UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

Case No. 06-80446-CIV-GOLD/TURNOFF

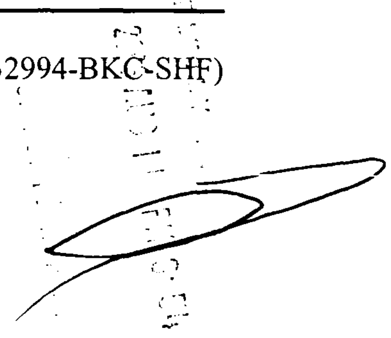
WELLINGTON VISION, INC., (Bankr. Court Case No. 05-32994-BKC-SHF)

Appellant,

v.

PEARLE VISION, INC.,

Appellee.



ON APPEAL OF A FINAL ORDER FROM
THE UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF FLORIDA

APPELLEE'S ANSWER BRIEF

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16
bb

TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES iii

PREFACE v

STATEMENT OF BASIS OF APPELLATE JURISDICTION 1

STATEMENT OF ISSUES PRESENTED ON APPEAL 1

STANDARD OF REVIEW 1

STATEMENT OF THE CASE AND FACTS 2

SUMMARY OF ARGUMENT 9

ARGUMENT 11

I. THE BANKRUPTCY COURT CORRECTLY GRANTED STAY RELIEF TO PVI BECAUSE THE DEBTOR COULD NOT ASSUME OR ASSIGN THE FRANCHISE AGREEMENT PURSUANT TO 11 U.S.C. § 365(c)(1) 11

A. Cause Exists Because Application of Section 365(c)(1) of the Bankruptcy Code Precludes the Debtor's Assumption or Assignment of the Franchise Agreement 11

B. Section 365(c)(1) of the Bankruptcy Code Creates a Hypothetical Test 14

C. Federal Trademark Law Is the Applicable Law Under Section 365(c)(1) which Excuses PVI from Accepting Performance from or Rendering Performance to a Party Other than the Debtor 17

1. The Lanham Act Is the "Applicable Law" Under Section 365(c)(1) 17

2. Trademark Licenses Are Personal and Cannot Be Assigned 21

II. THE BANKRUPTCY COURT CORRECTLY REJECTED THE SUBLEASE AND DENIED THE DEBTOR'S MOTION TO EXTEND TIME TO ASSUME OR REJECT THE SUBLEASE 23

III. THE BANKRUPTCY COURT DID NOT ABUSE ITS DISCRETION IN DENYING THE DEBTOR'S MOTION FOR RECONSIDERATION 23

CONCLUSION 25

CERTIFICATE OF SERVICE 26

APPENDIX

01/05/2006 Order on Motion of Pearle Vision, Inc. for Relief from the Automatic Stay and (II) Motion of Debtor to Extend Time to Assume or Reject Sublease [C.P. 66] **A-1**

03/15/2006 Order Denying Debtor's Motion for Reconsideration of the Order on (I) Motion of Pearle Vision, Inc. for Relief from the Automatic Stay and (II) Motion of Debtor to Extend Time to Assume or Reject Sublease [C.P. 108] **A-2**

In re Joly, Inc., Case Nos. 04-18069 (SJS) through 04-18070 (SJS) (Bankr. W.D. Wa. Jan. 7, 2005) (Unpublished) **A-3**

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TABLE OF AUTHORITIES

PAGE(S)

