No. 12-431

In The
Supreme Court of the United States

SUNBEAM PRODUCTS, INC., doing business as JARDEN CONSUMER SOLUTIONS,

Petitioner,

v.

CHICAGO AMERICAN MANUFACTURING LLC,

Respondent.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Seventh Circuit

OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

11 U.S.C. § 365(g) provides, in relevant part, that "the rejection of an executory contract . . . of the debtor constitutes a breach of such contract." While rejection frees a bankruptcy estate from a future duty to perform a contract, it does not otherwise limit the non-breaching party's rights or property interests created by that contract. In light of this, did the United States Court of Appeals for the Seventh Circuit err in concluding that Respondent Chicago American Manufacturing LLC ("CAM") retained the rights it acquired under its pre-petition trademark license with the Debtor (the "License") and in rejecting the position that Section 365(g) both terminates a license and limits the licensee to a claim for damages?

LIST OF PARTIES AND RULE 29.6 STATEMENT

The caption contains the name of all of the parties.

Pursuant to Rule 29.6 of the Rules of this Court, Respondent CAM states that it has no parent company and that no publicly-held company owns more than 10% of its stock.

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INTRODUCTION

Petitioner Sunbeam Products, Inc., d/b/a Jarden Consumer Solutions ("Jarden") seeks a writ of *certiorari* to review the determination of the Court of Appeals for the Seventh Circuit that a trademark licensee continues to have the right to use the trademark, subject to the license's terms, after the rejection of that license by a debtor or trustee in bankruptcy.

There are no compelling reasons to grant review. While the Seventh Circuit cited to a conflict with a 27-year-old 1985 decision by the United States Court of Appeals for the Fourth Circuit, *Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985), *cert. denied*, 475 U.S. 1057 (1986), *Lubrizol* is both discredited and inapposite and is unlikely to influence or confuse future courts. *Lubrizol* concerned the rejection of a patent license – not a trademark license – and held that the patent licensee there had no continuing rights after a debtor's rejection, other than a claim for damages. Congress responded to *Lubrizol* by abrogating it by statute through the passage of 11 U.S.C. § 365(n). The history of Section 365(n) confirms that Congress believed *Lubrizol*'s result was a threat to the development of American technology. *Lubrizol* also misconstrued 11 U.S.C. § 365(g), ignoring its express language and mischaracterizing its legislative history. No federal appellate court has ever accepted *Lubrizol*'s reasoning as to a trademark license.

There also is no question of national importance that requires review here. Contrary to Jarden's suggestion, the Seventh Circuit's Opinion properly respects the integrity of trademark rights, which include the right to license. That Opinion also properly applies statutory limits on the powers of bankruptcy trustees and on what constitutes estate property which Jarden seeks to avoid.

The Petition should be denied.

STATEMENT OF THE CASE

I. Facts Material To The Question Presented.

A. CAM Makes A Substantial Investment So That It Can Manufacture Fans In Accordance With Lakewood's Forecasts.

Lakewood Engineering & Manufacturing Co. ("Lakewood") manufactured and sold box fans and owned patents and trademarks associated with its products. (App. 21-24)[1] Faced with financial trouble and losing money on each fan it manufactured for itself, in Summer 2008, Lakewood decided to outsource the manufacture of its 20" box fans ("fans"). (App. 22-33)

[1] "App." refers to the appendix attached to the Petition for Certiorari ("Pet.").

After talking with three potential sources, Lakewood selected CAM to be its manufacturer. (App. 23) Lakewood did so because CAM had the capacity to manufacture more than one million fans in a year and Lakewood projected it would need approximately 1.2 million fans during the first year. (*Id.*) Each fan that CAM was to manufacture for Lakewood would bear the Lakewood mark. (App. 24)

To enable CAM to manufacture the fans, Lakewood moved equipment to CAM's facilities, transferred parts and materials to CAM and gave CAM the designs, specifications, packaging designs and other necessary information. (App. 24) To meet Lakewood's equipment and manufacturing requirements, CAM, in turn, changed the entire layout of its facility. (App. 25) CAM hired new employees, conducted training, bought new equipment, rearranged its production floor, installed new air and electric lines, and purchased a significant volume of raw materials at its own expense. (App. 25-26) CAM invested more than $1 million for these efforts. (*Id.*)

Under the agreed arrangement, CAM would manufacture fans bearing the Lakewood mark ready to ship to Lakewood's customers. (App. 23-24) These customers included some of the nation's most prominent retailers. (App. 36, 43-44) Fans are a seasonal product; retailers want them in stores in Spring to meet anticipated Summer demand. Such fans are manufactured the previous Fall and begin shipping to stores starting in November. (App. 25) Lakewood did not have firm purchase commitments from its customers, and thus did not know ahead of time precisely when or how many fans it would need to ship to customers. CAM therefore had to take on the risk of manufacturing a large volume of fans before Lakewood's customers had committed to buy them.

CAM agreed to produce fans in accordance with forecasts that Lakewood provided to it. Lakewood also wanted CAM to have 60 days' inventory on all parts necessary to meet its forecasts. (App. 25-26) In September 2008, Lakewood issued a purchase order to CAM. CAM then manufactured the required number of fans, but Lakewood purchased only a percentage of them as of September and October. (App. 26) Lakewood supplied a formal forecast to CAM in October 2008, specifying required monthly quantities from November 2008 through April 2009. (App. 27)

B. Lakewood And CAM Enter Into A Supply Agreement That Grants CAM A License To Use Its Trademark And The Parties Begin Performance.

