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# *Ritzen Group*: Is that your final answer?

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The U.S. Supreme Court in *Ritzen Group Inc. v. Jackson Masonry LLC*[1] considered whether bankruptcy court orders unreservedly denying relief from an automatic stay constitute final orders.

The nature of such an order — i.e., whether it is final or interlocutory — impacts both the right to appeal and the timing of an appeal.

The decision, written by Justice Ruth Bader Ginsburg and handed down Jan. 14 is crisp and definitive, with the court unanimously ruling that such an order is unequivocally final.

> The ordinary understanding of a "final decision" does not perfectly fit the bankruptcy paradigm.

While the *Ritzen Group* decision focused on the specific question presented, the rationale underlying it may provide helpful guidance in determining whether other bankruptcy court orders are final or interlocutory — which is often a difficult question to answer given the unique nature of bankruptcy proceedings.

This commentary discusses the decision and its rationale, and it provides key takeaways for practitioners.

## 'FINAL DECISIONS' AND THE BANKRUPTCY PROCESS

*Ritzen Group* begins with a helpful discussion of the unique structure of the bankruptcy regime in contrast to civil litigation.

In civil litigation, a party may appeal to a court of appeals as of right from "final decisions of the district courts," which are generally limited to orders that resolve the entire case.

Thus, all claims of error must be raised in a single appeal, precluding "piecemeal, prejudgment appeals" that would "undermine ... 'efficient judicial administration' and encroach ... upon the prerogatives of district court judges."[2]

A bankruptcy case, on the other hand, encompasses numerous controversies, "many of which would exist as stand-alone lawsuits but for the bankrupt status of the debtor."[3] Accordingly, the ordinary understanding of a "final decision" does not perfectly fit the bankruptcy paradigm.

As a result, bankruptcy courts commonly resolve discrete controversies definitively while the "umbrella bankruptcy case" remains pending.[4]

Congress recognized this distinction in the federal statutory provision dealing with appeals to U.S. district courts from decisions of bankruptcy courts, 28 U.S.C.A. § 158(a), which provides for an appeal as of right from "final judgments, orders, and decrees" entered by bankruptcy courts "in cases and proceedings."

This provision distinguishes "proceedings" from "cases," making "orders in bankruptcy cases ... immediately appeal[able] if they finally dispose of discrete disputes within the larger [bankruptcy] case."[5]

As Justice Ginsburg stated, "In short, the usual judicial unit for analyzing finality in ordinary civil litigation is the case, [but] in bankruptcy[,] it is [often] the proceeding."[6]

The correct delineation of the dimensions of a bankruptcy "proceeding" is thus paramount, and it is key to determining whether an order is final.

## BACKGROUND

*Ritzen Group* provided an opportunity for the Supreme Court to consider whether a motion for relief from an automatic stay in bankruptcy creates a discrete dispute potentially subject to a final order.

The case involved a creditor, Ritzen Group Inc., which had sued Jackson Masonry LLC in a Tennessee state court for breach of contract over a failed deal to purchase land. After over a year of litigation, and just days before trial, Jackson filed for bankruptcy in the U.S. Bankruptcy Court for the Middle District of Tennessee.

By operation of the Bankruptcy Code's automatic stay provision, 11 U.S.C.A. § 362(a), the state court litigation was halted.

Shortly after Jackson sought bankruptcy protection, Ritzen moved for relief from the automatic stay so the prepetition litigation could continue in state court. The Bankruptcy Court denied the requested relief with prejudice.

Notably, the Bankruptcy Code and Federal Rules of Bankruptcy Procedure require an appeal from a final order to be filed within

14 days of entry of the order being appealed,[7] and Ritzen did not appeal within the prescribed period.

Ritzen subsequently adjudicated its claim in the bankruptcy proceeding, and the claim was ultimately disallowed.

The Bankruptcy Court confirmed Jackson's plan of reorganization, which permanently enjoined all creditors from commencing or continuing any proceeding against the debtor on account of claims treated in the plan.

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Ritzen then filed two separate notices of appeal in the U.S. District Court for the Middle District of Tennessee. First, it challenged the Bankruptcy Court's order denying relief from the stay. Second, it challenged the court's resolution of its claim.

The District Court rejected the appeal of the order denying stay relief as untimely, holding that Ritzen had 14 days to appeal the final order under Section 158(c)(2) and Bankruptcy Rule 8002(a). The 6th U.S. Circuit Court of Appeals affirmed the District Court's decision.

The 6th Circuit held that adjudication of Ritzen's motion for relief from the automatic stay qualified as a discrete "proceeding" — it commenced with the filing of the motion, which was followed by procedural steps, and it culminated in a decision based upon the application of a legal standard.[8]

The Supreme Court granted certiorari to resolve the question of whether orders denying relief from an automatic stay are final.

