No. 11-1850

IN THE UNITED STATES COURT OF APPEALS
FOR THE EIGHTH CIRCUIT

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*In re*: INTERSTATE BAKERIES CORPORATION, *et al.*,
*Debtors*.

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LEWIS BROTHERS BAKERIES INCORPORATED
and CHICAGO BAKING COMPANY,
*Appellants*,

v.

INTERSTATE BRANDS CORPORATION,
*Appellee*.

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ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF MISSOURI
(HONORABLE DAVID GREGORY KAYS)

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# BRIEF FOR THE UNITED STATES AND THE FEDERAL TRADE COMMISSION AS AMICI CURIAE IN SUPPORT OF REHEARING

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## INTRODUCTION

The United States and the Federal Trade Commission submit this brief in response to the Court's February 13, 2013, invitation to present the government's "views on the proper application of the executory contract doctrine in 11 U.S.C. Section 365 to contracts that implement antitrust divestiture decrees." The question is "of exceptional importance" to effective antitrust enforcement, Fed. R. App. P. 35(b)(1)(B), and so the amici support rehearing.

## STATEMENT

On July 20, 1995, the United States sued under Section 7 of the Clayton Act (15 U.S.C. § 18) to prevent Interstate Bakeries Corporation (Interstate) from acquiring its rival, Continental Baking Company. *United States v. Interstate Bakeries Corp.*, No. 95 C 4194 (N.D. Ill.). The case ended on January 9, 1996, when the district court entered as its final judgment a consent decree imposing modifications on the planned acquisition. The decree required Interstate to grant a "perpetual, royalty-free, assignable, transferable, exclusive" license for either the "Wonder" or "Butternut" white bread trademarks in the Chicago area. Final J. 6, *Interstate Bakeries Corp.*, No. 95 C 4194

(N.D. Ill. Jan. 9, 1996). To comply with this requirement, Interstate, pursuant to a License Agreement and an Asset Purchase Agreement, granted such a license for the "Butternut" trademark to Lewis Brothers Bakeries Company (Lewis Brothers).

Interstate's 2004 voluntary bankruptcy reorganization filing in the Western District of Missouri eventually brought the License Agreement before this Court to determine its status under the Bankruptcy Code's executory contract doctrine, 11 U.S.C. § 365. On January 11, 2012, Interstate filed for bankruptcy liquidation in the Southern District of New York. *In re Hostess Brands, Inc.*, No. 12-22052 (Bankr. S.D.N.Y.). In the liquidation auction, Flowers Foods, Inc., agreed to purchase Interstate's Butternut bread business—but subject to Lewis Brothers' "rights and interests (if any)" under its agreements with Interstate. Sale Order ¶ 17(a), *In re Hostess Brands, Inc.*, No. 12-22052 (Bankr. S.D.N.Y. Mar. 20, 2013), ECF No. 2459. Thus, although Interstate reserved the right to ask the court for permission to reject the Butternut license, *id.*, and Lewis Brothers reserved the right to resist any such attempt, *id.*, all parties are currently maintaining the status quo.

## ARGUMENT

The panel's conclusion that the License Agreement between Interstate and Lewis Brothers may be rejected as an executory contract under Section 365 raises a question "of exceptional importance" to antitrust enforcement, warranting rehearing. Fed. R. App. P. 35(b)(1)(B).

As the Supreme Court recently reaffirmed, "the fundamental national values of free enterprise and economic competition . . . are embodied in the federal antitrust laws." *FTC v. Phoebe Putney Health Sys., Inc.*, 133 S. Ct. 1003, 1010 (2013). Effective antitrust enforcement requires effective remedies, and the United States and the Federal Trade Commission often use decrees requiring defendants to divest competitively significant assets in cases challenging anticompetitive mergers. When the asset is a trademark, the divestiture remedy often takes the form—as in this case—of a requirement that the defendant enter into a trademark licensing agreement. Allowing a debtor-licensor in bankruptcy to reject such a license as an executory contract under 11 U.S.C. § 365(a) would thwart the remedial purpose of the antitrust decree. The panel's resolution thus stands in tension with other courts'

recognition that the public interest in effective enforcement of federal statutes takes precedence in proper circumstances over the narrower private interests of debtors and creditors.

This tension is increased by the fact that the Seventh Circuit recently held that 11 U.S.C. § 365(n)(1)(B), which allows licensees to retain certain rights to use intellectual property even if their licensing contracts are rejected in bankruptcy as executory, applies to trademark licensing. *Sunbeam Prods., Inc. v. Chi. Am. Mfg., LLC*, 686 F.3d 372 (7th Cir. 2012). Section 365(n) embodies Congress's intent to prevent debtor-licensors from misusing Section 365(a) to gain an unfair advantage over private licensees. That intent cannot be reconciled with an interpretation of Section 365(a) permitting debtor-licensors to use it to avoid the requirements of a judicially mandated antitrust remedy. And even if the License Agreement were deemed executory under Section 365(a), it would be important for the Court to clarify the limitations on Interstate's power to reassert exclusive control over the trademark and thereby limit the competition the decree sought to foster.