CASES

Access Now, Inc. v. Southwest Airlines, Co.,
385 F.3d 1324 (11th Cir. 2004) 12
Am. Home Assurance Co. v. Glenn Estess & Assocs., Inc.,
763 F.2d 1237 (11th Cir. 1985) 2, 24
Burger King Corp. v. Ashland Equities, Inc.,
181 F. Supp. 2d 1366 (S.D. Fla. 2002) 2
Concordia College Corp. v. W.R. Grace & Co.,
999 F.2d 326 (8th Cir. 1993) 2
Deutsch v. Burlington N. Ry. Corp.,
983 F.2d 741 (7th Cir. 1992), *cert. denied*, 507 U.S. 1030 (1993) 24
Everex Sys. v. Cadtrak Corp. (In re CFLC, Inc.),
89 F.3d 673 (9th Cir. 1996) 15
Fla. Ass'n of Rehabilitation Facilities, Inc. v. Fla.,
225 F.3d 1208 (11th Cir. 2000) 2
In re Brown,
290 B.R. 415 (Bankr. M.D. Fla. 2003) 11
In re Camptown, Ltd.,
96 B.R. 352 (Bankr. M.D. Fla. 1989) 12
In re Catapult Entm't, Inc.,
165 F.3d 747 (9th Cir. 1999) .... passim
In re Dixie Broadcasting, Inc.,
871 F.2d 1023 (11th Cir. 1989) 1
In re Footstar, Inc.,
323 B.R. 566 (Bankr. S.D.N.Y. 2005) 12
In re Freeman,
956 F.2d 252 (11th Cir. 1992) 24
In re Holtkamp,
669 F.2d 505 (7th Cir. 1982) 1
In re Investors Fla. Aggressive Growth Fund, Ltd.,
168 B.R. 760 (Bankr. N.D. Fla. 1994) 24
In re James Cable Partners, L.P.,
27 F.3d 534 (11th Cir. 1994) .... passim
In re Joly, Inc., Nos. 04-18069 (SJS) through 04-18070 (SJS)
(Bankr. W.D. Wa. Jan.7, 2005) 22
In re N.C.P. Mktg. Group, Inc,
337 B.R. 230 (D. Nev. 2005) 21, 22
In re Regency Woods Apartments, Ltd.,
686 F.2d 899 (11th Cir. 1982) 1
In re Rovine Corp.,
6 B.R. 661 (Bankr. W.D. Tenn. 1980) 12
In re Sunterra Corp.,
361 F.3d 257 (4th Cir. 2004) .... passim

In re Travelot,
286 B.R. 447 (Bankr. S.D. Ga. 2002) .... passim
In re West Elecs., Inc.,
852 F.2d 79, 83 (3d Cir. 1988) 14, 15, 16
McCarthy v. Mayo,
827 F.2d 1310 (9th Cir. 1987) 2
Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.,
814 F.2d 844 (1st Cir. 1987) 1
Power Test Petroleum Distribs., Inc. v. Calcu Gas, Inc.,
754 F.2d 91 (2d Cir.1985) 22
Stork Restaurant v. Sahati,
166 F.2d 348 (9th Cir.1948) 22
SunAmerica Corp. v. Sun Life Assurance Co. of Canada,
77 F.3d 1325 (11th Cir. 1996) 2
United States v. Childress,
104 F.3d 47 (4th Cir. 1996) 2
United States v. Prairie Pharmacy, Inc.,
921 F.2d 211 (9th Cir. 1990) 2

STATUTES

11 U.S.C. § 1107 6
11 U.S.C. § 1107(a) 12
11 U.S.C. § 1108 6
11 U.S.C. § 362(a) 11
11 U.S.C. § 362(d) 6, 10, 11
11 U.S.C. § 365 21
11 U.S.C. § 365(a) 12
11 U.S.C. § 365(c)(1) .... passim
11 U.S.C. § 365(c)(1)(A) 9, 14
11 U.S.C. § 365(f)(1) 12
15 U.S.C. § 1060 22
15 U.S.C. § 1060(a)(1) 18
15 U.S.C. § 1072 17
15 U.S.C. § 1114 17
15 U.S.C. § 1125 18
15 U.S.C. § 1127 17
28 U.S.C. § 158(a) 1

RULES

Fed. R. Bankr. P. 8006 24
Fed. R. Civ. P. 59(e) 2, 24

TREATISES

1 David G. Epstein, et al., BANKRUPTCY § 5-15 (1992) 9, 13
3 COLLIER ON BANKRUPTCY ¶ 365.03[1] (Lawrence P. King et al. eds., 15th ed. rev. 2001) 12
4 MCCARTHY ON TRADEMARKS & UNFAIR COMPETITION § 25.33 (4th ed. 2005) 22

