IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TENNESSEE
EASTERN DIVISION

AQUA DYNAMIC SYSTEMS, INC., a Delaware Corporation; and MAGNACHEM, INC., an Indiana corporation,	)	
Plaintiffs,	)	
VS.	)	No. 01-1040
MICHAEL WEDDLE and CAROLYN WEDDLE,	)	
Defendants.	)	

ORDER DENYING MOTION TO ENJOIN DEFENDANTS
FROM PURSUING OTHER LITIGATION

On January 8, 2001, plaintiffs Aqua Dynamic Systems, Inc. (ADSI) and MagnaChem, Inc., filed a declaratory judgment action in the Chancery Court of McNairy County, Tennessee. Defendants removed the action to this Court pursuant to 28 U.S.C. § 1441, on the basis of diversity of citizenship. 28 U.S.C. § 1332. Before the Court is ADSI's motion to enjoin the defendants from pursuing other litigation that is currently pending in Indiana, and that allegedly relates to the subject matter of this action. Defendants have responded to the motion.

In the action before this Court, ADSI and MagnaChem seek a declaratory judgment regarding the rights and obligations of the parties under three related agreements entered into

in connection with the sale of MagnaChem. These agreements are a stock purchase agreement, in which ADSI purchased all of MagnaChem's stock from the defendants, who were the sole stockholders; a growth compensation agreement, under which Michael Weddle contracted to act as general manager and president of MagnaChem for seven years; and a lease agreement under which Michael and Carolyn Weddle leased to MagnaChem the Indiana premises on which the company is located.

On April 26, 2001, the Weddles filed a complaint for ejectment against MagnaChem in Indiana state court, alleging that MagnaChem breached the lease agreement by failing to comply with all of the federal, state and municipal laws, regulations and orders that are applicable to the business and its premises.[1] Until the filing of the present motion on November 30, 2001, MagnaChem apparently participated actively in the Indiana action.[2]

In arguing that defendants should be enjoined from further pursuing the Indiana action, ADSI first contends that 28 U.S.C. § 1367 would allow this Court to assert supplemental jurisdiction over the claims asserted in Indiana. ADSI also contends that the Indiana claims should have been raised in this action as compulsory counterclaims under Fed. R. Civ. P. 13(a).

The rule on compulsory counterclaims allows the court in which a particular action

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[1] The exhibits in the record indicate that MagnaChem's business is the production and storage of industrial water treatment chemicals.

[2] Defendants have stated that MagnaChem agreed to a January 7, 2002, trial date in the Indiana action. As that date has now passed, with no notification from the parties that the action has been resolved, the Court assumes the trial was continued.

is filed to refuse to hear a claim on the grounds that it should have been asserted as a compulsory counterclaim in another pending or prior action. See Baker v. Gold Seal Liquors, Inc., 417 U.S. 467, 469 n.1 (1974) ("A counterclaim which is compulsory but is not brought is thereafter barred.") Nothing in Rule 13(a) allows a federal court to compel either a party or another court to dismiss claims currently pending in state court and reassert them as compulsory counterclaims in a federal action. The compulsory counterclaim argument, therefore, is one that should be raised in the Indiana action. As for § 1367, the Indiana claims have not been asserted in this Court, so the question of whether supplemental jurisdiction would be appropriate has no bearing on the issue of whether the prosecution of the Indiana action should be enjoined.[3]

The Anti-Injunction Act, 28 U.S.C. § 2283, limits the power of a federal court to enjoin state court proceedings.[4] The statute provides:

> A court of the United States may not grant an injunction to stay proceedings in a State court, except as expressly authorized by Act of Congress, or where necessary in aid of its jurisdiction, or to protect or effectuate its judgments.

The three exceptions are "narrow in their application and 'should not be enlarged by loose statutory construction.'" Hatcher v. Avis Rent-A-Car Sys., Inc., 152 F.3d 540, 542 (6th Cir.

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[3] ADSI also quotes from a decision holding that federal courts need not abstain from hearing a declaratory judgment action if "the federal suit is filed substantially prior to any state suits, significant proceedings have taken place in the federal suit, and the federal suit has neither the purpose nor the effect of overturning a previous state court ruling." Royal Ins. Co. of Am. v. Quinn-L Capital Corp., 3 F.3d 877, 886 (5th Cir. 1993). However, neither party has asked the Court to abstain from hearing this case.

[4] The Act does not permit a court to sidestep its terms by directing an injunction to the parties rather than to the state court. Thus, the fact that ADSI technically asks the Court to enjoin the defendants, and not the Indiana state court, is irrelevant. See Atlantic Coast Line R.R. v. Brotherhood of Locomotive Eng'rs, 398 U.S. 281, 287 (1970) (citing Oklahoma Packing Co. v. Oklahoma Gas & Elec. Co., 309 U.S. 4, 9 (1940)).

1998) (quoting Atlantic Coast Line R.R. v. Brotherhood of Locomotive Eng'rs, 398 U.S. 281, 287 (1970)).

In this case, there clearly is no statute authorizing an injunction, and this Court has issued no substantive orders or judgments, so the exception for protecting and effectuating the Court's judgments also does not apply. The second exception, authorizing a Court to issue an injunction "in aid of its jurisdiction" is the broadest of the three. Nevertheless, this exception still requires a determination that "injunctive relief may be necessary to prevent a state court from so interfering with a federal court's consideration or disposition of a case as to seriously impair the federal court's flexibility and authority to decide that case." Atlantic Coast Line R.R., 398 U.S. at 295.

ADSI argues that prosecution of the Indiana action will interfere with this Court's ability to determine the rights of the parties under the lease agreement if the Indiana court rules that MagnaChem should be ejected from the premises before this declaratory judgment action is resolved. However, it appears that the only issue raised in this Court that pertains to the lease agreement concerns the term of the lease and monthly rental amount. Specifically, ADSI asks the Court to declare that the lease is for a term of seven years, at a monthly rate of $4,500.00; defendants, however, dispute the monthly rental amount.[5] ADSI has failed to explain how the possibility that MagnaChem might be ejected from the premises

[5] Defendants apparently do not dispute that the lease term was for seven years. In paragraph 19(C) of the amended answer, defendants ask the Court to order plaintiffs to pay $5,500.00 "per month for the term of seven (7) years as set forth in the amended lease entered into by the parties."

for the entirely different reason of failure to comply with applicable laws, regulations, etc., would impair this Court's ability to determine the contractual lease term or the monthly rental amount agreed upon by the parties.

As ADSI has not established that the requested injunction is permissible under the Anti-Injunction Act, the motion to enjoin the defendants from pursuing the Indiana litigation is DENIED.

IT IS SO ORDERED.

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JAMES D. TODD
UNITED STATES DISTRICT JUDGE

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DATE