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**UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF CALIFORNIA
OAKLAND DIVISION**

In re:

THE ROMAN CATHOLIC BISHOP OF
OAKLAND, a California corporation sole,

Debtor.

Case No. 23-40523 WJL

Chapter 11

**THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS'
PRELIMINARY OBJECTION TO THE
DEBTOR'S MOTION FOR ENTRY OF
AN ORDER AUTHORIZING (A) THE
RELEASE OF THE DEBTOR'S
INTERESTS IN CATHOLIC CHURCH
SUPPORT SERVICES, INC.
PURSUANT TO 11 U.S.C. §§ 105 AND
363, AND (B) APPROVING PLEDGE
AGREEMENTS**

Date: September 9, 2025

Time: 10:00 a.m. (Pacific Time)

Place: United States Bankruptcy Court
1300 Clay Street, Ctrm. 220
Oakland, CA 94612

Judge: Hon. William J. Lafferty

1 The Official Committee of Unsecured Creditors (the “**Committee**”) of The Roman
2 Catholic Bishop of Oakland (the “**Debtor**” or the “**Diocese**”) files this preliminary objection (this
3 “**Objection**”) to the Debtor’s motion [Doc. No. 2237] (the “**Motion**”) for entry of an order
4 (i) authorizing the release of the Debtor’s position and interest in Catholic Church Support
5 Services, Inc. (“**CCSS**”) in exchange for pledges of financial support by CCSS and Roman
6 Catholic Cemeteries of the Diocese of Oakland, Inc. (“**RCC**”) and (ii) approving the pledge
7 agreements the Debtor seeks to enter into with each of CCSS and RCC as consideration for the
8 Debtor’s divestment of its position and interest in CCSS (collectively, the “**CCSS Transaction**”).

9 For the reasons below, this Court should deny the Motion without the need for an
10 evidentiary hearing. If this Court does not deny the Motion on a summary basis, the Committee
11 requests that the Court schedule an evidentiary hearing and fix a discovery schedule to permit the
12 Committee to complete document discovery and depose the declarant in support of the Motion,
13 Attila Bardos (*see* Doc. No. 2238), and representatives of CCSS and CSS if necessary.

14 **I.**

15 **PRELIMINARY STATEMENT**

16 The proposed CCSS Transaction evidences much of what the Committee has argued before
17 this Court: the Bishop is the leader of a diocesan enterprise whose components are separated by
18 legal form, not substance. The Bishop controls plentiful resources from which to fund the
19 administrative expenses of this case and provide fair and equitable treatment of the claims of nearly
20 400 survivors of sexual abuse (“**Survivors**”) who were sexually abused as a result of the Debtor’s
21 negligence. But the Bishop has chosen to use this bankruptcy case to shield his assets from
22 Survivors rather than deploying those assets for the benefit of the bankruptcy estate and its
23 creditors.

24 For reasons not well explained, the Debtor seeks to release its control over CCSS for far
25 less consideration than it could direct CCSS to pay to it now and in the future. Through the CCSS
26 Transaction, the Debtor seeks to relinquish its complete dominion and control over CCSS in
27 consideration for a payment of \$5 million from CCSS plus a \$750,000 annual donation to the
28 Debtor from RCC for five years. While presented as a release of certain rights the Debtor holds

1 under the CCSS Articles of Incorporation and Bylaws, the transaction is, at bottom, a proposed
2 sale of the Debtor's ability to control CCSS and its assets.

3 While the Debtor argues that failing to grant the Motion will have meaningful
4 consequences on its ability to pay administrative expenses, it does not explain, let alone provide a
5 shred of evidence to support, why the Debtor cannot enforce its control over CCSS to compel
6 CCSS to transfer the funds it now holds to fund this bankruptcy case. If the Bishop requires a
7 contribution from CCSS to help fund this case, he need not give up control of CCSS to get it. He
8 merely can exercise that control to cause CCSS to pay the Debtor just as he has done in the past.
9 As set forth in detail below, the Debtor has authority to compel CCSS to pay dividends, make a
10 contribution to or donate to the Debtor, and he has exercised that authority to cause CCSS to pay
11 the Debtor approximately [REDACTED] (or an average of [REDACTED] a year) in the past 4.5 years.