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PREFACE

This is an appeal from the January 5, 2006 Order on the (I) Motion of Pearle Vision, Inc. for Relief from the Automatic Stay and (II) Motion of Debtor to Extend Time to Assume or Reject Sublease, [C.P.66] (the "**Stay Relief Order**"), and March 15, 2006 Order Denying Debtor's Motion for Reconsideration of the Order on (I) Motion of Pearle Vision, Inc. for Relief from the Automatic Stay and (II) Motion of Debtor to Extend Time to Assume or Reject Sublease, [C.P.108], (the "**Order Denying Reconsideration**") (both collectively referred to herein as the "**Appealed Orders**"), entered by the United States Bankruptcy Court for the Southern District of Florida (hereinafter referred to as the "**Bankruptcy Court**").

Appellant WELLINGTON VISION, INC. will be referred to herein as "**Debtor**" or "**Appellant.**" Appellee PEARLE VISION, INC. will be referred to herein as "**PVI**" or "**Appellee.**"

Title 11 of the United States Code will be referred to herein as the "**Bankruptcy Code.**" The Federal Rules of Bankruptcy Procedure will be referred to herein as "**Bankruptcy Rule(s)** ####." The Federal Rules of Civil Procedure will be referred to herein as "**FRCP ##.**"

The record on appeal will be referred to herein by the lower court's assigned document number either as "**C.P. ___**", or "**C.P. ___ [page number(s)] and/or ¶ number(s)]**."

References to Appellee's Appendix will be cited as "**[A- (appendix number) at (page number(s) and/or ¶ number(s))]**."

STATEMENT OF BASIS OF APPELLATE JURISDICTION

This appeal is from a final order of the Bankruptcy Court granting relief from the automatic stay. *In re Dixie Broadcasting, Inc.*, 871 F.2d 1023, 1026 (11th Cir. 1989) (order granting relief from automatic stay is a final appealable order); *In re Regency Woods Apartments, Ltd.*, 686 F.2d 899, 902 (11th Cir. 1982) (same). This Court has jurisdiction over this appeal pursuant to Section 158(a), Title 28 of the United States Code. *See* 28 U.S.C. § 158(a) (district courts have jurisdiction over appeals from bankruptcy court's final judgments, orders, and decrees).

STATEMENT OF ISSUES PRESENTED ON APPEAL

The issues on appeal are:

1. Whether the Bankruptcy Court correctly held that pursuant to 11 U.S.C. § 365(c)(1) of the Bankruptcy Code PVI was entitled to relief from the automatic stay because the franchise agreement between the debtor and PVI could not be assumed by the debtor as debtor in possession over PVI's objection?
2. Whether the Bankruptcy Court properly denied the Debtor's third motion to extend the deadline to assume or reject a certain sublease between the Debtor and PVI, which was part of the franchise agreement?

STANDARD OF REVIEW

"A decision to lift the stay is discretionary with the bankruptcy judge, and may be reversed only upon a showing of abuse of discretion." *Dixie Broadcasting*, 871 F.2d at 1026 (citing *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 814 F.2d 844, 847 (1st Cir. 1987) and *In re Holtkamp*, 669 F.2d 505, 507 (7th Cir. 1982)). A court abuses its discretion "when a relevant factor deserving a significant weight is overlooked, when an improper factor deserving of significant weight is overlooked, or when the court considers the appropriate mix of factors, but commits palpable error of judgment in calibrating the decisional scales." *Burger King Corp. v. Ashland Equities, Inc.*, 181 F. Supp. 2d 1366, 1370 (S.D. Fla.

2002). A court also abuses its discretion when it misapplies the law. *Fla. Ass'n of Rehabilitation Facilities, Inc. v. Fla.*, 225 F.3d 1208, 1218 (11th Cir. 2000) (citing to *SunAmerica Corp. v. Sun Life Assurance Co. of Canada*, 77 F.3d 1325, 1333 (11th Cir. 1996), finding that a court necessarily abuses its discretion if it "has applied an incorrect legal standard"); *United States v. Prairie Pharmacy, Inc.*, 921 F.2d 211, 212 (9th Cir. 1990) ("[a] court abuses its discretion when it bases its decision on an erroneous conclusion of law or when the record contains no evidence on which it could rationally base its decision"). Further, questions regarding the interpretation and application of the Bankruptcy Code are reviewed *de novo. In re James Cable Partners, L.P.*, 27 F.3d 534, 535 (11th Cir. 1994); *see also In re Sunterra Corp.*, 361 F.3d 257, 263 (4th Cir. 2004) .

