61 S. Ct. 510, 85 L. Ed. 826 (1941) (citation omitted). A proceeding presents an actual controversy

if it clarifies and settles legal relations in the case and settles the dispute that caused the litigation. *Fusco*, 859 F. Supp. at 630. The Court finds that there is an actual controversy given that the ownership issues lie at the heart of the disputes between Mr. Peters and Mr. Fernandez. There is no question but that the dispute is ripe and sufficiently concrete to make it appropriate for resolution.

Mr. Fernandez also claims that the Court is required to examine five factors in determining if this case is appropriate for declaratory judgment as instructed in *Bituminous Cas. Corp. v. J & L Lumber Co.*, 373 F.3d 807 (6th Cir. 2004). That case dealt with issues relevant to insurance coverage questions. In that case, the Sixth Circuit considered five factors to determine if a case is appropriate for declaratory judgment:

> (1) whether the judgment would settle the controversy;
> (2) whether the declaratory judgment action would serve a useful purpose in clarifying the legal relations at issue;
> (3) whether the declaratory remedy is being used merely for the purpose of "procedural fencing" or "to provide an arena for a race for res judicata";
> (4) whether the use of a declaratory action would increase the friction between our federal and state courts and improperly encroach on state jurisdiction; and
> (5) whether there is an alternative remedy that is better or more effective.

Bituminous Cas. Corp., 373 F.3d at 813.

Before addressing the *Bituminous* factors, the Court notes that Mr. Peters has questioned whether these factors apply outside the context in which that case arose – a declaratory judgment action brought by an insurer to determine coverage questions related to a lawsuit pending in state court. 373 F.3d at 812; Pl.'s Obj. 7-8. However, "[s]ince its inception, the Declaratory Judgment Act has been understood to confer on federal courts unique and substantial discretion in deciding whether to declare the rights of litigants." *Wilton v. Seven Falls Co.*, 515 U.S. 277, 286, 115 S. Ct. 2137, 132 L. Ed. 2d 214 (1995). "The statute's textual commitment to discretion, and the breadth of leeway we have always understood it to suggest, distinguish the declaratory judgment

context from other areas of the law in which concepts of discretion surface." *Id*. at 286-87. Accordingly, the Act always provides courts with discretion to decline to enter a declaratory judgment. *Id*. at 287. Also, courts have discretion not only to decline to issue a declaratory judgment at the end of litigation, but also to decline to assume jurisdiction at its outset. *Id*. at 288. Thus, the Court rejects Mr. Peters' suggestion that the Court does not have to consider the five factors enumerated in the *Bituminous* case. Accordingly, the Court considers the *Bituminous* factors.

Applying those factors leads to the conclusion that the Court should not decline jurisdiction. The resolution of the declaratory judgment count requires the Court to consider state law issues. Specifically, the California Litigation seeks declaratory relief regarding the ownership of the Debtor and HAS, breach of oral contract regarding ownership and split of the profit from the Debtor and HAS, breach of implied-in-fact contract regarding ownership and split of the profit from the Debtor and HAS, breach of implied covenant of good faith and fair dealing regarding the split of profit between the parties, imposition of a constructive trust with respect to the profits collected from the Debtor and HAS, conversion of the profit from the Debtor and HAS, accounting of income and profit from the Debtor and HAS, and breach of fiduciary duty with respect to the profits from the Debtor and HAS. Compl. Ex. A.

All ten allegations in the California Litigation depend on a determination of the ownership interest of Mr. Fernandez and Mr. Peters of the Debtor and HAS. The Estate Funds cannot be distributed until a determination of the interest of the parties in this case has been made. The resolution of the issues presented in the California Litigation is inextricably intertwined with the administration of the bankruptcy estate considering the Fernandez Proof of Claim; one cannot be resolved without the other. Allowance or disallowance of the Fernandez Proof of Claim and

resolution of the adversary proceeding are pertinent to the administration of the bankruptcy estate of the Debtor.

