UNITED STATES COURT OF APPEALS, FIFTH CIRCUIT

James A. Latham v. Wells Fargo Bank, N.A.

James A. Latham v. Wells Fargo Bank, N.A., 896 F.2d 979 (5th Cir. 1990) · No. No. 89-4432 · Decided March 23, 1990

SUMMARY

This case addresses the res judicata effect of a bankruptcy proceeding on a sole shareholder's personal lender liability claims. The Fifth Circuit held that while the shareholder's derivative claims were barred because his corporations' claims were settled in bankruptcy, his personal claims as a co-borrower and guarantor were not precluded. The court reasoned that privity did not apply because the bankruptcy court lacked jurisdiction over the shareholder's non-core state law contract claims and Bank Tying Act claims, and his personal interests as co-borrower/guarantor were never placed before the bankruptcy court. The decision distinguishes between claims for personal injury (e.g., loss of personal collateral, business reputation, distress) and derivative shareholder claims, with the latter being barred.

CASE DETAILS

COURT	United States Court of Appeals, Fifth Circuit
WRITING FOR THE COURT	Patrick E. Higginbotham; Jerry E. Smith; John M. Duhe
JURISDICTION	Federal
DECIDED	March 23, 1990
DOCKET	No. 89-4432
DISPOSITION	affirmed in part, reversed and remanded in part
PROCEDURAL POSTURE	Appeal from summary judgment entered in favor of defendants on res judicata grounds.
STANDARD OF REVIEW	De novo review of summary judgment
PRECEDENTIAL VALUE	Published
PARTIES	James A. Latham v. Wells Fargo Bank, N.A. and First Security Bank of Utah, N.A.

TOPICS

res judicata · civil procedure · summary judgment · appellate procedure · bankruptcy

PRACTICE AREAS

Bankruptcy Civil Procedure Lender Liability

QUESTIONS PRESENTED

1. Whether Latham's personal claims as a co-borrower and guarantor were barred by res judicata from the bankruptcy proceedings of his corporations.
2. Whether the bankruptcy court could have entertained Latham's personal claims given its limited jurisdiction over non-core proceedings.

HOLDINGS

1. Latham's personal claims are not barred because they were not presented to the bankruptcy court and could not have been adjudicated as core proceedings. The bankruptcy court's limited jurisdiction prevented it from entertaining these state law claims.
2. Latham's derivative claims as a shareholder for injuries to the corporations were barred because the corporations' claims were settled in bankruptcy.

KEY QUOTATIONS

> *"For a prior judgment to bar an action on the basis of res judicata, the parties must be identical in both suits, the prior judgment must have been rendered by a court of competent jurisdiction, there must have been a final judgment on the merits and the same cause of action must be involved in both cases."*

> *"In sum, the holding in Southmark does not apply here. Latham's personal claims are not barred, and we must reverse the order dismissing them and remand this case to the district court to allow them to proceed."*

> *"We emphasize that Latham's personal interests for these purposes cannot extend beyond the value of the collateral he personally owned, the injury to his business reputation, and his resulting personal distress."*

FACTUAL BACKGROUND

James Latham was the sole shareholder of Latham Resources Corporation (LRC) and controlled subsidiaries including Latham Exploration Company (LEXCO). He and his corporations borrowed money from Wells Fargo and First Security Bank, secured by personal and corporate assets. After a downturn in the petroleum industry, LEXCO filed for Chapter 11 bankruptcy, and LRC later filed for Chapter 7 bankruptcy. The bankruptcy proceedings resulted in settlements of the corporations' claims against the banks. Latham then filed a personal lawsuit against the banks for lender liability, which the district court dismissed on res judicata grounds.

PROCEDURAL HISTORY

Latham appealed the district court's grant of summary judgment to the banks, which held that his claims were barred by res judicata due to prior bankruptcy proceedings involving his corporations.

DISPOSITION

affirmed in part, reversed and remanded in part

REMAND INSTRUCTIONS

The district court is to allow Latham's personal claims to proceed and to distinguish between his personal claims and shareholder claims in pretrial proceedings.

CASES CITED

- Nilsen v. City of Moss Point, Miss., 701 F.2d 556 (5th Cir. 1983) (en banc)
- Kemp v. Birmingham News Co., 608 F.2d 1049 (5th Cir. 1979)
- Southmark Properties v. Charles House Corporation, 742 F.2d 862 (5th Cir. 1984)
- Benson & Ford, Inc. v. Wanda Petroleum, 833 F.2d 1172 (5th Cir. 1987)
- Southwest Airlines Co. v. Texas International Airlines, 546 F.2d 84 (5th Cir.), cert. denied, 434 U.S. 832, 98 S.Ct. 117, 54 L.Ed.2d 93 (1977)
- Northern Pipeline Construction Co. v. Marathon Pipeline Co., 458 U.S. 50, 102 S.Ct. 2858, 73 L.Ed.2d 598 (1982)
- Matter of Wood, 825 F.2d 90 (5th Cir. 1987)
- Republic Supply Co. v. Shoaf, 815 F.2d 1046 (5th Cir. 1987)

CITED IN

- James A. Latham v. Wells Fargo Bank, N.A., Latham v. Wells Fargo Bank, N.A., 896 F.2d 979, 983 (5th Cir. 1990)
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INSTRUCTIONS FOR AN AI ASSISTANT