Accordingly, this case warrants rehearing, either by the panel or by the en banc Court. *See* 8th Cir. R. 40A (every en banc rehearing petition automatically includes a panel rehearing petition).

1. Section 365 of the Bankruptcy Code generally allows a trustee to assume or reject a debtor's executory contracts. 11 U.S.C. § 365(a). The statute does not define "executory contract," but there is no reason to believe that Congress intended to apply this provision to an agreement ordered by the type of judicial decree at issue here.

Decrees entered in antitrust actions brought by the government, whether entered by stipulation or after trial, serve important remedial purposes and further the public interest in effective law enforcement. The decree in this case—as in most of the government's civil antitrust enforcement cases—is a consent decree, but that does not diminish its significance. Indeed, in the case of consent decrees in antitrust cases brought by the United States, the Tunney Act requires publication of the proposed judgment, along with a competitive impact statement; an opportunity for public comment; and governmental responses to those public comments. 15 U.S.C. § 16(b)-(d). After that, the district court must "determine that the entry of such judgment is in the public

interest." *Id.* § 16(e)(1). Once entered, such a decree "is to be treated . . . as a judicial act." *United States v. Swift & Co.*, 286 U.S. 106, 115 (1932).[1]

Thus, it is improper to allow the remedial provisions of a government antitrust decree to be thwarted in bankruptcy. "Courts agree that the phrase 'executory contract' cannot be applied to a judicial order." *Roxse Homes, Inc. v. Roxse Homes Ltd. P'ship*, 83 B.R. 185, 187-88 (D. Mass. 1988) (collecting cases); *see also United States v. North Carolina*, 180 F.3d 574, 582 (4th Cir. 1999) (observing that "the consent decree remained an executory contract *until approved by the court*" (emphasis added)); *In re Giordano*, 446 B.R. 744, 749 (Bankr. E.D. Va. 2010) (collecting cases) ("[O]nce a court has decreed specific performance, a contract . . . is no longer executory.").

A contract implementing the divestiture mandate of a public antitrust decree is indistinguishable from the decree itself for purposes of Section 365(a). Here, the decree required Interstate to license certain labels perpetually and to cease using those labels within five days of

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[1] Comparable procedures apply to decrees entered to resolve FTC-initiated enforcement proceedings. *See* FTC Consent Order Procedure, 16 C.F.R. pt. 2, subpt. C.

when a purchaser commenced its own use, in order to preserve competition between the Wonder and Butternut brands by preventing common ownership of the brands. Final J. 6-7, *Interstate Bakeries Corp.*, No. 95 C 4194 (N.D. Ill. Jan. 9, 1996). Interstate complied, for purposes of the Chicago area, through the License Agreement with Lewis Brothers. As Judge Colloton explained in his dissent, "the essence of the agreement was the sale of [Interstate]'s Butternut Bread . . . business operations in specific territories, not merely the licensing of [Interstate]'s trademark." *Lewis Bros. Bakeries Inc. v. Interstate Brands Corp.* (*In re Interstate Bakeries Corp.*), 690 F.3d 1069, 1079 (8th Cir. 2012) (Colloton, J., dissenting). The sale of the business operations—aside from the trademark—was completed years before Interstate filed its bankruptcy petition in 2004. But, because trademark law allows only nationwide ownership of a trademark, *see* 15 U.S.C. § 1057(c) (Lanham Act), the perpetual licensing arrangement was as close to an outright sale as possible when the purpose was to restore competition in a particular region.[2]

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[2] The Third Circuit has held that a substantially similar trademark licensing agreement was not executory. *In re Exide Techs.*, 607 F.3d

The License Agreement is the ineluctable result of "a judicial act," *Swift*, 286 U.S. at 115, in furtherance of public protections enshrined in the federal antitrust laws, *see Local No. 93, Int'l Ass'n of Firefighters v. City of Cleveland*, 478 U.S. 501, 525 (1986), and has the force of law separate and apart from contract law. Thus, for example, if Interstate had breached the perpetual License Agreement by "revoking" it pre-bankruptcy, that conduct would also have violated the terms of the consent decree.[3]

Because the License Agreement between Interstate and Lewis Brothers is structurally identical to numerous other trademark licensing agreements required by decrees entered in government

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957 (3d Cir. 2010); *see* Fed. R. App. P. 35(b)(1)(B).