In reviewing the factors under *Bituminous*, the first two factors favor this Court deciding the ownership issues among the parties. As for the third factor, Mr. Peters asserts in his Complaint that he could not afford the cost of litigation in California and was forced to file this bankruptcy. Compl. ¶ 42. It would make sense for the parties to litigate all matters in this Court. Whether this Court resolves the issue of the ownership of the Debtor and HAS or the California court makes such determination, the impact of one judgment is the same regardless of where the matter is finally litigated. As to the fourth factor, there would be no friction between the federal and state court and, as stated previously, bankruptcy courts have for decades been deciding state law issues which impact the administration of the estate.

As for the final factor, Mr. Peters suggests that this Court stay the adversary proceeding while the parties litigate the California Litigation in California state court. But efficient administration of the Main Case would favor this Court determining the issues raised in the Complaint, and while there are state law issues in this case, that does not mean this Court cannot deal with those issues in an efficient manner. *Bituminous*, 373 F.3d at 816. Finally, the determination of ownership of the Debtor in this case directly impacts the relief requested in the second count, which is a determination of the amount and category of the proof of claim filed by Mr. Fernandez. Accordingly, no matter what approach the Court follows, the result is the same – there is no basis to decline to exercise jurisdiction here. Therefore, the Court has jurisdiction to determine the declaratory judgment relief requested and does not find any basis to decline to exercise that jurisdiction as a discretionary matter.

Finally, the Court rejects Mr. Fernandez' argument that Count One fails to state a claim because Bankruptcy Rule 7001(i) defines an "adversary proceeding" as "(i) a proceeding to obtain a declaratory judgment related to any proceeding described in (a)–(h)." Even assuming that he is correct in his contention, nothing in Bankruptcy Rule 7001 defines whether a complaint has properly stated a claim for relief.

This Court has concluded that it has the jurisdiction under 28 U.S.C. § 2201 to issue declaratory judgments on matters that are within the jurisdictional requirements of 28 U.S.C. § 1334(b). And it has concluded that Count One satisfies those jurisdictional requirements. Since the Court has jurisdiction over Count One, any difficulty in fitting it within one of the categories in Bankruptcy Rule 7001 does not warrant dismissal. Nothing in Bankruptcy Rule 7001 precludes the Court from hearing a matter as an adversary proceeding simply because it is not listed in that rule. Further, applying Bankruptcy Rule 7001 to preclude the Court from hearing Count One even though it has jurisdiction would run afoul of Bankruptcy Rule 9030, which states that the Bankruptcy Rules neither create nor limit the Court's jurisdiction. To state it differently, given that the Court has jurisdiction over Count One, the Bankruptcy Rules have to permit it to be raised in some manner. Otherwise, the Bankruptcy Rules would act to limit this Court's jurisdiction in violation of Bankruptcy Rule 9030.

Finally, the Court denies Mr. Fernandez' request to stay this adversary proceeding pending the resolution of motions for relief from stay and abstention that he had filed in the Main Case. The Court denied those motions in an opinion that was issued on June 18, 2025. *See In re SCS Logistics, Inc.*, ___ B.R. ___, 2025 Bankr. LEXIS 1465 (Bankr. S.D. Ohio June 18, 2025). Accordingly, that request is denied as moot.

IV. Conclusion

For the foregoing reasons, the Court finds that it has jurisdiction over all counts of the Complaint. It further rejects Mr. Fernandez' argument that the Court should decline to issue a declaratory judgment as a discretionary matter. And it finds that the Complaint states valid claims for relief. Accordingly, the Motion is DENIED. The alternative request to stay this Adversary Proceeding is DENIED as moot. The Court will set a pretrial conference to determine the schedule for further proceedings in this adversary by separate notice.

IT IS SO ORDERED.

Copies to:

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Matthew Zofchak, counsel for Defendant
David Beck, counsel for Plaintiff