12 But there is a more fundamental reason establishing why the Motion should be denied: a
13 governance right in a charitable or religious organization is not a transferable or saleable property
14 interest under California law. Governance rights are defined by an organization's bylaws and
15 articles of incorporation and are tied to its charitable mission and legal framework, rather than to
16 any proprietary interest. Governance rights are not treated as personal property that can be
17 alienated for private benefit, as doing so would conflict with the nonprofit and charitable purposes
18 of such organizations.

19 The Debtor is sure to castigate the Committee for this Objection, asserting that the
20 Committee is being overly litigious and trying to close the Church by withholding its consent to
21 the proposed funding. But, by doing so, the Debtor will create a strawman. The Committee is
22 fully supportive of the Debtor obtaining additional funding for this estate. What it does not support
23 is the way in which the Debtor seeks to do so; by creating restrictions on its ability to obtain the
24 funds out of whole cloth. By doing so, the Debtor is depriving its estate of the ability to direct
25 future dividends/contributions/ donations from CCSS to the Debtor, which the Debtor's own
26 documents establish has been a crucial funding source for the Debtor over the years.

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¹ CCSS operates under the trade name Catholic Management Services (“CMS”).

1 III.

2 ARGUMENT

3 The Motion can, and should, be denied for several reasons:

4 *First*, the Debtor need not alienate its control over CCSS to obtain funding from CCSS. It
5 merely needs to exercise that control, as it has done in the past to cause CCSS to make a distribution
6 to the Debtor.² The fact that the Debtor controls CCSS and has used CCSS as a funding source in
7 the past is beyond dispute. [REDACTED]

8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 Such requests are not just recent vintage. [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]

18 ² [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]
24 [REDACTED]
25 [REDACTED]
26 [REDACTED]
27 [REDACTED]
28 [REDACTED]

[illegible]

1 **Second**, the Debtor must overcome a gating issue: the legality of the CCSS Transaction,
2 because the Debtor is, in effect, selling its control over CCSS, which is not a property right that
3 may be alienated. Under Section 9320 of the California Corporations Code, unless otherwise
4 provided in the corporation’s articles or bylaws, no member of a nonprofit religious corporation
5 “may transfer for value a membership or any right arising therefrom.” The CCSS Bylaws do not
6 provide the Debtor with this authority. Further, although Section 4.1 of Article 4 of the Bylaws
7 states “[t]he Corporation shall have no members within the meaning of Section 5056 of the
8 California Nonprofit Corporation Law,” the authority provided to the Debtor via the Bylaws rests
9 within the “member” definition of Section 5056 of the California Corporations Code. According
10 to Section 5056(a), a member is “any person who, pursuant to a specific provision of a
11 corporation’s articles or bylaws, has the right to vote for the election of a director or directors or
12 on a disposition of all or substantially all of the assets of a corporation . . .” or “. . . has the right to
13 vote on changes to the articles or bylaws.” Article 10 of the Bylaws expressly grants the Debtor
14 and the Board, which the Debtor controls, the right to approve amendments and repeals of the
15 Bylaws and Articles of Incorporation, as well as a “sale or other disposition of all or substantially
16 all of the assets of [the] Corporation.” To that end, Section 9320 of the California Corporations
17 Code restricts the Debtor from transferring for value its membership in CCSS. This conclusion is
18 also well supported by case law. *See Samoan Congregational etc. Church In U.S. v. Samoan*
19 *Congregational etc. Church of Oceanside*, 66 Cal.App.3d 69 (1977) (rejecting the idea that
20 governance rights or control can be transferred by sale or by ecclesiastical decree, absent
21 compliance with the corporate documents and state law); *People ex rel. Groman v. Sinai Temple*,
22 20 Cal.App.3d 614 (1971) (reasoning that a member of a religious foundation had no property
23 rights in the organization, even though the member had significant influence over its management).