[3] The Interstate decree expired "on the tenth anniversary of the date of its entry," *i.e.*, January 9, 2006. Final J. 17, *Interstate Bakeries Corp.*, No. 95 C 4194 (N.D. Ill. Jan. 9, 1996). The expiration is of no moment here because the decree was in force in 2004 when Interstate initiated the bankruptcy proceeding that gave rise to this appeal. *See Goggin v. Div. of Labor Law Enforcement of Cal.*, 336 U.S. 118, 126 n.7 (1949) ("'The general rule in bankruptcy is that the filing of the petition freezes the rights of all parties interested in the bankrupt estate.'" (quoting 4 *Collier on Bankruptcy* 228-29 (14th ed. 1942)); *Enter. Energy Corp. v. United States* (*In re Columbia Gas Sys. Inc.*), 50 F.3d 233, 240 (3d Cir. 1995) ("The time for testing whether there are material unperformed obligations [for purposes of § 365] is when the bankruptcy petition is filed.").

antitrust cases, the panel's ruling threatens effects well beyond this case. As a remedy to restore competition, the United States and the Federal Trade Commission frequently require antitrust defendants to grant perpetual, royalty-free, exclusive trademark licenses to competitors within a given region. In light of the "fundamental national values" embodied in the federal antitrust laws, *Phoebe Putney,* 133 S. Ct. at 1010, Section 365(a) cannot reasonably be interpreted to permit antitrust defendants freely to terminate such remedies.[4]

2. Even if the License Agreement were an executory contract for purposes of Section 365(a), the licensor could not reject it without consideration of the public interest. Ordinarily, a debtor may reject an executory contract unless the rejection is in bad faith or is an abuse of its business discretion. *Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc.* (*In re Richmond Metal Finishers, Inc.*), 756 F.2d 1043, 1047 (4th Cir. 1985). But when a debtor's rejection request implicates the national public interest, judicial treatment is more stringent, and courts weigh equities such as the potential effects of rejection on other

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[4] Whatever damages might be available to Lewis Brothers in the wake of the Licensing Agreement's rejection do nothing to advance the public interest in competition that is the basis of the decree.

entities. *See In re Old Carco LLC*, 406 B.R. 180, 189 (Bankr. S.D.N.Y. 2009).

For instance, in *NLRB v. Bildisco & Bildisco*, the Supreme Court held that, due to the "special nature of a collective-bargaining contract," a "stricter standard should govern the decision of the Bankruptcy Court to allow rejection." 465 U.S. 513, 524 (1984), *superseded by statute*, 11 U.S.C. § 1113. Thus, the Court required the debtor to show that the collective-bargaining agreement burdens the estate and that the equities favor rejection. *Bildisco*, 465 U.S. at 526; *cf. Mirant Corp. v. Potomac Elec. Power Co.* (*In re Mirant Corp.*), 378 F.3d 511, 525 (5th Cir. 2004) (importing *Bildisco*'s "public interest standard" to contracts certified by the Federal Energy Regulatory Commission, to "account for the public interest inherent in the transmission and sale of electricity").

Contracts implementing the government's antitrust divestiture decrees are even more strongly imbued with the public interest. Such contracts exist only because of a public enforcement action and a resulting judicial order to enter the contract. Rejecting them should require a standard even stricter than *Bildisco*'s. Specifically, the debtor "should not be permitted to reject . . . unless it can demonstrate that its

reorganization will fail unless rejection is permitted." *Bildisco*, 465 U.S. at 524 (citing the standard adopted in *Bhd. of Ry., Airline & S.S. Clerks v. REA Express, Inc.*, 523 F.2d 164, 167-69 (2d Cir. 1975)) . The *Bildisco* Court eschewed that stringent standard in the collective-bargaining context, *id.* at 525, but it is, we submit, the right standard to apply when a debtor seeks to reject an executory contract that was ordered by a district court decree as an antitrust remedy—assuming Section 365(a) even applies in such circumstances.

3. Neither the parties nor the courts in this case have addressed the implications of 11 U.S.C. § 365(n), which deals with the rights of licensees when a "trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property." 11 U.S.C. § 365(n)(1). The statute expressly allows the licensee to retain certain rights to the intellectual property, "including a right to enforce any exclusivity provision of such contract." *Id.* § 365(n)(1)(B).

Congress enacted Section 365(n) in response to a decision of the Fourth Circuit holding that, when an intellectual-property license is rejected in bankruptcy, the licensee may no longer use any licensed copyrights, trademarks, and patents. *Lubrizol*, 756 F.2d 1043. The

court predicted that its ruling would almost certainly "have a general chilling effect upon the willingness of . . . parties to contract at all with businesses in possible financial difficulty," but it concluded that the Bankruptcy Code did not permit such equitable considerations. *Id.* at 1048.[5]

The court's prediction proved correct, and Congress added 11 U.S.C. § 365(n) to the Bankruptcy Code three years later. 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," contrary to *Lubrizol*. S. Rep. No. 100-505, at 1 (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3200.

