Recent Sixth Circuit Decision Clarifies Appealability of Bankruptcy Court Orders

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The United States Court of Appeals for the Sixth Circuit recently examined and then clarified and set forth the test for evaluating the appealability of bankruptcy orders in an opinion released in the case *Ritzen Group v. Jackson Masonry*. In doing so, the appellate court reaffirmed the "longstanding and textually-compelled rule of [a] looser finality"[1] standard in bankruptcy as compared to general civil litigation, and concluded that a denial of a motion to lift stay was a final appealable order subject to the fourteen-day appeals period established in Bankruptcy Rule 8002(a).[2]

Background

Prior to bankruptcy, Ritzen Group ("Ritzen") contracted to purchase a piece of property from Jackson Masonry ("Jackson").[3] The sale, however, never closed and both parties claimed the other was in breach.[4] Ritzen subsequently sued Jackson for breach of contract in Tennessee state court.[5] Nearly a year-and-a-half later, on the eve of trial, Jackson filed for bankruptcy.[6] Its bankruptcy filing triggered the automatic stay, which, under section 362 of the Bankruptcy Code, immediately stayed the Ritzen case. Ritzen then filed a motion to lift the stay, which the bankruptcy court denied.[7]

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[1] *Ritzen Group v. Jackson Masonry*, 906 F.3d 494, 502 (6th Cir. 2018).

[2] The Sixth Circuit joins the Second, Third, Fourth, Seventh, and Tenth Circuits that have similarly concluded that particular orders refusing to lift the stay are final orders. *Sonnax Indus., Inc. v. Tri Component Prods. Corp.*, 907 F.2d 1280, 1283–85 (2d Cir. 1990) ("the denial of the motion to lift the stay was a final appealable order under 28 U.S.C. Section 1291" [where reference withdrawn to district court under § 157]); *Pegasus Agency, Inc., v. Grammatikakis*, 101 F.3d 882, 885 (2d Cir. 1996) ("We have also found finality in the denial of relief from an automatic stay because it is 'is the functional equivalent of a permanent injunction'") (internal citations omitted); *In re W. Elecs., Inc.*, 852 F.2d 79, 82 (3d Cir. 1988) (finding that order denying stay relief was final but also suggesting that some orders denying relief from the stay might be interlocutory); *Grundy Nat'l Bank v. Tandem Mining Corp.*, 754 F.2d 1436, 1439 (4th Cir. 1985) ("we are in agreement with our sister circuits that an order denying relief from the automatic stay is a final appealable order"); *In re James Wilson Assocs.*, 965 F.2d 160, 166 (7th Cir. 1992) ("orders refusing to lift or modify the automatic stay are held to be final"); *Rajala v. Gardner*, 709 F.3d 1031, 1034, (10th Cir. 2013) ("The grant or denial of relief from an automatic stay is generally an appealable final order.").

[3] *Jackson Masonry*, 906 F.3d at 497.

[4] *Id*.

[5] *Id*.

[6] *Id*.

[7] *Id*.

Importantly, Ritzen did not immediately appeal the bankruptcy court's decision, rather it filed and pursued a proof of claim in Jackson's bankruptcy case.[8] The bankruptcy court, however, ultimately denied Ritzen's claim after finding that Ritzen (and not Jackson) had breached the underlying contract.[9]

Ritzen subsequently filed two appeals to the district court: one challenging the bankruptcy court's denial of its motion to lift stay, and the second challenging the bankruptcy court's decision on the merits of its contract claim.[10] The district court rejected both appeals. It found that the appeal of the lift stay denial was untimely and affirmed the bankruptcy court's determination on the merits of the contract claim.[11] Ritzen then appealed both decisions to the Sixth Circuit.

The Sixth Circuit's Decision

The Sixth Circuit affirmed both decisions. Addressing first the appeal of the lift stay order, it held that an order denying stay relief is a final order that must be appealed within fourteen days pursuant to Bankruptcy Rule 8002(a).[12] The Court then proceeded to unpack the concept of a "final order" in the context of bankruptcy. It noted that many courts had taken the "loose finality in bankruptcy as a license for judicial invention" leading to a series of vague and impossible to apply tests.[13] Seeking to clarify the appropriate test, the Court first turned to the text of the bankruptcy appeals statute, 28 U.S.C. § 158(a), which provides: "The district courts of the United States shall have jurisdiction to hear appeals from final judgments, orders, and decrees [and certain interlocutory orders] of bankruptcy judges entered in cases and proceedings . . . ." The Court explained that "Congress specifically extended the scope of appellate jurisdiction in bankruptcy" by including "orders and decrees" as well as "cases and proceedings" in the statutory text.[14] While in ordinary litigation, parties can only appeal final decisions where a court has disposed of every claim for relief in the case, the bankruptcy appeals statute embodies a different standard whereby a party may seek appellate review at the conclusion of a "proceeding" which is a "discrete dispute" within the overall bankruptcy case.[15] As the Court explained, "[a] bankruptcy case is an aggregation of individual disputes, many of which could be entire cases on their own."[16] Resolving discrete disputes prior to the conclusion of the overall

