

UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

Sarnosky v. Chesapeake

No. 21-20323, 21-20456, United States Court of Appeals for the Fifth Circuit (June 8, 2023)

SUMMARY

The Fifth Circuit held that bankruptcy courts lack post-confirmation jurisdiction under 28 U.S.C. § 1334 to approve class action settlements that revive discharged prepetition claims and modify lease terms contrary to a confirmed Chapter 11 plan, where no proofs of claim were filed for class members. Applying the *\*Craig's Stores\** factors, the court found the settlements did not pertain to implementation or execution of the plan, as they contradicted the plan's discharge of unfiled claims and its preservation of lease terms. The decision vacates lower court approvals and remands with instructions to dismiss for lack of jurisdiction.

CASE DETAILS

|                       |                                                                                                                                                                                                                                                   |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| COURT                 | United States Court of Appeals for the Fifth Circuit                                                                                                                                                                                              |
| WRITING FOR THE COURT | Edith H. Jones; James C. Ho; Cory T. Wilson                                                                                                                                                                                                       |
| JURISDICTION          | Federal                                                                                                                                                                                                                                           |
| DECIDED               | June 8, 2023                                                                                                                                                                                                                                      |
| DOCKET                | 21-20323, 21-20456                                                                                                                                                                                                                                |
| DISPOSITION           | vacated                                                                                                                                                                                                                                           |
| PROCEDURAL POSTURE    | Appeal from the United States District Court for the Southern District of Texas, USDC No. 4:21-CV-1215 c/w 4:21-CV-1218, regarding preliminary and final approval of class action settlements in bankruptcy proceedings.                          |
| STANDARD OF REVIEW    | The lower courts' subject-matter jurisdiction is reviewed de novo.                                                                                                                                                                                |
| PRECEDENTIAL VALUE    | Published                                                                                                                                                                                                                                         |
| PARTIES               | Lillian Sarnosky, Charlene Walters, Pennsylvania Proof of Claim Lessors v. Chesapeake Energy Corporation, James L. Brown, Alice R. Brown, Suessenbach Family Limited Partnership, James S. Suessenbach, Gina M. Suessenbach, MEC Class Plaintiffs |

TOPICS

bankruptcy

chapter 11

subject matter jurisdiction

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## PRACTICE AREAS

Bankruptcy

Class Actions

Oil and Gas

## QUESTIONS PRESENTED

1. Whether the bankruptcy and district courts had subject-matter jurisdiction under 28 U.S.C. § 1334 to approve the post-confirmation class action settlements, specifically whether the settlements fell within core bankruptcy jurisdiction or related-to jurisdiction.

## HOLDINGS

1. The settlements are not within core bankruptcy jurisdiction because no class proof of claim was filed, and the Plan discharged the prepetition claims of non-filing class members.
2. The settlements do not fall within post-confirmation related-to jurisdiction because they do not pertain to the implementation or execution of the plan; they contradict the plan by paying discharged claims and modifying leases that the plan left intact.

## KEY QUOTATIONS

*“The lower courts were not empowered to revive never-filed, discharged claims as if they were engaged in a ‘core’ claims adjudication proceeding.” (at 15)*

*“It would make little sense to hold that post-confirmation bankruptcy jurisdiction extends to these agreements, given that they are voluntary arrangements paying off claims that were already discharged by the bankruptcy.” (at 20)*

*“This audacious attempt to bootstrap a few objectors’ preserved rights into a basis for a ‘fundamental reset’ between the debtor and nearly 23,000 other Pennsylvania lessors who did not preserve their rights will not fly.” (at 16)*

## FACTUAL BACKGROUND

Chesapeake Energy Corporation filed for Chapter 11 bankruptcy in June 2020. Prior to bankruptcy, two class actions (Demchak/MEC and Brown-Suessenbach/non-MEC) were pending in the Middle District of Pennsylvania, and the Pennsylvania Attorney General had sued in state court. The bankruptcy court set a claims bar date of October 30, 2020. No proofs of claim were filed by the class plaintiffs or the vast majority of class members; only 161 individual leaseholders and the PAAG filed timely claims. The Plan, confirmed in January 2021, discharged prepetition claims not timely filed and left the leases intact. Post-confirmation, Chesapeake entered into settlement agreements with the class plaintiffs that provided monetary payments and modified lease terms. The bankruptcy court preliminarily approved the settlements, and the district court granted final approval. Appellants objected, arguing lack of jurisdiction.

## PROCEDURAL HISTORY

Chesapeake Energy Corporation filed for Chapter 11 bankruptcy in the Southern District of Texas. The bankruptcy court confirmed a reorganization plan. Post-confirmation, Chesapeake reached settlement agreements with two putative classes of Pennsylvania oil and gas lessors (MEC and non-MEC classes). The bankruptcy court preliminarily approved the settlements, and the district court granted final approval. Appellants, including lessors who had filed proofs of claim and objecting class members, appealed.

#### DISPOSITION

vacated

#### REMAND INSTRUCTIONS

Remand with instructions to dismiss for lack of jurisdiction.

#### CASES CITED

- In re Galaz, 841 F.3d 316, 321 (5th Cir. 2016)
- In re Deepwater Horizon, 739 F.3d 790, 798 (5th Cir. 2014)
- In re U.S. Brass Corp., 301 F.3d 296, 303 (5th Cir. 2002)
- In re Craig's Stores of Texas, Inc., 266 F.3d 388, 390 (5th Cir. 2001)
- In re Wood, 825 F.2d 90, 92 (5th Cir. 1987)
- Pettibone Corp. v. Easley, 935 F.2d 120, 122 (7th Cir. 1991)
- In re GenOn Mid-Atl. Dev., L.L.C., 42 F.4th 523, 534 (5th Cir. 2022)
- In re Enron Corp. Sec., 535 F.3d 325, 335-36 (5th Cir. 2008)
- Matter of Edgeworth, 993 F.2d 51, 53 (5th Cir. 1993)
- Teta v. Chow, 712 F.3d 886, 892 (5th Cir. 2013)
- Reed v. General Motors Corp., 703 F.2d 170, 172 (5th Cir. 1983)