CAM usually insured its receivables. However, its insurance carrier advised CAM that it would not insure Lakewood's receivables. (App. 28) Lakewood's financial trouble and the uncertainty of what the actual demand would be for its fans meant that CAM risked laying out funds for manufacturing potentially hundreds of thousands of fans for Lakewood, and which Lakewood might fail to purchase. (App. 28-29) Therefore, CAM required protection against these risks. Lakewood was sympathetic to CAM's risks and concerns. Bernadette Barron, a recognized turnaround expert and Lakewood's CFO, testified before the United States Bankruptcy Court for the Northern District of Illinois, Hon. Pamela S. Hollis (the "Bankruptcy Court") that "it was agreed that they [CAM] could, therefore, turn around and sell the product that they had on hand to either our [Lakewood's] customers or to any other source so that they could get their money back." (App. 29)

Lakewood therefore agreed to a license as a mechanism that would allow CAM to recoup its investment and mitigate its losses by manufacturing and selling fans that Lakewood forecasted but did not purchase. (App. 30-31) Again, Lakewood's CFO testified:

> ***The intent was that CAM should not have been out of pocket because they agreed to supply a financially cash-strapped company.***
>
> So to the extent that they had paid money out to get their facility up and running, and they had not made that money back through the profits of the product that they had sold to Lakewood, then, yes. I would have said that that was part of the cash that the intent was for them to recoup.

(App. 33) (emphasis added)

The parties agreed on December 17, 2008, to a written Supply Agreement that required CAM to manufacture fans according to a forecast that was attached as Exhibit A to that Agreement. (App. 34-36, 39) Lakewood admitted that CAM "had to make what we [Lakewood] requested." (App. 37)

To protect CAM, the parties included in the Supply Agreement a license ("License") that allowed CAM, in the event Lakewood defaulted, to use any parts and materials it had on hand to complete the fans and sell any unpurchased fans to third parties. The Supply Agreement stated:

> ***In consideration of [CAM] proceeding with the manufacture of the volume of Product set forth in the Forecasted Products so as to better serve Lakewood's requirements***, and in the event that Lakewood fails to purchase all of the Forecasted Products from [CAM], for any reason whatsoever (within 30 days after the end of each of the respective months on the list of Forecasted Products) then Lakewood hereby agrees that ***[CAM] may sell any and all of such Forecasted Product manufactured by [CAM] in advance and not purchased by Lakewood, in Lakewood's packaging and under Lakewood's name, to any customer whatsoever, including, but not limited to, any customers of Lakewood. Lakewood hereby grants to [CAM] a license for such purpose***, which license shall expire upon [CAM's] sale of all such remaining Forecasted Product not previously purchased by Lakewood in the time frame indicated above. The foregoing license shall

> survive any termination or expiration of this Agreement.

Supply Agreement, § 3 (quoted at App. 72-73) (emphasis added)

During January and February 2009, CAM manufactured fans as forecasted by Lakewood pursuant to the Supply Agreement. (App. 39-40)

C. After Lakewood's Bankruptcy Trustee Rejects The Supply Agreement, CAM Continues To Exercise Its License Right To Use The Mark To Sell Remaining Inventory.

Approximately two months after the Supply Agreement was signed, on February 19, 2009, creditors of Lakewood filed an involuntary petition to place Lakewood into bankruptcy. (App. 41) An order for relief was entered March 10, 2009, and Gregg Szilagyi was appointed chapter 7 trustee (the "Trustee"). (App. 46)

The Trustee knew of the Supply Agreement and knew by March 2009 that CAM was manufacturing fans pursuant to it. (App. 46-47) The Trustee also knew CAM understood that its License permitted it to continue to produce fans to recoup its investment. (App. 47) By the end of March 2009, CAM had approximately 315,477 Lakewood-branded fans in inventory. (*Id.*)

The Trustee moved to reject the Supply Agreement on March 27, 2009. (App. 48) The Bankruptcy Court granted the Trustee's motion on April 2, 2009. Because CAM was still manufacturing fans, the Trustee and Lakewood's secured creditors brought this litigation as an adversary proceeding, alleging that CAM was liable for patent and trademark infringement. (App. 50)

The Trustee then decided to sell Lakewood's assets, including its trademarks and patents. (App. 51) CAM and Jarden were two of three potential bidders. CAM was the stalking horse bidder. (*Id.*) All potential bidders toured CAM's facilities. (*Id.*)

The Trustee told Jarden prior to the auction that CAM was manufacturing and selling fans and that CAM believed that the rejection of the Supply Agreement did not invalidate its License to do so. (App. 53) At the auction, Jarden was the successful bidder. (App. 53-54) The resulting Asset Purchase Agreement specifically referenced that Jarden's purchase was subject "to the rights to manufacture and sell, if any, previously granted to CAM pursuant to" the Supply Agreement. (App. 54) Jarden, therefore, indisputably purchased Lakewood's assets knowing of CAM's License and its asserted rights.

After purchasing Lakewood's assets, on May 28, 2009, Jarden, a stranger to the Supply Agreement and License, substituted for the secured creditor as a plaintiff in the suit against CAM.

With the sale of the fans in inventory following rejection, CAM ceased making use of the License and the License is now terminated.

