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Claims Chat

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Avoidance Claims Buyers, Beware The Limits on Where and for Whose Benefit Avoidance Claims Purchased from a Bankruptcy Estate May Be Pursued



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You do not take a spoon to sword fight, and as the appellants in *RBT Strategies* found out, you do not take bankruptcy claims to state court. *RBT Strategies LLC v. Huntington Bancshares Inc.*,¹ sheds light on important matters of bankruptcy law, primarily jurisdictional issues regarding where state law and bankruptcy avoidance claims purchased from a trustee might be litigated and for whose benefit.

RBT Strategies is a winding tale that began in prior bankruptcy proceedings. It ended, strangely enough, in an Ohio state appellate court after certain parties to the original bankruptcy proceedings filed claims in an Ohio trial court. Those parties lost on a motion to dismiss, appealed, and the ruling granting the motion to dismiss was affirmed by Ohio's Eleventh District Court of Appeals. Before understanding *RBT Strategies*, one must first understand the bankruptcy proceedings.

The Bankruptcy Proceedings

In August 2019, Prestige Worldwide Furniture LLC (PWF) filed for chapter 11.² PWF's sole owner, operator and member was Thomas Muniak, who was also the sole owner, operator and member of two other entities: (1) RBT Strategies LLC and (2) Equitable Strategies LLC.

During the bankruptcy case, one of PWF's creditors, Northwest Bank, filed a motion to appoint a chapter 11 trustee.³ In its motion, Northwest Bank alleged that Muniak, on PWF's behalf, fraudulently obtained, then used, funds from Northwest Bank, without disclosing these payments on PWF's

original chapter 11 filings.⁴ On Dec. 5, 2019, PWF entered into an agreed order with Northwest Bank to allow the U.S. Trustee's office to appoint a chapter 11 trustee.⁵ Subsequently, the chapter 11 trustee filed a motion to convert the case from chapter 11 to a chapter 7, to which PWF (among others) agreed. The court entered an agreed order consistent with this on Dec. 18, 2019, thereby making the chapter 11 trustee a chapter 7 trustee.⁶

In August 2021, the trustee filed an adversary complaint against Muniak, Equitable Strategies, RBT Strategies, Huntington National Bank and several other parties bringing the following claims: (1) avoidance of alleged fraudulent transfers; (2) avoidance of preferential transfers; and (3) breach of fiduciary duty against Muniak. The trustee alleged that in April 2019 (shortly before PWF's August 2019 bankruptcy filing), Muniak, on PWF's behalf, obtained a \$900,000 loan from Northwest Bank.⁷ The trustee also alleged that PWF, Muniak, RBT Strategies and Equitable Strategies also each maintained a deposit account at Northwest Bank at this time, and that Muniak was the sole person with check-signing authority on PWF, RBT Strategies and Equitable Strategies' accounts there.⁸ The trustee further alleged that Muniak then authorized and directed how PWF, RBT Strategies and Equitable Strategies utilized the \$900,000.⁹

The trustee alleged that this included the following: (1) on April 1, 2019, at least a \$890,814.94 transfer by Muniak from PWF to Equitable

⁴ *Id.*

⁵ *Id.* at Doc. 148.

⁶ *Id.* at Doc. 155.

⁷ Robert D. Barr, *Trustee in Bankruptcy v. Equitable Strategies LLC, et al.*, Case No. 21-01045-aih (Bankr. N.D. Ohio 2021).

⁸ *RBT Strategies*, 261 N.E.3d 581 at ¶ 12.

⁹ *Id.* at ¶ 13.

¹ *RBT Strategies LLC v. Huntington Bancshares Inc.*, 2025-Ohio-145, 261 N.E.3d 581, 583.

² *In re Prestige Worldwide Furniture LLC*, No. 19-15022-aih (Bankr. N.D. Ohio 2019).

³ *Id.* at Doc. 35.

Strategies, which resulted in \$506,650.77 not being utilized for the benefit of PWF; (2) on April 2, 2019, at least a \$10,000 transfer by Muniak from PWF to RBT Strategies, all of which was not used for the benefit of PWF; (3) on April 15, 2019, at least a \$60,000 transfer by Muniak from either PWF or using Equitable Strategies as a pass-through account to National Strategic Corp. LLC (all of which was not used for the PWF's benefit); and (4) on April 2, 5 and 18, 2019, at least a \$436,650.77 transfer by Muniak from PWF or Equitable Strategies as a pass-through account to Huntington National Bank, all of which was not utilized for PWF's benefit.¹⁰

The trustee alleged that these transfers were made for the benefit of Equitable Strategies, Muniak and RBT Strategies (the "RBT parties") for debts they owed to various creditors that were not creditors of PWF.¹¹ Thus, the trustee alleged that Muniak violated his fiduciary duty to PWF.¹²

