UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC.	CV 20-613 DSF Order GRANTING Motion to Withdraw Reference
VERITY HEALTH SYSTEM OF CALIFORNIA, INC., et al., Plaintiffs, v. KALI P. CHAUDHURI, M.D., et al., Defendants.	

Defendant Strategic Global Management, Inc. (SGM) has moved to withdraw the reference of this adversarial action from the Bankruptcy Court. The Court deems this matter appropriate for decision without oral argument. See Fed. R. Civ. P. 78; Local Rule 7-15.

The adversarial action is brought by various debtors related to Verity Health System of California, Inc. (Verity) over fallout from the failed attempt to sell several hospitals to SGM. Verity brings breach of contract and fraud claims against SGM, several SGM-related entities, and an individual. While the relevant asset purchase agreement included an agreement to consent to the jurisdiction of the Bankruptcy Court, only SGM is a party to the agreement.

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Withdrawal of the reference from a bankruptcy court can be mandatory or permissive. The parties agree that this motion is based on permissive withdrawal. When considering permissive withdrawal, "a district court should consider the efficient use of judicial resources, delay and costs to the parties, uniformity of bankruptcy administration, the prevention of forum shopping, and other related factors." Sec. Farms v. Int'l Broth. of Teamsters, Chauffeurs, Warehousemen & Helpers, 124 F.3d 999, 1008 (9th Cir. 1997).

SGM's primary argument is that efficiency favors withdrawal because the adversarial action is non-core, or if core, involves so-called Stern claims that cannot be finally adjudicated by the Bankruptcy Court. SGM also argues that the proceeding involves a jury right where, by statute, the Bankruptcy Court cannot preside over the jury trial without the consent of all parties. See 28 U.S.C. § 157(e). Whether or not the claims could be characterized as "core," the Court agrees that the claims are Stern claims and that the non-SGM Defendants have not agreed to have such claims decided by, or the jury trial presided over by, the Bankruptcy Court.

As an Article I court, a bankruptcy court can only enter final judgment on a claim if the claim is based on "public rights." Stern v. Marshall, 564 U.S. 462, 485 (2011). In Stern, the Supreme Court made clear that "public rights" are only rights "integrally related to particular Federal Government action." Id. at 490-91. What an Article I court cannot exercise is "the most prototypical exercise of judicial power: the entry of a final, binding judgment *by a court* with broad substantive jurisdiction, on a common law cause of action, when the action neither derives from nor depends upon any agency regulatory regime." Id. at 494 (emphasis in original). Even fraudulent conveyance actions by a bankruptcy trustee against a non-creditor – much more linked to a bankruptcy court's core functions than this case and explicitly listed as a core proceeding in 28 U.S.C. § 157(b)(2) – cannot proceed to final judgment before a bankruptcy court. Id. at 492 (citing Granfinanciera, S.A. v. Nordberg, 492 U.S. 33 (1989)). And while Verity attempts to categorize the adversarial action as one to enforce the Bankruptcy Court's orders, it clearly is not. Verity has abandoned

its attempt to sell the relevant assets to SGM; this case is about recovering money damages, not enforcing prior Bankruptcy Court orders.

Even if the Bankruptcy Court cannot enter final judgment, this Court could allow pretrial matters to remain in the Bankruptcy Court with dispositive motions proceeding by report and recommendation and withdrawal only when the case is ready for trial. However, the Court sees no efficiencies in that approach. There appear to be significant legal questions going to the interpretation of the asset purchase agreement at the center of the case, and this Court will eventually have to rule on those de novo. Further, the adversarial action extensively overlaps with the bankruptcy appeals already before this Court. There is no reason to have similar, if not identical, issues proceeding both here and before the Bankruptcy Court.

The motion to withdraw the reference is GRANTED.

IT IS SO ORDERED.

Date: March 4, 2020

Dale S. Fischer
United States District Judge