II. Procedural Background.

A. The Bankruptcy Court, Following Trial, Finds That CAM's Right To Use The Mark Under The License Survived Rejection.

The suit was tried before the Bankruptcy Court in a six-day trial. At its conclusion, the Bankruptcy Court found that CAM's rights under the License survived the Trustee's rejection of the Supply Agreement. (App. 87-109) The Bankruptcy Court further found that CAM had the right under the License to manufacture and sell the fans it did after the rejection date. (App. 84-87) The Bankruptcy Court found that the Supply Agreement was ambiguous on this point but that extrinsic evidence established that the License conferred to CAM the right to manufacture and sell the fans it did after the rejection date. (App. 62-87) The Bankruptcy Court, therefore, denied Jarden's and the Trustee's infringement claim. (App. 87-109)

The Bankruptcy Court specifically concluded that CAM's License to use Lakewood's trademark, although not covered by 11 U.S.C. § 365(n), survived rejection of the Supply Agreement. (App. 87-105) It noted that a 1985 decision from the Fourth Circuit – *Lubrizol Enters., Inc. v. Richmond Metal Finishers,* *Inc.*, 756 F.2d 1043 (4th Cir. 1985), *cert. denied*, 475 U.S. 1057 (1986) – suggested otherwise but emphasized that in response to *Lubrizol*, Congress had passed 11 U.S.C. § 365(n) and that even the *Lubrizol* Court in its decision acknowledged "serious policy concerns" with its own holding. (App. 98) The Bankruptcy Court decided it would not "mechanically follow[ ]" other bankruptcy courts that had applied *Lubrizol* in the trademark context. (App. 99) Instead, it rested its decision "on equitable grounds" to "avoid a situation that 'let[s] a licensor take back trademark rights it bargained away.'" (App. 103) (quoting *In re Exide Techs.*, 607 F.3d 957, 967 (3d Cir. 2010) (Ambro, J. concurring)). The Bankruptcy Court relied extensively on the reasoning of Judge Thomas Ambro of the Third Circuit in his concurrence in *Exide*. (App. 99-101) The Bankruptcy Court entered judgment in favor of CAM. (App. 109)

B. On Direct Appeal, The Seventh Circuit Affirms Based On The Express Language Of 11 U.S.C. § 365(g).

The parties asked the United States District Court for the Northern District of Illinois to certify the matter for direct appeal to the Seventh Circuit. The District Court did so and the Seventh Circuit accepted the appeal.

The Seventh Circuit affirmed the Bankruptcy Court's judgment, but on different grounds. (App. 1-10) The Seventh Circuit relied on the specific terms of

11 U.S.C. § 365(g) and held that because that statutory provision directly controlled, there was no need to rely on equitable principles. (App. 5) The Seventh Circuit agreed that *Lubrizol* was wrongly decided and determined that its own ruling was in conflict with *Lubrizol*. (App. 5-6, 9-10) It circulated its ruling to each active judge on the Seventh Circuit, but none requested rehearing. (App. 10)

REASONS FOR DENYING THE PETITION

I. Because *Lubrizol* Is Unlikely To Influence Future Courts, The Conflict Identified Below By The Seventh Circuit Does Not Warrant This Court's Review.

Lubrizol was decided by the Fourth Circuit in 1985. In the 27 years since, no other Circuit or District Court has accepted its interpretation of 11 U.S.C. § 365(g). For many reasons, *Lubrizol* is stale and discredited authority and unlikely to influence future courts. Therefore, any perceived conflict between the Seventh Circuit's Opinion below and *Lubrizol* does not warrant this Court's review.

A. Congress Amended 11 U.S.C. § 365 Specifically To Override *Lubrizol*'s Harsh Result For Patent Licensees, The Only Rights At Issue In *Lubrizol*.

Lubrizol's ongoing vitality is doubtful because Congress superseded its result as to patent licenses –

the only form of license that was at issue in *Lubrizol* – by amending Section 365 to add Section 365(n). In deciding that the patent licensee there was limited to a damages remedy following a debtor's rejection, the *Lubrizol* Court emphasized that no provision of Section 365 at the time specifically addressed the rejection of intellectual property contracts, while Congress ***did*** provide at the time for "special treatment" for union members under collective bargaining contracts and for lessees for real property. *Lubrizol,* 756 F.2d at 1048. *Lubrizol* inferred from the absence of a specific intellectual property statute Congress' intent that intellectual property contracts were not to have "special" remedies. It then read Section 365(g) as limiting the non-bankrupt party to a money damages remedy when a bankruptcy trustee rejects its contract. *Id.*

The *Lubrizol* Court acknowledged that its result "impose[d] serious burdens upon contracting parties such as Lubrizol" that "could have a general chilling effect upon the willingness of such parties to contract at all with businesses in possible financial difficulty." *Lubrizol*, 756 F.2d at 1048. Nonetheless, the *Lubrizol* Court concluded that Congress had intended to impose these "obvious adverse consequences" that such a result "made inevitable." *Id*. It reasoned:

> Awareness by Congress of those consequences is indeed specifically reflected in the special treatment accorded to union members under collective bargaining contracts, and to lessees of real property, *see* 11 U.S.C.

> § 365(h). But no comparable special treatment is provided for technology licensees. . . .

Id. (citation omitted) *Lubrizol* concluded that Section 365 creates "general hazards . . . for all business entities dealing with potential bankrupts in the respects at issue here." *Id.*

Congress quickly made clear that *Lubrizol* got it wrong. As Jarden acknowledges, "Congress responded [to *Lubrizol*] by amending Section 365 to add Section 365(n), which allows a licensee to continue to use a debtor's 'intellectual property,' after the corresponding intellectual-property license is rejected in bankruptcy." (Pet. 16) Jarden likewise acknowledges that Congress "legislatively overruled the Fourth Circuit's holding in *Lubrizol* as applied to patents, copyrights, and trade secrets. . . ." (*Id.*) (Pet. 16)

Indeed, in 1988 Congress passed the Intellectual Property Bankruptcy Protection Act (the "IPBPA"), which added Sections 365(n) and 101(35) to the Bankruptcy Code to supersede the result of *Lubrizol* as to the patent licenses that had been at issue in that case, as well as several other defined forms of intellectual property, including licenses for trade secrets and copyrights.