24 Even if the Debtor is not recognized as a member, its control over the Board creates a
25 fiduciary duty to which it must adhere. *See Turner v. Victoria*, 15 Cal.5th 99 (2023) (distinguishing
26 between the interests of nonprofit directors and for-profit shareholders, noting that nonprofit
27 directors do not have a financial or property interest in the corporation’s assets or governance
28

1 rights, as such role is fiduciary and not proprietary). Thus, by seeking to sell its right to control
2 CCSS, the Debtor risks violating its fiduciary duty since payment is not required for the
3 relinquishment of control, nor is it furthering the purpose of CCSS.

4 California courts have consistently applied the “neutral principles of law” approach to
5 resolve disputes involving nonprofit religious organizations. This approach focuses on the
6 organization’s governing documents, such as articles of incorporation and bylaws, and avoids
7 entanglement in religious doctrine. *See Korean United Presbyterian Church*, 230 Cal.App.3d 480
8 (1991) (emphasizing that governance rights are defined and limited by these documents and are
9 not personal property interests that can be alienated); *Berry v. Society of St. Pius X*, 69 Cal.App.4th
10 354 (1999) (highlighting that the bylaws and articles of a religious nonprofit corporation constitute
11 rules of law for its internal governance and are not subject to private ownership or transfer).
12 Accordingly, regardless of whether the Debtor is recognized as a member, its governance rights in
13 CCSS are not a property interest which can be sold for value or alienated for private benefit, as
14 this right is not granted in the CCSS governing documents. Thus, such sale not only conflicts with
15 the charitable purpose of CCSS; it violates California law.

16 **Third**, even if the Debtor could sell its right to control CCSS, without a market test to
17 evaluate the fairness of the proposed consideration, it is impossible to determine whether the
18 amounts being paid to the Debtor are reasonable. Without evidence of, inter alia, who negotiated
19 the CCSS Transaction, the arm’s-length nature of the negotiations and how the consideration was
20 calculated and agreed to, it impossible to determine whether the amount the Debtor is receiving in
21 consideration for relinquishing rights it has used in the past to direct over \$8 million in grants to
22 the Debtor is reasonable.¹¹

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1 Rather than setting forth any evidence to this end, the Debtor asserts—without
2 substantiation—that no third party would be interested in acquiring the Debtor’s rights. The
3 Debtor goes on to argue, again without any evidence, that “[t]he Pledge Agreements reflect the
4 value CCSS and RCC will achieve from the Debtor relinquishing its interests in CCSS and
5 allowing it to increase its independence, independence, and they provide ample monetary
6 consideration to the Debtor in exchange for giving up its position in CCSS.” Motion, 8;5–8. The
7 Debtor’s self-serving assertions are insufficient to justify bypassing a process designed to
8 maximize value for the estate.

9 **Fourth**, the Court should not apply the business judgment test in analyzing whether this
10 transaction should be approved because the proposed transaction is not an arm’s-length transaction
11 with an independent third party. The Debtor holds complete control over its counter-party, CCSS.

12 The transaction is, in substance, a transfer to an insider. Even if CCSS does not meet the
13 statutory definition of an “insider” under section 101(31) of the Bankruptcy Code, it is a non-
14 statutory insider because the Debtor maintains complete dominion and control over it. The Ninth
15 Circuit holds that a party qualifies as a non-statutory insider if two criteria are met: “(1) the
16 closeness of its relationship with the debtor is comparable to that of the enumerated insider
17 classifications in § 101(31), and (2) the relevant transaction is negotiated at less than arm’s length.”
18 *In re Village at Lakeridge, LLC*, 814 F.3d 993, 1001 (9th Cir. 2016).