During the course of the adversary case, the trustee and certain parties, including the RBT parties, engaged in settlement discussions.¹³ In September 2022, the adversary case was settled between the trustee and the RBT parties, with the RBT parties paying \$150,000 to the trustee for the benefit of the PWF bankruptcy estate. In return, the RBT parties received "[a]ll of the Trustee's rights, interest claims, etc., against the Other Defendants under 11 U.S.C. §§ 544, 548, 550, and 551, and other applicable bankruptcy law and state law (*i.e.*, R.C. 1313.56 and 1336.01, *et seq.*)" (the "assigned claims").¹⁴ The RBT parties paid the settlement amount on Dec. 2, 2022, and the adversary case was closed on Dec. 13, 2022.¹⁵ While the RBT parties' motivation for settlement is unknown, it appears evident from their later actions that the RBT parties desired to prosecute these claims for their own benefit.

The State Court Case

In December 2023, the RBT parties filed a complaint in an Ohio trial court — the Lake County Court of Common Pleas — which was almost identical to the trustee's complaint in the adversary case, with various filings from the bankruptcy and adversary cases attached. In the state court action, the RBT parties asserted both the assigned claims from the trustee as assignees of the trustee and state law fraudulent-conveyance claims in their individual capacities (the "individual state law claims"). These claims differed from the assigned claims because they were brought by the RBT parties in their individual capacities and arose solely under Ohio law,¹⁶ as opposed to the assigned claims, which derived from the settlement agreement in the adversary case.

Huntington National Bank filed a motion to dismiss under Ohio Rule of Civil Procedure 12(B)(1) and (6) for lack of subject-matter jurisdiction and failure to state a claim upon which relief can be granted. Huntington National Bank

argued that the assigned claims should have been dismissed for lack of subject-matter jurisdiction because the assigned claims may only be brought in the exclusive jurisdiction of federal bankruptcy courts, because those claims arose in "cases" under the Bankruptcy Code, and because the claims remain property of the estate under 11 U.S.C. § 541. Huntington National Bank also argued that the individual state law claims were barred by the applicable statutes of limitations and were insufficiently pled. The trial court granted Huntington National Bank's motion to dismiss in full, and the RBT parties appealed.

The Eleventh District Court of Appeals affirmed the trial court's dismissal of the individual state law claims. In Ohio, the statute of limitations for the fraudulent-transfer statute is four years.¹⁷ The court held that because the RBT parties were aware of the allegedly fraudulent transfers that the RBT parties made in April 2019, the statute of limitations began to run in April 2019.¹⁸ So, to the extent that the RBT parties brought the individual state law claims in their individual capacities, they had until April 2023 to file a complaint in state court.¹⁹ Because this period passed when they brought their complaint in December 2023, their individual state law claims were barred.

The RBT parties also argued that the trustee's rights from the adversary case transferred to them in their individual capacities and were saved by Ohio's savings statute.²⁰ However, this argument was also unavailing because Ohio's savings statute only applies to a plaintiff from the original action — not an assignee in whatever capacity they claim to bring the claims.²¹ The RBT parties, in their individual capacities, were not the plaintiff in the adversary case; the trustee was. Accordingly, in their individual capacities, the RBT parties only possessed whatever rights they had when they filed the complaint in December 2023.

The appellate court then discussed the crux of the appeal and its importance outside of this particular dispute. It noted that the assigned claims sought relief under both federal bankruptcy law and under Ohio law, and further discussed that these claims all arose from the adversary case, which is a "case" under the Code.²² The court identified that a "bankruptcy case" commences by the debtor's petition and that adversary proceedings in a bankruptcy proceeding are not separate — rather, they are part of the "case" for purposes of the Code (*i.e.*, not an independent action).²³ As the court found, this squarely placed the assigned claims within the province of the district courts and, specifically, the bankruptcy courts.²⁴

The court further held that the assigned claims, and the federal claims asserted, were not permitted to be brought in

¹⁰ *Id.* at ¶¶ 17, 20-21, 31, 35-37, 47, 51-53, 63-70.

¹¹ See generally, *id.*

¹² *Id.* at ¶¶ 101-10.

¹³ *In re Prestige Worldwide Furniture LLC*, No. 19-15022-aih (Bankr. N.D. Ohio 2019) (Doc. 257 at ¶ 6).

¹⁴ *Id.* at Doc. 257-1, pp. 1-2, 259.

¹⁵ *Id.* at Doc. 261; see also 12.13.2022 Text Order.

¹⁶ Ohio Rev. Code § 1313.56 and 1336.01, *et seq.*

¹⁷ *RBT Strategies*, at pp. 8-9 (citing Ohio Rev. Code § 1336.09).

¹⁸ *RBT Strategies* at p. 9.

¹⁹ *Id.*

²⁰ Ohio Rev. Code § 2305.19.

²¹ *RBT Strategies* at 9.