The IPBPA's legislative history confirms that Congress enacted Sections 365(n) and 101(35) to correct the errors of *Lubrizol*. As the Senate Report explains, Congress sought "to make clear that the rights of an intellectual property licensee to use the licensed property cannot be unilaterally cut off as a result of the rejection of the license pursuant to

Section 365 in the event of the licensor's bankruptcy." S. Rep. No. 100-505, 100th Cong. 2d Sess. 5 (1988) ("Senate Report"), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3200. The Senate Report was unusually pointed in its criticism of *Lubrizol* and other courts with similar results, stating:

> Court decisions interpreting Section 365 have imposed a burden on American technological development that was never intended by Congress in enacting Section 365. The adoption of this bill will immediately remove that burden and its attendant threat to the development of American Technology *and will further clarify that Congress never intended for Section* ***365*** *to be so applied*.

Senate Report at 1, *reprinted in* 1988 U.S.C.C.A.N. at 3200 (emphasis added). In its discussion of "Recent Court Decisions," *Lubrizol* is the first and only case the Senate Report mentioned by name. Senate Report at 2, *reprinted in* 1988 U.S.C.C.A.N. at 3201.

Congress specifically stated that it did not intend, as *Lubrizol* had concluded, for rejection to interfere with an intellectual property licensee's right to continued use:

> Congress never anticipated that the presence of executory obligations in an intellectual property license would subject the licensee to the risk that, upon bankruptcy of the licensor, the licensee would lose not only any future affirmative performance required of the licensor under the license, but also any right

> of the licensee to continue to use the intellectual property as originally agreed in the license agreement.

Senate Report at 2, *reprinted in* 1988 U.S.C.C.A.N. at 3201-02. Thus, the predicate for *Lubrizol*'s harsh result – that Congress wanted this – was wrong and no longer applies. Because of 365(n), if presented today with the rejection of the patent license that *Lubrizol* considered, courts – including the Fourth Circuit – would plainly reach a different result than *Lubrizol*.[2] In light of Congress' express disagreement with *Lubrizol*'s rationale and result, for Jarden to assume – as it does – that the Fourth Circuit would today apply *Lubrizol* to the rejection of a trademark license is speculative at best.

The Seventh Circuit noted that some bankruptcy judges have inferred from the fact that trademarks are not included in the definition of "intellectual property" subject to Section 365(n) that Congress must have intended to codify *Lubrizol*'s result as to trademarks. (App. 3-4) But as *Lubrizol* did not address trademarks, to assume that it speaks to trademark licenses today means accepting that Congress intended to "codify" *Lubrizol*'s result – a result it plainly scorned – as to a form of intellectual property and license that was not even at issue in that case.

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[2] A recent case from a District Court in the Fourth Circuit confirms this. *See Jaffe v. Samsung Elecs. Co. (In re Qimdoda AG)*, 470 B.R. 374, 388 (E.D. Va. 2012) (noting that "Congress overturned *Lubrizol* with the passage of § 365(n)").

Since a patent license was at issue in *Lubrizol*, Congress, of course had to include patents in any legislation to correct that decision. But Congress did not have to address trademark licenses and made clear it was not doing so. Indeed, the Senate Report specifically states as to trademark licenses that Congress was not trying to dictate a particular result by omitting trademarks from Section 365(n)'s scope but was simply "not addressing" rejection in that context because such licenses required "more extensive study." Senate Report at 5, *reprinted in* 1988 U.S.C.C.A.N. at 3204. Thus, despite the Seventh Circuit's appropriate caution here, there is not a true conflict between its decision and *Lubrizol*.

B. No Trademark License Was At Issue In *Lubrizol* And It Is Otherwise Legally And Factually Distinguishable.

Additionally, while Jarden asks this Court to accept *certiorari* on the basis of a perceived split in authority between the Seventh Circuit below and the Fourth Circuit's decision 27 years earlier, in fact, the cases are inapposite and, therefore, not in true conflict. The issues presented in this case only involve a trademark license. Indeed, Jarden acknowledges that its Petition raises the question of whether "a licensee retain[s] the ability to use a debtor's trademarks" after a rejection in bankruptcy. (Pet. at i) Yet *Lubrizol* did not address this question or discuss trademarks at all. Rather, *Lubrizol* concerned a non-exclusive license for a patent for a metal-coating process technology. There is not, as Jarden claims, an "inter-circuit conflict regarding whether a licensee retains the ability to use a debtor's trademarks" after a license is rejected in bankruptcy." (Pet. 12) Even if one concludes that the *Lubrizol* Court intended for its analysis to apply to a type of intellectual property license that was not squarely before that court – a conclusion that would not be supported by the text of the *Lubrizol* decision itself – such an extension of that opinion would be merely non-binding *dicta*. This is another distinct reason why any disagreement between the Seventh Circuit below and the *Lubrizol* Court as to the reading of Section 365(g) creates little chance of confusing future courts.

There are other key fact differences between *Lubrizol* and this case that limit the suggested conflict. *Lubrizol* emphasized that the patent licensee there had "never used the [debtor's] technology." *Lubrizo*l, 756 F.2d at 1045.[3] Here, by contrast, CAM invested significant funds and made widespread changes to its operations so that it could produce fans bearing the Lakewood mark and then manufactured fans in the quantity and on the schedule forecasted

[3] Indeed, the District Court in *Lubrizol* concluded that the contract there was not executory. 756 F.2d at 1044. The Fourth Circuit reversed that finding because the contract there continued to obligate the licensor to provide forms of notice and indemnification to the licensee in the event of an infringement claim and to reduce any royalty owed by the licensee if the licensor entered into an additional license in the future. *Id.* at 1045-46.

by Lakewood. As a result, after rejection, CAM was left with hundreds of thousands of unpurchased fans in its inventory and had raw materials both on hand and on order that Lakewood had required it to obtain.

Further, *Lubrizol* did not involve a stranger to a contract trying to foist on the court an interpretation of that contract that is directly contrary to the reading the contract parties agree was correct. Here, Jarden bought Lakewood's assets knowing of, and subject to, CAM's license rights. After its purchase, Jarden tried to avoid the contract protections the debtor itself agreed CAM should have.