## DECISION

The Supreme Court looked to its prior *Bullard* decision for guidance on the application of Section 158(a)'s finality requirement.[9]

*Bullard* dictates that a court first inquire "how to define the immediately appealable 'proceeding'" and then determine if the order conclusively resolves that proceeding.[10]

In this regard, Jackson argued that the adjudication of a motion for relief from a stay is a discrete "proceeding," while Ritzen argued that a motion for relief from a stay should be considered a first step, which merely decides the forum, in the larger process of adjudicating a claim.

The Supreme Court determined that "[a] bankruptcy court's order ruling on a stay-relief motion disposes of a procedural unit anterior to, and separate from, claim-resolution proceedings."[11]

The court reasoned that a stay-relief motion "initiates a discrete procedural sequence, including notice and a hearing," and that the ultimate decision is governed by a statutory standard — in this case "cause."[12]

On the other hand, the claims-adjudication process is typically governed by state substantive law.

Justice Ginsburg also noted that this analysis is consistent with statutory text. 28 U.S.C.A. § 157(b)(2) lists motions to modify an automatic stay and the process of allowance/disallowance of claims as separate "core proceedings." While not dispositive, it is a clue that Congress viewed these as distinct.

Justice Ginsburg's opinion went on to provide some further insight into factors that might impact a determination of "finality." The opinion noted that a "proceeding" should not include "disputes over minor details about how a bankruptcy case will unfold."[13]

In other words, if the resolution of a dispute could have "large practical consequences," it is more likely to be a separate "proceeding."

The decision also provides a framework for lower courts to consider the issue of finality.

In the context of stay relief, *Ritzen Group* notes that disposition of a stay-relief motion can allow a creditor to isolate its claim and pursue it outside of bankruptcy, affect the manner in which claims are adjudicated (for example, if a claim stays in bankruptcy it can be resolved through an estimation process) and "delay collection of a debt or cause collateral to decline in value."[14]

Finally, *Ritzen Group* considered whether the rule it proposed to adopt would encourage "piecemeal appeals and unduly disrupt the efficiency of the bankruptcy process."

Despite Ritzen's argument to the contrary, the Supreme Court determined that immediate appeal from orders denying stay relief would promote efficiency, rather than allow creditors a second bite at the apple at the end of a bankruptcy case (as Ritzen was seeking).

If Ritzen were allowed to pursue an appeal after a complete adjudication of its claims in the bankruptcy, and such an appeal were successful, it could unravel the result of the entire bankruptcy case.

## TAKEAWAYS

The *Ritzen Group* decision conclusively decided the discrete question before it, but it also provides a framework for lower courts to use when considering the issue of finality.

The appropriate question is whether an order conclusively resolves a discrete "proceeding." To answer this, a court must first define the applicable "proceeding."

The guidance provided by *Ritzen Group* suggests that courts will likely consider:

(1) whether resolution of the dispute at issue involves a discrete procedural sequence, such as a notice and a hearing,

(2) whether the ultimate resolution is governed by a statutory standard,

(3) any "congressional clues" in statutory text (such as those in Section 157(b)(2) described above),

(4) whether the adjudication of a dispute would have large practical consequences, and

(5) whether deeming an order to be a final order would result in piecemeal litigation disrupting a bankruptcy case.

These factors will not be dispositive, but their mention, and the court's reasoned analysis, provides practitioners with guidance as to the nature of bankruptcy orders.

### Notes

[1] *Ritzen Group Inc. v. Jackson Masonry LLC*, No. 18-938, 2020 WL 201023 (U.S. Jan. 14, 2020).

[2] *Bullard v. Blue Hills Bank*, 575 U.S. 496, 501 (2015).

[3] *Id*.

[4] *Ritzen Group*, 2020 WL 201023, at *2.

[5] *Bullard*, 575 U.S. at 501.

[6] *Ritzen Group*, 2020 WL 20123, at *3, citing Brief for the United States as Amicus Curiae 10.

[7] 28 U.S.C.A. § 158(c)(2); Fed. R. Bankr. P. 8002(a).

[8] *In re Jackson Masonry LLC*, 906 F.3d 494, 499-500 (6th Cir. 2018).

[9] In *Bullard*, the court held that a bankruptcy court order rejecting a proposed plan was not "final" under Section 158(a). The *Bullard* decision reasoned that rejection of a plan did not conclusively resolve the relevant "proceeding" because the plan confirmation process involves back and forth negotiations, and rejection can be followed by a new proposal. Thus, only approval of a plan ends the plan confirmation "proceeding."

[10] 575 U.S. at 502.

[11] *Ritzen Group*, 2020 WL 201023, at *5.

[12] *Id*.

[13] *Id*.

[14] *Id*.

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