Additionally, the standard of review for a motion for reconsideration is abuse of discretion. *Am. Home Assurance Co. v. Glenn Estess & Assocs., Inc.*, 763 F.2d 1237, 1238-39 (11th Cir. 1985) ("decision to alter or amend judgment is committed to the sound discretion of the district judge and will not be overturned on appeal absent an abuse of discretion"). *See also McCarthy v. Mayo*, 827 F.2d 1310, 1314 (9th Cir. 1987) (standard of review of a bankruptcy court's denial of an FRCP a motion for reconsideration pursuant to Rule 59(e) of the Federal Rules of Civil Procedure is abuse of discretion); *Ashland Equities, Inc.*, 181 F. Supp. at 1370 (same).

STATEMENT OF THE CASE AND FACTS

A. Background

On or about April 1, 2002, PVI, as franchisor, and Philip DeSantis, O.D. ("DeSantis"), individually, as franchisee, entered into a franchise agreement (the "Franchise Agreement") for the operation of PVI Store No. 8432 located at The Mall at Wellington Green, 10540 Forest Hill

Boulevard, Suite C-4, Wellington, Florida 33414 (the "Location"). [C.P. 19, Ex. "A," Terrell Aff. at ¶ 2]. The franchised business entailed, among other things, the selling of eye-wear, contact lenses and related optical accessories, as well as providing optical laboratory, vision correction, eye-wear repair and eye examination services. [C.P. 19, ¶ 4].

On the date the Franchise Agreement was executed, PVI and DeSantis also entered into a sublease agreement for the lease of the premises at the Location (the "Sublease"), which agreement was an integral part of the Franchise Agreement. [C.P. 19, "Attachment J to Franchise Agreement: Sublease"]. The Sublease is governed by a master lease that PVI, as lessee, entered into, on or about June 14, 2001, with Cedar Development Ltd., as lessor (the "Master Lease" together with the Sublease, are hereinafter collectively referred to as the "Lease"). [*Id.*, "Shopping Center Lease Agreement"].

On April 8, 2002, DeSantis assigned his interest in the Franchise Agreement, Sublease and other ancillary agreements to his wholly-owned operating company, Pearle Vision WG, Inc. [C.P. 19, Ex. "A" at Assignment and Assumption Agreement]. On that same date, PVI consented to the transfer. [C.P. 19, Ex. "A" at ¶¶ 7(B), 17(D) and Agreement and Consent]. PVI consented to the transfer, because DeSantis owned and would continue to own one hundred percent of Pearle Vision WG, Inc., and agreed to be the sole "Designated Operator" for the franchised business. [C.P. 19, "Agreement and Consent," ¶ 1(e)-(f)]. Additionally, DeSantis provided a personal guaranty to PVI wherein he unconditionally, absolutely and irrevocably guaranteed all payment and obligations of Pearle Vision WG, Inc. under the terms of the Franchise Agreement. [*Id.*, "Personal Guaranty"]. In the Personal Guaranty, DeSantis acknowledged that the Franchise Agreement and Ancillary Agreements will directly benefit his as a franchisee and member of Pearle Vision WG, Inc. [Id. at "Personal Guaranty" at ¶ C].

Thereafter, on April 15, 2003, PVI and Pearle Vision WG, Inc. entered into an Amendment of Franchise Agreement whereby Pearle Vision WG, Inc. changed its name to Wellington Vision, Inc., the Debtor.