C. *Lubrizol* Misconstrues Section 365(g).

The *Lubrizol* Court's analysis of Section 365(g) consists of only one paragraph and fails to consider Section 365(g)'s express language. *Lubrizol*, 756 F.2d at 1048. As the Seventh Circuit observed, "*Lubrizol* itself devoted scant attention to the question whether rejection cancels a contract, worrying instead about the right way to identify executory contracts to which the rejection power applies." (App. 9-10) For this reason, the Seventh Circuit concluded "*Lubrizol* does not persuade us." (App. 10) Because of *Lubrizol*'s errors of construction, other courts are likely to agree with the Seventh Circuit's rejection of *Lubrizol*'s analysis, showing that this Court's efforts are not needed to prevent later confusion.

1. *Lubrizol* Ignores The Plain Language Of Section 365(g).

Section 365(g) is written to apply to all contracts (except limited exceptions not relevant here). It states generally that "the rejection of an executory contract or unexpired lease of the debtor constitutes a breach of such contract or lease," if such contract or lease has not been assumed pursuant to a confirmed plan or Section 365's other provisions. 11 U.S.C. § 365(g)(1). The License here indisputably was an executory contract that was not assumed and, thus unquestionably falls within 365(g). Section 365(g) nowhere states that a victim of breach is limited to a damages remedy, as the *Lubrizol* Court erroneously concluded. Nor does any other provision of Section 365 state this.

This Court recently held with regard to the Bankruptcy Code specifically that "it is our obligation to interpret the Code clearly and predictably using well established principles of statutory construction." *RadLAX Gateway Hotel, LLC v. Amalgamated Bank*, 132 S. Ct. 2065, 2073 (2012) (cited at App. 5). By departing from the express language of Section 365(g), the *Lubrizol* Court acted contrary to the plain meaning rule, the "first canon" of statutory construction. As the Court stated in *Connecticut National Bank v. Germain*, 503 U.S. 249 (1992), "[i]n interpreting a statute a court should always turn first to one, cardinal canon before all others. We have stated time and again that courts must presume that a legislature says in a statute what it means and means in a statute what it says there." *Id*. at 253-54. The plain meaning rule provides that "where, as here, the statute's language is plain, 'the sole function of the courts is to enforce it according to its terms.'" *United States v. Ron Pair Enters.*, 489 U.S. 235, 241 (1989) (interpreting § 506(b) of the Bankruptcy Code and citing *Caminetti v. United States*, 242 U.S. 470, 242 U.S. 485 (1917)).

Lubrizol however, did not look at "well-established principles of statutory construction." Instead, it relied on its construction of Section 365(g)'s legislative history to the exclusion of its text. Since Section 365(g)'s language was plain, the *Lubrizol* Court had no reason to consider that history. *See Dodd v. United States*, 545 U.S. 353, 359 (2005) (quoting citation omitted) ("'[W]hen [a] statute's language is plain, the sole function of the courts – at least where the disposition required by the text is not absurd – is to enforce it according to its terms'").

Moreover, even if it were appropriate to consider legislative history, the *Lubrizol* Court misread Section 365(g)'s history, as it does not dictate that a debtor's rejection constitutes a termination of a contract, does not support that a licensee should be denied continued use of what it bargained for and does not suggest that damages are the only remedy for breach. The *Lubrizol* Court cited to the House Judiciary Committee's Report. *Lubrizol*, 756 F.2d at 1048 (citing H. Rep. No. 95-595, 95th Cong., 2d Sess. 349 ("Section 365(g) Report"), *reprinted in* 1978 U.S.C.C.A.N. 5963, 6305)). This Report merely states that:

> Subsection (g) defines the time as of which a rejection of an executory contract or unexpired lease constitutes a breach of the contract or lease. Generally, the breach is as of the date immediately preceding the date of the petition. The purpose is to treat rejection claims as prepetition claims.

Section 365(g) Report, *reprinted in* 1978 U.S.C.C.A.N. 6305. This simply means that any claim is deemed to arise prepetition and thus not to be subject to priority as an administrative claim. It does not reflect any intent by Congress to deny non-bankruptcy contract parties their property rights and remedies.

2. *Lubrizol* Erroneously Treated A Rejection Under Section 365(g) As Though It Terminated A Licensee's Ongoing Rights.

Rejection of a contract may be valuable to a debtor because an estate need only pay an allowed claim in the *pro rata* amount that is paid to prepetition unsecured claimants of like priority, rather than pay full expectancy damages after breach.[4] *See* Michael T. Andrew, *Executory Contracts Revisited: A Reply To Professor Westbrook*, 62 U. Colo. L. Rev. 1, 13 (1991). But it is black letter law that, as the Seventh Circuit held (App. 7-8), "rejection" is distinct from

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[4] Bankruptcy cases that pay unsecured creditors in full are rare.

"termination." Thus, Section 365 elsewhere speaks of "termination," *see, e.g.*, 11 U.S.C. § 365(e), (h), and (i), but does not use the term in Section 365(g). *Id.* § 365(g). *See also Eastover Bank for Sav. v. Sowashee Venture (In re Austin Dev. Co.)*, 19 F.3d 1077 (5th Cir.), *cert. denied*, 513 U.S. 874 (1994).

Therefore, a trustee's rejection does not otherwise deprive a counterparty of its rights or remedies established by state contract law. This would violate the general principle that an estate acquires no greater rights in an asset than the debtor had prior to bankruptcy. *See Thompson v. Fairbanks*, 196 U.S. 516, 526 (1905) (the estate normally succeeds to the debtor's property in the "same plight and condition that the bankrupt himself held it, and subject to all the equities impressed upon it in the hands of the bankrupt").

