*Galaz v. Galaz (In re Galaz*), 765 F3d 426 (5th Cir.2014)

Holdings: Article III adjudication is structural. Parties cannot waive the right to have an Article III court adjudicate.

Facts: Debtor, Lisa, was a co-owner with husband, Raul, of 50% Artists Rights Foundation, LLC (“ARF”). Julian Jackson (“Julian”) held the other 50% interest. Subsequently, Lisa and Raul divorce. Raul transfers his 25% interest in ARF to Lisa without voting rights. Raul transfers ARF’s rights to collect the royalties to a third party, “Segundo Suenos” without obtaining consent of Lisa or Julian.

Procedural History: Consequently, Lisa files bankruptcy and commences adversary against Raul and “Segundo Suenos”, under 11 USC 542, 544 and 548. Raul and Segundo Suenos sue Julian who counterclaims against them.

Bankruptcy court entered a judgment for Lisa for $250,000.00 in actual damages and $250,000.00 in exemplary damages.

The Bankruptcy Court also entered a judgment in favor of Julian for $500,000.00 actual and $500,000.00 in exemplary damages.

The District Court affirmed both the judgments.

Fifth Circuit: The Court agreed with the lower courts about the subject matter jurisdiction of Lisa’s case and judgment. However, the Fifth Circuit disagreed that Raul could consent to allow the Bankruptcy Court to adjudicate the case. The Court reasoned that Raul could not impliedly consent or expressly consent to cure the circumvention of the judicial framework.

The Tip: The Fifth Circuit found that the Bankruptcy Court should have proposed findings of fact and conclusions of law to the District Court. Then, the District Court should have considered the proposed findings of fact and conclusions of law, de novo. Remember the framework set out in *Executive Benefits and BP RE.*

The Fifth Circuit vacated Lisa’s judgment and remanded it to the District Court. The Court suggested that the District Court could send it back to Bankruptcy Court and recast the Judgment as Findings of Facts and Conclusions of Law.

The Fifth Circuit disagreed with the lower courts regarding Julian’s Judgment. The Court vacated the Judgment and instructed to dismiss all claims. The Court found that Julian’s claims were non-debtor claims against non-debtors and could not impact the debtor’s estate.