[8] *Jackson Masonry*, 906 F.3d at 497.

[9] *Id*.

[10] *Id*.

[11] *Id*.

[12] *Jackson Masonry*, 906 F.3d at 498 (citing Fed. R. Bankr. P. 8002(a)).

[13] *Id*.

[14] *Id*. at 499.

[15] *Id*.

[16] *Id*. at 498.

bankruptcy case, according to the Court, allows the pieces of the bankruptcy "puzzle" to be put together over time.[17]

The Court then articulated a two-step inquiry for analyzing whether a bankruptcy court's order may be immediately appealed:

- First, identify the appropriate "judicial unit" for analysis—in other words, establish what is the relevant "proceeding" or "discrete dispute;"[18] and

- Second, determine whether the order is "final," which depends both on the consequences of the order and whether it "alters the status quo and fixes the rights and obligations of the parties" as well as its procedural completeness and whether it "completely resolves all substantive litigation within the proceeding."[19]

Applying this framework, the Sixth Circuit affirmed the district court's decision that the appeal of the denial of stay relief was untimely. The Sixth Circuit first found that a motion for stay relief and its determination was a distinct "proceeding" within the larger bankruptcy case—thus, "akin to a case within a case."[20] In Ritzen's case, that proceeding began with Ritzen's motion to lift the stay, proceeded through notice and a hearing, and concluded with the bankruptcy court's determination of whether the legal standard for relief from the automatic stay was satisfied, which, in Ritzen's case resulted in a denial.[21]

The Court then determined that the order denying stay relief was a final order because it was both "procedurally complete," meaning that once entered there were no more "rights and obligations" at issue in the proceeding, and determinative of substantive rights—after the denial, Ritzen was prohibited from pursuing its prepetition claim against Jackson outside of the bankruptcy case.[22] The "consequences" of the denial were thus "both significant and irreparable."[23] For these reasons, the Court concluded that the denial of stay relief was a final order, and that entry of that order triggered the fourteen-day appeal period, such that Ritzen's appeal was untimely.[24]

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[17] *Jackson Masonry*, 906 F.3d at 498.

[18] *Id*. at 500-501.

[19] *Id*. at 501 (citing *Bullard v. Blue Hills Bank*, 135 S. Ct. 1686, 1692 (2015)).

[20] *Id*. at 500.

[21] *Id*. at 500-501.

[22] *Jackson Masonry*, 906 F.3d at 501-02.

[23] *Id*. at 502.

[24] *Id*. at 498.

Notably, the Court rejected Ritzen's counterargument that the order was not final because it was not a ruling on the merits of the contract claim. It explained that while the stay relief order did not fix "*every* right and obligation of the parties," it did fix the rights and obligations at issue in the discrete stay-relief proceeding, namely the right to pursue the claim outside of bankruptcy, and therefore, it was a final order.[25] In summary, because "a stay-relief denial ends a proceeding, fixes the rights of the parties, and has significant consequences for them," it qualifies as a final order.[26]

Finally, the Court also affirmed the bankruptcy court's denial of Ritzen's breach of contract claim finding that the bankruptcy court's conclusion was not clearly erroneous. In summary, the Court stated: "Ritzen had its day in court and lost."[27]

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Although decided in the lift stay context, the reasoning and analysis in the Sixth Circuit's opinion provides bankruptcy litigants with a useful framework for analyzing issues of appealability and finality in bankruptcy cases, and specifically for determining what constitutes a "final order" that is immediately appealable under 28 U.S.C. § 158(a) and subject to the fourteen day deadline of Fed. R. Bankr. P. 8002(a).

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[25] *Id*. at 502 (emphasis in original).

[26] *Id*. at 503.

[27] *Jackson Masonry*, 906 F.3d at 506.