UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

NYLife Distributors, Inc. v. The Adherence Group, Inc.

NYLife · No. 94-5725 · Decided December 21, 1995

SUMMARY

The Third Circuit addresses whether the Brillhart discretionary standard or the Colorado River exceptional-circumstances test governs dismissal of a statutory interpleader action under 28 U.S.C. § 1335 in favor of parallel state proceedings. The court holds that the district court has discretion to determine whether the unresolved dispute over the interpleaded fund should proceed in federal or state court. It vacates the district court’s termination order and remands for that determination, explaining that the second stage of the interpleader action remained within the court’s original jurisdiction.

CASE DETAILS

COURT	United States Court of Appeals for the Third Circuit
WRITING FOR THE COURT	Mansmann, Circuit Judge; Scirica, Circuit Judge; Roth, Circuit Judge
JURISDICTION	Federal
DECIDED	December 21, 1995
DOCKET	94-5725
DISPOSITION	vacated
PROCEDURAL POSTURE	Appeal from the United States District Court for the District of New Jersey's order terminating a statutory interpleader action, dismissing state-law cross-claims under the supplemental-jurisdiction statute, retaining the interpleaded fund pending related state-court litigation, and administratively terminating the case.
STANDARD OF REVIEW	Plenary review of the district court's interpretation of 28 U.S.C. § 1335 and related jurisdictional statutes; any discretionary decision to defer to parallel state proceedings is committed initially to the district court.
PRECEDENTIAL VALUE	Unknown from the provided source; the repository header states 'Precedential or Non-Precedential' without resolving the designation.
PARTIES	Joseph Gerasolo, Elizabeth Gerasolo, Patrick Bleach v. NYLife Distributors, Inc.

TOPICS

interpleader civil procedure federalism appellate procedure statutory interpretation

PRACTICE AREAS

civil procedure appellate procedure federalism commercial litigation

QUESTIONS PRESENTED

1. Whether the district court erroneously concluded that the federal claims were eliminated after completing the first stage of the statutory interpleader proceeding.
2. Whether the district court improperly dismissed the claimants' cross-claims under 28 U.S.C. § 1367(c)(3) on the ground that no claims within its original jurisdiction remained.
3. Whether the Brillhart discretionary standard or the Colorado River exceptional-circumstances test governs a district court's decision to defer a statutory interpleader action under 28 U.S.C. § 1335 to parallel state-court proceedings.
4. What matters the district court must consider on remand in deciding whether to dismiss or stay the interpleader action in favor of the state proceeding.

HOLDINGS

1. A statutory interpleader action under 28 U.S.C. § 1335 ordinarily proceeds in two stages, and completion of the first stage—determining that the statutory requirements are met and discharging the stakeholder—does not eliminate the federal court's original jurisdiction over the second stage, which adjudicates the claimants' competing rights to the fund.
2. The district court erred in dismissing Gerasolo's and Bleach's cross-claims under § 1367(c)(3) because it mistakenly believed that all claims within its original jurisdiction had been dismissed; the unresolved second stage of the interpleader remained within original federal jurisdiction.
3. The Brillhart discretionary standard governs a district court's decision whether to dismiss a statutory interpleader action under 28 U.S.C. § 1335 in favor of parallel state-court proceedings; the Colorado River exceptional-circumstances test is not invariably applicable.
4. Before deciding whether to dismiss or stay the interpleader action, the district court must determine whether the state proceeding is truly parallel and should assess which forum can better protect the stakeholder and provide claimants with an efficient, convenient, and expeditious resolution, including whether procedural fencing, forum shopping, or gamesmanship is present.