Under the Franchise Agreement, PVI granted Appellant a "***non-transferable, non-exclusive right, license and privilege*** to use the Pearl Vision System solely in connection with the operation of the Franchised Business at the Location." [*Id.*, "Franchise Agreement," ¶ 1(A)]. The Pearle Vision System includes:

> proprietary rights in certain ***valuable trade names, service marks, trademarks, logos, emblems, and indicia of origin*** (the "Marks"). It also includes proprietary rights in certain copyrights, software, office decor, layouts, design, color schemes, equipment, signs, methods of inventory and operation control, bookkeeping and accounting, advertising, promotional and marketing programs, access to private label products, and business practices and policies.

[*Id.*, Introduction at ¶ 1] (emphasis added).

In addition, the Franchise Agreement grants a franchisee a limited license to use PVI's Marks, and specifically provides, in pertinent part, that

> the ***Marks are the exclusive property of PVI***, and that nothing herein shall give Franchisee any right, title or interest in or to any of the Marks except as a ***mere privilege and license*** during the term hereof to display and use the same according to the limitation set forth herein. All uses of the Marks by Franchisee inure to the benefit of PVI. ***Franchisee understands and agrees that the limited license to utilize the Marks granted hereby applies only to such marks as are designated by PVI***, and which have not been designated by PVI as being withdrawn from use, together with those which may hereafter be designated by PVI in writing. . . . ***Franchisee's right to use the Marks is limited to such uses as are authorized hereunder, and any unauthorized use thereof shall constitute an infringement of PVI's rights*** and a material and incurable breach of this Agreement which, unless waived by PVI, shall entitle PVI to terminate this Agreement unilaterally and immediately upon notice to Franchisee, with no opportunity to cure, and this Agreement shall thereafter be null, void, and of no

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> effect (except for those post-termination and post-expiration provisions which by their nature shall survive).

[*Id.*, ¶¶ 40(A)-(B)] (emphasis added).

In exchange for enjoying the benefits of the "Pearl Vision System," including the use of PVI's Marks, the Debtor was obligated to pay PVI a royalty fee equal to seven percent (7%) of its monthly gross revenue (the "Royalty Payment"), and nine percent (9%) of its monthly gross revenue for advertising and marketing fees (the "Advertising & Marketing Fees"). [*Id.*, ¶¶ 13(A), 14(A), Terrell Aff. at ¶ 3]. Because the obligations under the Franchise Agreement were "personal and being entered into in reliance upon and in consideration of the singular personal skill and qualifications of Franchisee, and the trust and confidentiality reposed in Franchisee by PVI," the Franchise Agreement could not "be transferred, assigned, sold, shared, redeemed, sublicensed or divided, voluntarily or involuntarily, directly or indirectly, by operation of law or otherwise, in any manner, without the prior written consent of PVI procured in accordance with the terms and conditions set forth in . . . paragraph 17." [*Id.*, Ex. "A", ¶ 17(A)]. The Debtor also specifically acknowledged and agreed that it shall not be unreasonable for PVI to impose, among other requirements, a number of conditions precedent to its consent to any such transfer, which are set forth at length in the Franchise Agreement. [*Id.*, ¶ 17(B)].

In addition, the Lease required Debtor to pay an annual base rent in twelve equal monthly installments (the "Base Rent") to PVI. [*Id.*, "Attachment J to Franchise Agreement: Sublease," ¶ 7; *Id.*, "Shopping Center Lease Agreement," ¶ 1.09]. In addition to the Base Rent, Debtor was also required to pay sales taxes assessed by the State of Florida (the "Sales Taxes") as well as common area maintenance charges ("CAM," which together with Base Rent and Sales Taxes are hereinafter collectively referred to as the "Monthly Rent"). [*Id.*] The Royalty Payment,

Advertising & Marketing Fees and Monthly Rent were required to be paid the eighth (8th) day of each calendar month for the previous month. [*Id.*, "Franchise Agreement," ¶ 26(A)].

It is undisputed that before the date the Debtor filed for bankruptcy, the Debtor failed to pay the Royalty Payments and Advertising & Marketing Fees to PVI in the amount $11,759.80. [C.P. 19, Ex. B., Terrell Aff. at ¶ 5].