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[5] Legal commentators uniformly criticize the *Lubrizol* rule. They have described its impact on America's intellectual property system as "immediate and awful," Nat'l Bankr. Review Comm'n, *The Commission's Recommendations Concerning the Treatment of Bankruptcy Contracts*, 5 Am. Bankr. Inst. L. Rev. 463, 470 (1997), characterized its implications as "'devastating'" to American industry, Jon Minear, *Your Licensor Has a License to Kill, and It May Be Yours: Why the Ninth Circuit Should Resist Bankruptcy Law That Threatens Intellectual Property Licensing Rights*, 31 Seattle U. L. Rev. 107, 110 (2007) (quoting Nick Vizy, *Corporate Counsel's Guide to Bankruptcy Law* § 18:1 (2007)), and denounced it as "deeply disruptive of commercial expectations and needs," as well as a "serious" error that "threatens commercial chaos," Jay Lawrence Westbrook, *A Functional Analysis of Executory Contracts*, 74 Minn. L. Rev. 227, 239, 240, 306 (1989).

While the amended Bankruptcy Code's definition of "intellectual property" does not expressly include or exclude trademarks, 11 U.S.C. § 101(35A), the Seventh Circuit recently concluded that Section 365(n) applies to trademark licenses. *Sunbeam*, 686 F.3d 372; *see also In re Exide Techs.*, 607 F.3d at 964-68 (Ambro, J., concurring). In his *Exide* concurrence, Judge Ambro read the legislative history of Section 365(n) to mean that courts "should not . . . use [§ 365] to let a licensor take back trademark rights it bargained away." *In re Exide Techs.*, 607 F.3d at 967.[6] Holding otherwise, he wrote, would "make[] bankruptcy more a sword than a shield, putting debtor-licensors in a catbird seat they often do not deserve." *Id.* at 967-68. The Seventh Circuit agreed, holding that "the omission [of trademarks from § 365(n)] was designed to allow more time for study, not to approve *Lubrizol*" and that "*Lubrizol* does not persuade us." *Sunbeam*, 686 F.3d at 375, 378.

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[6] The legislative history of the 1988 statute explains why Section 365(n) does not mention trademark licenses. The Senate Report noted that "such rejection is of concern" but thought the matter deserved "more extensive study," so it "postpone[d] congressional action in this area." S. Rep. No. 100-505, at 5, *reprinted in* 1988 U.S.C.C.A.N. at 3204. The Senate Report further explained that it "intend[ed no] inference to be drawn concerning the treatment of executory contracts which are unrelated to intellectual property." *Id.*

This Court has not yet addressed the *Lubrizol-Sunbeam* question, and the parties have not raised it. The implications of Section 365(n), however, should be considered in applying Section 365(a) to the License Agreement. Section 365(n)(1)(B) demonstrates Congress's concern about the potential for debtor-licensors to misuse Section 365(a) in order to gain an unfair advantage over private licensees. In light of that concern, Congress can hardly have meant Section 365(a) to be a way for a debtor-licensor to nullify its obligations under an antitrust decree. Thus, even if the Court concludes that Interstate may reject the License Agreement as executory under Section 365(a), it should make clear that Lewis Brothers may still use the trademarks to provide the competition fostered by the decree.

## CONCLUSION

This Court should grant either panel rehearing or rehearing en banc.

Respectfully submitted.

/s/ Adam D. Chandler

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May 31, 2013

## CERTIFICATE OF COMPLIANCE

1. This brief complies with the length limitation of Rule 29(d) of the Federal Rules of Appellate Procedure because, excluding material not counted under Rule 32, it is fifteen pages or fewer, the length that the Clerk of Court expressly permitted for this filing.

2. This brief complies with the typeface requirements of Rule 32(a)(5) of the Federal Rules of Appellate Procedure and the type style requirements of Rule 32(a)(6) because this brief has been prepared in a proportionally spaced typeface using Microsoft Office Word 2007 with 14-point New Century Schoolbook font.

3. This brief has been scanned for viruses and is virus-free.

May 31, 2013

/s/ Adam D. Chandler
*Attorney*

## CERTIFICATE OF SERVICE

I, Adam D. Chandler, hereby certify that on May 31, 2013, I electronically filed the foregoing Brief for the United States and the Federal Trade Commission as Amici Curiae in Support of Rehearing with the Clerk of the Court of the United States Court of Appeals for the Eighth Circuit by using the CM/ECF System.

I certify that all participants in the case are registered CM/ECF users and that service will be accomplished by the CM/ECF system.

May 31, 2013 /s/ Adam D. Chandler
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