Professor Andrew, in another article, *Executory Contracts in Bankruptcy: Understanding "Rejection,"* 59 U. Colo. L. Rev. 845 (1988), elaborates:

> Does rejection of the agreement terminate the non-debtor party's right to the licensed or franchised use of the underlying asset? Because the estate succeeds only to the debtor's rights in that asset, the answer should be no. Rejection is not a rescission of the license or franchise, but merely the estate's determination not to assume it. Thus, so long as the license or franchise is not otherwise avoidable, the estate should be in the same position

> as any other non-assuming transferee of the debtor's rights in the asset.

Id. at 916.

Consistent with these well-established principles, the Seventh Circuit below correctly held:

> What § 365(g) does by classifying rejection as breach is establish that in bankruptcy, as outside of it, the other party's rights remain in place. After rejecting a contract, a debtor is not subject to an order of specific performance. The debtor's unfulfilled obligations are converted to damages; when a debtor does not assume a contract before rejecting it, these damages are treated as a prepetition obligation, which may be written down in common with the other debts of the same class. But nothing about this process implies that any rights of the other contracting party have been vaporized.

(App. 8)

Virtually all other Circuits have likewise drawn a distinction between a breach by rejection and a termination of a contract. For example, the Eleventh Circuit in *Thompkins v. Lil' Joe Records, Inc*., 476 F.3d 1294 (11th Cir. 2007), held that copyright rights in a license survived termination, explaining that rejection is not "the functional equivalent of a rescission, rendering void the contract and requiring that the parties be put back in the positions they occupied before the contract was formed." *Id.* at 1306. Rather, "'[r]ejection merely frees the estate from the obligation to perform; it does not make the contract disappear.'" *Id.* (quoting *Cohen v. The Drexel Burnham Lambert Group*, 138 B.R. 687, 703 (Bankr. S.D.N.Y. 1992)). *See also Miller v. Chateau Communities* (*In re Miller)*, 282 F.3d 874, 877-78 (6th Cir. 2002); *Med. Malpractice Ins. Ass'n v. Hirsch (In re Lavigne)*, 114 F.3d 379, 387 (2d Cir. 1997).

D. To Apply *Lubrizol*'s Conclusion That Damages Are The Exclusive Remedy For Breach Would Unfairly Diminish A Trademark Licensee's Recognized Property Rights.

This Court has acknowledged that, absent an overriding federal interest, state law determines property rights in the assets of a bankrupt estate. *Butner v. United States*, 440 U.S. 48, 54-55 (1979). The law holds that a trademark is a property interest held by the trademark's owner. *See TMT N. Am., Inc. v. Magic Touch GmbH*, 124 F.3d 876, 882 (7th Cir. 1997). Here by entering into the Supply Agreement with CAM, Lakewood bargained away a portion of that property interest by agreeing not to challenge CAM's use of the trademark within the scope of the License. *See Bunn-O-Matic Corp. v. Bunn Coffee Serv., Inc.*, 88 F. Supp. 2d 914, 923 (C.D. Ill. 2000) (citing *Digital Equip. Corp. v. AltaVista Tech., Inc.*, 960 F. Supp. 456, 475 (D. Mass. 1997)) ("A trademark license is the limited grant of a right to use another's property interest and is limited to the grant in the license."); *see also* 4 J. Thomas McCarthy, *McCarthy On Trademarks and Unfair Competition* § 25:30 (4th ed. 2012) (every license "carries with it a waiver of the right of the trademark owner to sue for infringement arising out of acts that fall within the scope of the license").

The unique facts of this case show that it would be particularly unfair to deprive CAM of its License to sell inventory and exhaust the raw materials it was ordered to acquire to accommodate Lakewood's requirements. The License was entered into at a time that the parties understood that Lakewood had financial weakness and risked default. The parties specifically bargained for and intended that CAM have the right to continue to use the License to sell Lakewood-trademarked fans directly to third parties in the event that Lakewood defaulted. Jarden knew this and bought Lakewood's assets subject to CAM's rights. If Jarden were right here, CAM would have been left with hundreds of thousands of useless fans bearing the Lakewood mark and raw materials would have been wasted. Lakewood's officers acknowledged that CAM's License was a fair balancing of the parties' rights. It is equally fair to make Jarden, as Lakewood's successor here, subject to that same balancing. Indeed, Jarden seeks to receive more than it paid for after it knowingly purchased Lakewood's assets subject to CAM's rights.

E. *Lubrizol* Has Been Roundly Criticized By Bankruptcy Experts And Scholars.

As the Seventh Circuit acknowledged, bankruptcy experts and scholars have "uniformly criticized *Lubrizol*, concluding that it confuses rejection with the use of an avoiding power." (App. 9) (citing Douglas W. Baird, *Elements of Bankruptcy*, 130-40 & n.10 (4th ed. 2008); Andrew, *supra*, 59 U. Colo. L. Rev. at 916-19; and Jay Lawrence Westbrook, *The Commission's Recommendations Concerning the Treatment of Bankruptcy Contracts*, 5 Am. Bankr. Inst. L. Rev. 463, 470-72 (1997)). Indeed, the avoiding powers are set forth in a distinct Code chapter – Chapter 5. *See, e.g.,* 11 U.S.C. § 544 (avoidance power where the trustee is a lien creditor or a bona fide purchaser) § 547 (avoidance from preferential transfers); § 548 (avoidance of fraudulent transfers). Yet to deny a licensee any further right to use is the equivalent of allowing a trustee to avoid a license altogether.