B. The Debtor's Bankruptcy Proceedings

On June 14, 2005 (the "Petition Date"), the Debtor filed a petition for voluntary relief under Chapter 11 of the Bankruptcy Code. [C.P. 1, C.P. 19, Terrell Aff. at ¶4]. Subsequently, the Debtor continued the management and operation of its business as a debtor-in-possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code. [C.P. 19, ¶ 3].[1]

On July 21, 2005, pursuant to Section 362(d) of the Bankruptcy Code, PVI filed a motion seeking relief from the automatic stay (the "Stay Relief Motion") to terminate the Franchise Agreement and to pursue related relief to prohibit the Debtor from using, among other things, PVI's Marks. [C.P. 19]. PVI alleged that, pursuant to Section 365(c)(1) of the Bankruptcy Code, because applicable federal trademark law -- the Lanham Act -- excused PVI from accepting performance from or rendering performance to a hypothetical third party (or an entity other than the Debtor), PVI was entitled to relief from the automatic stay due to the Debtor's inability to assume and/or assign the Franchise Agreement without PVI's consent even if the Debtor did not intend to assign the contract to a third party. [*Id.*]

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[1] On March 21, 2006, the Court entered an order converting the Debtor's case to a Chapter 7. [C.P. 113]. Soon thereafter, Robert C. Furr was appointed as Chapter 7 trustee for the Debtor's bankruptcy estate. [C.P. 117]. Prior to the conversion of the Debtor's case, however, no trustee or examiner was appointed, and no official committee of unsecured creditors was formed.

On July 29, 2005, the Debtor filed its response in opposition to PVI's Stay Relief Motion. [C.P. 22]. In its response, the Debtor admitted that the Franchise Agreement was a license agreement for the use of PVI's Marks. [*Id.* at ¶ 7]. The Debtor also admitted that the Franchise Agreement granted the Debtor the full use of the Pearl Vision System, which, as set forth above, includes the PVI Marks. [*Id.*, ¶ 7]. Further, the Debtor argued that PVI's Stay Relief Motion was premature, because the Franchise Agreement was assignable with the consent of PVI, which consent could not be unreasonably withheld. [*Id.*, ¶ 8]. Not surprisingly, since citation to legal authority would be contrary to Eleventh Circuit precedent, the Debtor's response was devoid of any authority to support its propositions.

On August 31, 2005, the Bankruptcy Court held a hearing on PVI's Stay Relief Motion. [C.P. 155]. Because the Sublease was part of the Franchise Agreement, the Debtor sought three separate extensions of the deadline to assume or reject the Sublease to allow the Bankruptcy Court to rule on PVI's Motion for Stay Relief, including PVI's right to terminate the Franchise Agreement. [C.P. 25, 48, & 62]. The Bankruptcy Court granted extensions through December 27, 2005, the date of the hearing on the Debtor's third motion to extend the deadline to assume or reject the Sublease. [C.P. 32, 51, & 63].

On January 5, 2006, the Bankrutpcy Court entered the Stay Relief Order, [A-1], granting to PVI relief from the automatic stay. In so doing, the Bankruptcy Court specifically found that

> pursuant to § 365(c)(1) of the Bankruptcy Code, ***the Debtor herein may not assume or assign the Franchise Agreement without the consent of [PVI] based on, among other things, the fact that the Debtor has a non-exclusive trademark license with PVI.*** As a result, because the Franchise Agreement is an executory contract, ***applicable federal trademark law excuses PVI from accepting performance from or rendering performance to an entity other than the Debtor*** thereby precluding assumption by the Debtor without the consent of PVI as a matter of law.

[*Id.*] (emphasis added). The Bankruptcy Court, among other things, granted PVI relief from the automatic stay to terminate the Franchise Agreement with the Debtor and to exercise all of its rights under applicable non-bankruptcy law. [*Id.*]. Further, the Bankruptcy Court ordered the Sublease rejected as of December 27, 2005,[2] and denied the Debtor's third motion to extend the deadline to assume or reject the Sublease. [*Id.*].