KEY QUOTATIONS

> *"We hold that a motion to dismiss a federal statutory interpleader action during the pendency of a parallel state court proceeding is addressed to the sound discretion of the district court."* (at 3)

> *"We thus hold that the district court's conclusion that all federal claims had been dismissed by virtue of its May 19, 1994 order was in error, and that its October 26, 1994 decision to terminate the case in favor of TAG's pending state court action on this basis was as well erroneous."* (at 11-12)

> *“We thus hold that the discretionary standard enunciated in Brillhart governs a district court's decision to dismiss an action commenced under the interpleader statute during the pendency of parallel state court proceedings.”* (at 29)

FACTUAL BACKGROUND

NYLife, the alleged administrator of the Mainstay Mutual Fund, received conflicting demands concerning approximately $215,489.50 held in accounts associated with employees of The Adherence Group. NYLife deposited the funds into the federal court's registry and sought interpleader, asserting no interest in the money. After the district court discharged NYLife, The Adherence Group filed a related New Jersey state-court action alleging that former employees had misappropriated company assets, including the deposited funds. The district court terminated the federal case and retained the fund pending the state litigation without adjudicating the claimants' competing rights.

PROCEDURAL HISTORY

NYLife filed a statutory interpleader action under 28 U.S.C. § 1335 concerning competing claims to funds held in Mainstay Mutual Fund accounts. The district court entered judgment in interpleader, discharged NYLife, deposited and retained the fund, and later terminated the case after concluding that no federal claims remained and that the remaining cross-claims were subject only to supplemental jurisdiction. The Third Circuit held that the second stage of the interpleader proceeding—the adjudication of the claimants' competing rights to the fund—remained within the district court's original jurisdiction, vacated the termination order, and remanded for consideration of whether to defer to the parallel New Jersey action under the proper discretionary standard.

DISPOSITION

vacated

REMAND INSTRUCTIONS

Vacate the district court's October 26, 1994 order and remand for further proceedings on The Adherence Group's motion requesting deference to the New Jersey state-court proceeding and dismissal of Gerasolo's and Bleach's cross-claims. The district court must first determine whether the state proceeding is parallel, then exercise its sound discretion under Brillhart, considering where the competing claims can better be settled, the protection of the stakeholder and claimants, efficiency, convenience, expeditiousness, litigation conduct, and whether a stay rather than dismissal is appropriate.

CASES CITED

- Brillhart v. Excess Ins. Co. of America, 316 U.S. 491 (1942)
- Colorado River Water Conservation Dist. v. United States, 424 U.S. 800 (1976)
- Wilton v. Seven Falls Co., 115 S. Ct. 2137 (1995)
- Moses H. Cone Memorial Hosp. v. Mercury Constr. Corp., 460 U.S. 1 (1983)
- New York Ins. Co. v. Connecticut Dev. Auth., 700 F.2d 91, 95 (2d Cir. 1983)

- Diamond Shamrock Oil & Gas Corp. v. Commissioner of Revenues, 422 F.2d 532, 534 (8th Cir. 1970)
- B. J. Van Ingen & Co. v. Connolly, 225 F.2d 740 (3d Cir. 1955)
- State Farm Fire & Casualty Co. v. Tashire, 386 U.S. 523, 533 (1967)
- Sanders v. Armour Fertilizer Works, 292 U.S. 190, 199 (1934)
- Weinberger v. Romero-Barcelo, 456 U.S. 305, 313 (1982)
- McClellan v. Carland, 217 U.S. 268, 281-82 (1910)
- Air Courier Conference of Am./Int'l Comm. v. United States Postal Serv., 959 F.2d 1213, 1217 n.3 (3d Cir. 1992)
- American Airlines, Inc. v. Block, 905 F.2d 12, 14 (2d Cir. 1990)
- Koehring Co. v. Hyde Const. Co., 424 F.2d 1200, 1202 (7th Cir. 1970)
- Humble Oil & Refining Co. v. Copeland, 398 F.2d 364, 368 (4th Cir. 1968)
- Equitable Assurance Society v. Porter-Englehart, 867 F.2d 79, 83 (1st Cir. 1989)
- Hickok v. Gulf Oil Co., 265 F.2d 798 (6th Cir. 1959)