F. The Concurrence In *In re Exide* Poses No Conflict.

Jarden exaggerates its case by arguing that the Seventh Circuit decided this case in conflict "with both *Lubrizol* and Judge Ambro's opinion in *Exide Technologies*." (Pet. 11) There is no possible conflict with *Exide*. As Jarden acknowledges, the panel in *Exide* unanimously held that the trademark license at issue was not executory, that the trustee therefore could not reject that license and, therefore, that Section 365 simply did not apply. (Pet. 10, citing

Exide, 607 F.3d at 961). The *Exide* panel decision vacated a district court opinion, which, in turn, had affirmed a bankruptcy court opinion that had concluded that a license was executory and had upheld its rejection under Section 365(a). Neither the panel's opinion nor Judge Ambro's concurrence analyzed the significance of Section 365(g), the provision relied on by the Seventh Circuit below.

Judge Ambro concurred in the panel's result "in full," but wrote separately to dispute the bankruptcy court's conclusion that the trademark license resulted in its termination. As a concurrence, Judge Ambro's analysis does not represent the views even of the other two judges on the *Exide* panel, much less the entire Third Circuit. Also, because Judge Ambro addressed a hypothetical state of affairs – what the law should be if the license there *were* executory – his analysis is pure *dicta* in any event.

To be sure, the Court below and other courts and commentators have cited approvingly to Judge Ambro's concurrence, but that is because he offers a compelling argument why *Lubrizol* is bad law. As he states:

> [Courts] should not – as occurred in this case – use [section 365] to let a licensor take back trademark rights it bargained away. This makes bankruptcy more a sword than a shield, putting debtors-licensors in a catbird seat they often do not deserve.

Exide, 607 F.3d at 967-68. Judge Ambro could not have picked a better example of an undeserving licensor than Jarden – which knew full well when it purchased Lakewood's assets that CAM had asserted its right to dispose of its inventory under the License – but chose to purchase the assets anyway in the hope of using the acquired trademarks as a "sword" to seize unmerited financial gains. These policy concerns make it even more unlikely that *Lubrizol* will confuse future courts.

G. The Bankruptcy Court Cases Cited By Jarden Create No Conflict.

Jarden claims bankruptcy courts have reached conflicting results as to whether a trademark licensee has an ongoing right to use a mark after a debtor's rejection of the license. (Pet. 11, citing *In re Matusalem*, 158 B.R. 514, 521-22 (Bankr. S.D. Fla. 1993) (licensee has ongoing right to use); *In re H.Q. Global Holdings, Inc.*, 290 B.R. 507 (Bankr. D. Del. 2003), and *Raima UK Ltd. v. Centura Software Corp. (In re Centura Software Corp.)*, 281 B.R. 660 (Bankr. N.D. Cal. 2002)).[5] These cases, too, create no need for this Court's intervention. As noted above, those cases denying continued use were decided based on drawing

[5] Judge Ambro cited one other bankruptcy court that has inferred from Section 365(n)'s passage that rejection deprives a trademark licensee of any further right to use a mark. *In re Old Carco LLC*, 406 B.R. 180, 221 (Bankr. S.D.N.Y. 2009) (cited in *Exide*, 607 F.3d at 966 (Ambro, J., concurring)).

a negative inference from the fact that Section 365(n) does not apply to trademarks, a conclusion that is contrary both to Section 365(n)'s text and history.

Moreover, none of these bankruptcy cases was appealed. Therefore, they do not bind even a future bankruptcy court in the same district, let alone show any broader circuit conflict.

H. Because A Specific Statute Addresses The Consequences Of A Breach Of A Trademark License, There Is No "Conflict" Over Whether To Rely Instead On Equitable Principles.

Finally, Jarden erroneously suggests that a "conflict" exists among the lower courts as to whether equitable principles apply after the rejection of a trademark license. (Pet. 12) As the Seventh Circuit emphasized, and as this Court has held, when a statute speaks to an issue, a court must follow its mandate and cannot avoid its direction because the court believes the result is "inequitable." (App. 5) (citing*, e.g., Toibb v. Radloff*, 501 U.S. 157, 162 (1991)). Here, because Section 365(g) specifies the consequences of rejection, there is no basis to rely instead on equity to reach the result that Congress has already dictated.

As Justice Harlan stated many years ago, "a conflict of decisions may safely be relied on as a ground for *certiorari* only in instances where it is clear that the conflict is one that can be effectively resolved by the Supreme Court alone, and the disagreement among the lower courts is one that should promptly be dissolved." John M. Harlan, *Manning the Dikes*, Record of the N.Y.C. Bar Ass'n, 541, 552 (1958). Because *Lubrizol* is marginalized and discredited, any nominal conflict it creates does not warrant review.

II. No Question Of National Importance Requires Review Here.

Just as no conflict warrants review here, so, too, there is no issue of national importance presented that requires resolution by this Court.

A. The Seventh Circuit's Opinion Preserves And Does Not Undermine The Integrity Of Trademark Rights.

Jarden is simply wrong in suggesting that the Seventh Circuit's reasoning means that a debtor or trustee loses all rights to collect royalties or to police the use of a trademark after rejection. (Pet. 12-13) The licensor – be it the debtor or its assignee or successor – retains its license rights to police the mark and to collect whatever royalties the license provides. A licensee after rejection must still abide by the restrictions on its use of a mark as set forth in the license or otherwise provided by law. Just like rejection does not enlarge a *licensor*'s rights, so it does not enlarge a *licensee*'s rights.

B. The Seventh Circuit's Opinion Properly Recognizes The Limits Congress Has Imposed On The Rights Of A Bankruptcy Trustee.