On January 13, 2006, the Debtor filed a motion with the Bankrutpcy Court for the reconsideration of the Appealed Order ("Motion for Reconsideration"). In the Motion for Reconsideration, the Debtor admitted that pursuant to *Sunterra*, 361 F.3d 257 (4th Cir. 2004), "the inclusion of a right to use a trademark precludes the assumption of the franchise agreement." [C.P. 72 at 2]. Further, without producing any evidence and for the first time, Debtor argued that it "believed" that it had found a "Transferee," who would be acceptable to PVI. [*Id.*, at 3]. The Bankruptcy Court heard argument on the Motion for Reconsideration, and thereafter, denied the relief requested therein. [A-2].

On March 27, 2006, Debtor filed this appeal. On April 10, 2006, the Debtor filed its Statement of Issues on Appeal (the "Statement of Issues"). In the Statement of Issues, the Debtor set forth only two issues to be presented in this appeal:

1. Whether the Court properly denied the Debtor's Motion Extend Time to assume or Reject the Sublease between Pearle Vision, Inc. and the Debtor.
2. Whether the Court properly granted the Motion for Relief from Stay file by Pearle Vision, Inc.

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[2] Despite the entry of the Order rejecting the Sublease, the Debtor refused to vacate the Premises. Accordingly, PVI filed an Emergency Motion for Order to Expel Debtor from Premises after Termination of Sublease, [C.P. 77], which the Bankruptcy Court granted on February 16, 2006, [C.P. 80]. Eventually, the Debtor vacated the Premises.

Despite limiting the issues for this appeal as set forth above, in its Initial Brief, the Debtor improperly raised a third issue, that the Bankruptcy Court's denial of the Motion for Reconsideration was clearly erroneous.

SUMMARY OF ARGUMENT

Section 365(c)(1) of the Bankruptcy Code allows "applicable law" to excuse a party "from accepting performance from or rendering performance to" a third party absent such party's consent to assignment or assumption. The plain language of Section 365(c)(1) of the Bankruptcy Code "links nonassignability under 'applicable law' together with a prohibition on assumption in bankruptcy." *In re Catapult Entm't, Inc.,* 165 F.3d 747, 749 (9th Cir. 1999), *citing* 1 David G. Epstein, Steve H. Nickles & James J. White, BANKRUPTCY § 5-15 at 474 (1992). In other words, Section 365(c)(1), by its terms, bars a debtor-in-possession from *assuming* an executory contract without the non-debtor's consent where applicable law precludes *assignment* of such contract to a third party. *Catapult,* 165 F.3d at 749.

Section 365(c)(1) of the Bankruptcy Code *also* makes clear that assumption and assignment are two conceptually distinct events and that each of these events is contingent upon the non-debtor's separate consent. *See id; see also Sunterra,* 361 F.3d 257, 267 (4th Cir. 2004). For example, where a non-debtor consents to the *assumption* of an executory contract, "subsection (c)(1) will have to be applied a second time if the debtor in possession wishes to *assign* the contract in question. On that second application, the relevant question would be whether 'applicable law excuses a party from accepting or rendering performance to an entity other than ... the debtor in possession." *Id., citing* 11 U.S.C. § 365(c)(1)(A); *see also Sunterra,* 361 F.3d at 267.

In this case, the Franchise Agreement between PVI and the Debtor grants the Debtor the right to use the Pearle Vision System, which includes, among other things, the right to use PVI's Marks. An assignment of PVI's Marks without PVI's consent is prohibited by applicable federal trademark law -- the Lanham Act -- which specifically protects PVI from the non-consensual assignment of the Franchise Agreement to a third party, even if the Debtor did not plan on actually assigning the Franchise Agreement.

PVI has not consented to the assignment of the Franchise Agreement to anyone, including the Debtor. Because PVI is excused from accepting performance from or rendering performance to an entity other than the Debtor, the Debtor lacked the ability to assume and/or assign the Franchise Agreement as a matter of law. Pursuant to Section 365(c)(1) of the Bankruptcy Code, the Bankruptcy Court correctly determined that cause existed under Section 362(d) of the Bankruptcy Code to grant PVI relief from the automatic stay to exercise its rights under the Franchise Agreement, including the termination of the Franchise Agreement.