²² *Id.* at p. 11. See also *In re Blevins Electric Inc.*, 185 B.R. 250, 253-54 (Bankr. E.D. Tenn. 1995); *In re Shearer*, 167 B.R. 153, 156 n.1 (Bankr. W.D. Mo. 1994); *Berge v. Sweet*, 37 B.R. 705, 706 (Bankr. W.D. Wis. 1983) ("A bankruptcy 'case' commences with the filing of a petition ... and may include a number of adversary proceedings ... and 'contested matters.'").

²³ *Id.*

²⁴ *Id.* at 12. See also 28 U.S.C. § 1334(a) (federal district courts "[h]ave original and exclusive jurisdiction of all cases under title 11") (emphasis added).

a state court action in this manner by the RBT parties.²⁵ The court focused on §§ 544, 548, 550 and 551 of the Bankruptcy Code, which allow trustees to take actions for the benefit of a particular bankruptcy estate (*i.e.*, the bankruptcy estate of PWF).²⁶ What the court found particularly odd about this was the relief the RBT parties sought, specifically that the RBT parties brought this action for their own benefit — not that of the PWF bankruptcy estate. To do so, the RBT parties asserted the federal claims²⁷ to avoid alleged fraudulent transfers and sought a monetary judgment against Huntington National Bank for no less than \$436,650.77.²⁸ The Eleventh District Court of Appeals correctly discerned the disingenuous nature of the appellants' claims and denied them the ability to bring these federal claims in a state court action because they asserted these claims for their own benefit, not that of the PWF bankruptcy estate.²⁹

In addition, while the RBT parties *may have* been able to bring the state law causes of action for fraudulent conveyance in their individual capacities if timely brought, their assertion of those state claims rendered them invalid. The Eleventh District Court of Appeals held that simply because these state law claims for fraudulent conveyance might be brought by a trustee in an adversary proceeding does not then give an assignee of those claims the power to do so in a state court after the fact.³⁰ The appellate court utilized the analysis of other courts that have reviewed similar cases and held that state courts may only hear state law fraudulent-conveyance claims when the bankruptcy court has declined to exercise jurisdiction.³¹

In other words, if a bankruptcy court exercises its jurisdiction pursuant to 28 U.S.C. § 1334(a), including for any state law claims that may apply, a state court would be unable to supplant that bankruptcy court's jurisdiction if a party filed a parallel action in state court. Ultimately, the Eleventh District Court of Appeals held that all of the appellants' assigned claims needed to be brought, if at all, for the benefit of the PWF bankruptcy estate in bankruptcy court.³²

Conclusion

The Eleventh District Court of Appeals' decision is impactful, and not just in this case. It is uncommon for litigants to pursue claims that appear aimed at profiting from their own alleged fraudulent conduct, as the RBT parties did. However, moving forward, *RBT Strategies* should be considered by, among others, § 548 claims-traders.

While the idea of purchasing § 548 avoidance claims from a trustee in an adversary proceeding is not novel and

has become more common practice since recent decisions in the Eighth Circuit Court of Appeals,³³ there are several legal and strategic considerations that a party acquiring such claims must evaluate.

At the outset, the purchaser must consider the proper jurisdiction and potential outcomes if they pursue the claims. As to the former, the avoidance claims purchased must be brought in the bankruptcy "case." Further, those claims must be brought for the benefit of the underlying bankruptcy estate, not their own personal benefit.

If a claims-purchaser is not a creditor in a bankruptcy case, that purchaser might want to review their decision to purchase the claims in the first place. Because a prospective purchaser's ability to pursue avoidance claims might be limited beyond the scope of the underlying bankruptcy action, and it does not seem that they may be able to pursue them for personal benefit, the decision to purchase claims becomes murkier. **abi**

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²⁵ *Id.* at 12.

²⁶ *Id.* (citing *In re Maxus Energy Corp.*, 597 B.R. 235,247 (Bankr. D. Del. 2019) (noting that Bankruptcy Code is used to preserve rights of all parties, allowing trustee to proceed for betterment of whole)). See also *In re Simply Essentials LLC*, 78 F.4th 1006, 1008 (8th Cir. 2023) (remarking that causes of action that belong to former bankruptcy estate were, and remain, property of that estate because they were brought for benefit of that estate).

²⁷ 11 U.S.C. §§ 544, 548, 550, 551.

²⁸ *RBT Strategies* at p. 12.

²⁹ *Id.* at 12-13.

³⁰ *Id.* at 12.

³¹ *Id.* at 13 (discussing *Woodridge Hills Ass'n v. Williams*, 2011 WL 6378813, at *4 (Mich. App. Dec. 20, 2011). *Woodridge* is readily distinguished from *RBT Strategies* because in *Woodridge*, only state law claims were brought in state court; no federal claims were ever commenced in bankruptcy "case" under the Bankruptcy Code; and accordingly, the state court concluded that it could exercise its general jurisdiction because it had not been preempted.

³² *Id.* at p. 13.

³³ *Simply Essentials*, 78 F.4th at 1006.