19 Bankruptcy courts in California and across the country universally subject a sale to an
20 insider to heightened scrutiny. *See, e.g., In re Roussos*, 541 B.R. 721, 730 (Bankr. C.D. Cal. 2015)
21 (holding that although the Code does not forbid sales to insiders, such parties possess a “greater
22 opportunity” for inequitable conduct. Thus, any insider sale is “subject to ‘heightened scrutiny to
23 the fairness of the value provided by the sale and the good faith of the parties in executing the
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25 [REDACTED]
26 [REDACTED]
27 [REDACTED]
28 [REDACTED]

transaction.”) (citation omitted); *In re Imperial Pac. Int’l CNMI LLC*, 2024 U.S. Dist. LEXIS 194172 at *6 (D.N. Mar. Is.) (District Court for the District of Northern Mariana Islands (which sits in the 9th Circuit) concluded that “any sale involving an ‘insider’ is subject to heightened scrutiny.”); *In re Summit Global Logistics Inc.*, 2008 Bankr. LEXIS 896 (Bankr. D. N.J. March 26, 2008) (“The Debtors bear the burden of proving that they have satisfied the requirements of Section 363(f), the good faith finding under Section 363(m), and the heightened scrutiny required by non-bankruptcy law for insider transactions.”).

The *Roussos*’ court correctly recognized that a more rigorous review of insider transactions is warranted because insiders generally enjoy more opportunities for misconduct, and insider transactions typically lack the market exposure that confirms a fair price in arm’s-length dealings. The *Roussos*’ court also observed that a sale to an insider is “fundamentally different” from a sale to a disinterested third party, noting that “[i]nsiders do not have an incentive to aggressively market the assets to obtain the highest price. Their incentive is just the opposite—the less marketing, and the lower the price, the better.” *In re Roussos*, 541 B.R. at 730.

The *Roussos*’ court’s admonition is especially poignant here, where the parties to the CCSS Transaction did not have an incentive to aggressively negotiate the amounts being paid the Debtor. Their incentive was and is just the opposite—the less marketing, and the lower the price, the better. The lack of independence and the ongoing relationships between the parties raise serious concerns about the fairness and objectivity of the CCSS Transaction.

While the Debtor argues that its interest in and position with CCSS “has limited (if any) value to third-parties,” that “the Debtor has no contractual or other right to payment from CCSS at all,” and that “an auction process . . . is certain not to yield any bidders and is impractical in any case,” the Debtor erects strawmen while ignoring the real gauge of value here: the operations and assets of CCSS have significant value, and the Bishop controls CCSS. Those rights may not be bargained away without intense scrutiny when the Bishop sits on all sides of the transaction.

Fifth, the Debtor does not adequately explain why CCSS would cease making donations to the Debtor absent this transaction. The closest the Debtor gets to an explanation is through the

1 declaration of Attila Bardos, the Debtor's Chief Financial Officer, who declares that "CCSS and
2 RCC have stated that they would not otherwise pledge these funds to RCBO, but for RCBO's
3 agreement to release its position with CCSS." This is hearsay and is not admissible evidence. The
4 Committee and the Court are entitled to know who made these decisions for CCSS and to explore
5 the reasons and process by which those decisions were made.¹²

6 The Debtor also does not explain why CCSS cannot expand its operations absent the CCSS
7 Transaction. The power the Debtor exercises does nothing to prevent CCSS from either expanding
8 its activities or creating a related organization that does the expanded activities. The only benefit
9 to an increase of independence seems to be getting the assets out of the estate. The Debtor must
10 put forth evidence supporting its naked assertions. Otherwise, the Motion cannot and should not
11 be granted.

12 **WHEREAS**, for all these reasons, the Committee requests that the Court deny the Motion
13 and grant such other and further relief as the Court deems just and proper.

14 Dated: September 4, 2025

LOWENSTEIN SANDLER LLP
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By: /s/ Gabrielle L. Albert
Tobias S. Keller
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-and-

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12 ¹² Mr. Bardos does not indicate whether he serves on the Board of CCSS or is an officer of
28 CCSS.