Jarden also errs in arguing that the decision below allegedly interferes with a trustee's ability to maximize and distribute the "proceeds of collection." (Pet. 13) (citation omitted). Contrary to Jarden's suggestion (Pet. 13), 11 U.S.C. § 704(a)(1), which merely lists the trustee's duty to "collect and reduce to money the property of the estate for which such trustee serves" does not address rejection or change the requirements of Section 365(g). The express terms of Section 365(g) necessarily limit a trustee's rights. Again, a trustee cannot in the name of "collecting proceeds" avoid a property interest or right that the debtor granted to another party prepetition. Here, Section 365(g) makes clear that CAM's existing rights under the License were not abrogated by the Trustee's rejection.

C. The Seventh Circuit's Opinion Properly Recognizes That Section 365(g) Provides Clear Guidance To A Purchaser Of Estate Assets As To The Consequences Of A Rejected Trademark License.

The same flaw underpins Jarden's assertion that a purported "inter-circuit conflict" creates uncertainty for a purchaser of a debtor's assets in bankruptcy as to what rights it acquires when the debtor is subject to a license. (Pet. 13) Rather, as the Seventh Circuit properly concluded, Section 365(g) has long answered the question – the purchaser can only acquire what the debtor has a right to sell. (App. 8-9) If a contract limits the debtor's rights, the purchaser is subject to those obligations. *See Thompson*, 196 U.S. at 526. Here specifically, Jarden knew of CAM's License and bought Lakewood's assets subject to CAM's rights. Nevertheless, Jarden knowingly gambled that it could rewrite CAM's rights under the contract CAM and Lakewood negotiated. The Courts below rightly rejected Jarden's maneuver, understanding that Jarden was asking for more than what it purchased.

D. The Seventh Circuit's Opinion Properly Recognizes That The Purposes Of Section 365(a) Must Be Read In Harmony With That Of Section 365(g).

Jarden errs in claiming that the Seventh Circuit opinion "undermines a fundamental purpose of Section 365(a), which is to relieve the debtor or trustee from burdensome obligations." (Pet. 14) Yet Section 365 as a whole makes clear a trustee may not simply avoid a contract obligation because he or she believes it is burdensome. Rather, Section 365(g) specifies that a trustee's right to reject under Section 365(a) creates a breach of that contract. 11 U.S.C. § 365(g)(1). There plainly are consequences that flow from such a breach, including vesting the non-breaching party with certain rights and remedies. Jarden's argument, therefore, ignores the basic rule of statutory interpretation "that a statute is to be read as a whole." *King v. St. Vincent's Hosp.*, 502 U.S.

215, 221 (1991); *see also Lockerby v. Sierra*, 535 F.3d 1038, 1042-43 (9th Cir. 2008) (noting as to Section 365(a) and (g) specifically that "[c]ourts must interpret various sections of a statute as consistent with one another in order to comport with legislative purpose").

E. Because Section 365(g) Expressly Applies, Jarden's Claim Of Legislative Silence Is Erroneous.

Finally, Jarden errs in suggesting that legislative silence favors granting *certiorari* here. (Pet. 15-17) There is no legislative silence. Section 365(g) applies to a rejected trademark license, as it does to any other contract. Therefore, the authority Jarden cites in its Petition (Pet. 16-17), do not apply or favor *certiorari*.

While Jarden notes that there are many bankruptcies filed each year and asserts – without any citation – that the issues here supposedly arise in "many of these matters" (Pet. 18), that does not change the many reasons why *certiorari* should be denied as to this specific case.[6]

[6] On November 5, 2012, the International Trademark Association ("ITA") submitted a motion for leave to file a brief as *amicus curiae* in support of Petitioner. The ITA's arguments for granting the Petition largely echo Jarden's and fail for the same

(Continued on following page)

reasons. First, the ITA erroneously contends that Congress only "partially" abrogated *Lubrizol* when it passed Section 365(n). (ITA Motion ("Mot.") at 5) The legislative history analyzed above shows that Congress repudiated *Lubrizol* in its entirety. Far from leaving *Lubrizol* "good law" as to trademarks (ITA Mot. at 5), Congress made clear that in passing Section 365(n), it was not expressing a policy position as to trademarks. Also, in suggesting a broader conflict than *Lubrizol* and the Seventh Circuit here, the ITA actually proves all the more what an outlier *Lubrizol* is. The ITA cites three other circuit-level cases – *Exide*, *Thompkins* and *In re Select-A-Seat Corp.*, 625 F.2d 290 (9th Cir. 1980) (ITA Mot. at 10-11) – yet none show any "confusion" as to the consequences of the rejection of a trademark license. *Exide*, of course, does not involve an executory contract or Section 365. *Thompkins* and *Select-A-Seat* do not deal with trademarks. *Select-A-Seat* involved a software license and, in any case, arose prior to the Bankruptcy Reform Act of 1978 and the adoption of Section 365(g), and, as the ITA acknowledges (ITA Mot. at 11 n.3), was abrogated on its principal holding by Section 365(n). *Thompkins* involved copyrights. Importantly, however, in all of these cases, the result is that the licensee was entitled to continued use of what it licensed, exactly what the Seventh Circuit directed below. *See Select-A-Seat*, 625 F.2d at 292 ("The trustee did not seek to recover the tangible property transferred to Fenix. . . . Nor did the trustee attempt to revoke Fenix's license; Fenix may still use and sell the computer materials it received from Select-A-Seat."). In light of these flaws, the Court should decline the ITA's invitation to stray well beyond the circumstances at issue and generally address rejection in bankruptcy in inapplicable contexts such as covenants not to compete. (Mot. 14-16) Finally, the ITA unwittingly acknowledges that it overstates the importance of the issue. It argues that the matters here are unlikely to recur because bankruptcy trustees may be unwilling to pursue the issue through the courts and appellate courts may not provide direct review. (ITA Mot. at 17-18) Yet, if future courts and litigants are not likely to make the issues here a priority, that diminishes any reason for this Court to do so now.

CONCLUSION

The petition for a writ of *certiorari* should be denied.

Respectfully submitted,

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