For these same reasons, the Debtor could not assume or reject the Sublease because, as noted above, it was an integral part of the Franchise Agreement. Thus, the Bankruptcy Court also correctly denied the Debtor's Motion to Extend Time to Assume or Reject the Sublease, because there was nothing for the Debtor to assume or reject.

Accordingly, PVI respectfully requests that the Appealed Orders be affirmed, that judgment be entered in favor of PVI, and that PVI be awarded all costs incurred below and on appeal, including reasonable attorneys' fees.

ARGUMENT

I. THE BANKRUPTCY COURT CORRECTLY GRANTED STAY RELIEF TO PVI BECAUSE THE DEBTOR COULD NOT ASSUME OR ASSIGN THE FRANCHISE AGREEMENT PURSUANT TO 11 U.S.C. § 365(c)(1)

The Bankruptcy Court correctly granted stay relief to PVI because the Debtor lacked the ability to assume or assign the Franchise Agreement pursuant to Section 365(c)(1) . In the instant case, the Debtor's filing for bankruptcy protection automatically operated as a stay of any action against the Debtor, including the termination of the Franchise Agreement. 11 U.S.C. § 362(a). PVI, as a party in interest, however, could obtain relief from the automatic stay for cause with respect to estate property if "(A) the debtor does not have an equity interest in such property; and (B) such property is not necessary to an effective reorganization." 11 U.S.C. § 362(d). While "cause" is not defined by the Bankruptcy Code, *In re Brown*, 290 B.R. 415, 423 (Bankr. M.D. Fla. 2003), in the instant case, PVI unequivocally demonstrated that sufficient cause existed to warrant relief from the automatic stay, because the Debtor lacked the ability to assume or assign the Franchise Agreement without PVI's consent pursuant to applicable federal trademark law. Thus, this Court must affirm the Appealed Orders.

A. Cause Exists Because Application of Section 365(c)(1) Precludes the Debtor's Assumption or Assignment of the Franchise Agreement

Applicable federal trademark law specifically excuses PVI from accepting performance from or rendering performance to a party other than the Debtor under the Franchise Agreement. The Franchise Agreement grants to the Debtor a non-exclusive right to use PVI's Marks. The Franchise Agreement prohibits the assignment of the Franchise Agreement without PVI's consent. PVI has not consented to the assignment of the Franchise Agreement by the Debtor.

Section 365(a) of the Bankruptcy Code sets forth the basic power of a trustee or debtor-in-possession[3] to "assume or reject any executory contract or unexpired lease of the debtor." 11 U.S.C. § 365(a). "It is well established that as a general proposition an executory contract must be assumed or rejected in its entirety." *In re Camptown, Ltd.*, 96 B.R. 352, 355 (Bankr. M.D. Fla. 1989) (citations omitted), *order amended on other grounds*, 98 B.R. 596 (Bankr. M.D. Fla. 1989). Where an executory contract contains several executory clauses, the debtor-in-possession may not choose to assume or reject some executory clauses within the contract and not others. *In re Rovine Corp.*, 6 B.R. 661, 666 (Bankr. W.D. Tenn. 1980). (citation omitted). *See also* 3 COLLIER ON BANKRUPTCY ¶ 365.03[1] (Lawrence P. King et al. eds., 15th ed. rev. 2001) ("An executory contract may not be assumed in part and rejected in part").

Section 365(f)(1) of the Bankruptcy Code generally permits a trustee or debtor-in-possession to assume and subsequently assign to a third party an executory contract or unexpired lease of the debtor without regard to any provision to the contrary in the executory contract or unexpired lease, or in applicable law[4] that "prohibits, restricts, or conditions the assignment of such contract or lease." 11 U.S.C. § 365(f)(1) . However, this general assumption and

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[3] Citing *In re Footstar, Inc.*, 323 B.R. 566 (Bankr. S.D.N.Y. 2005), the Debtor argues for the first time on appeal that for purposes of section 365(c)(1), the debtor in possession and trustee are different entities. However, the Debtor has waived this argument, because it was not raised below. *Access Now, Inc. v. Southwest Airlines, Co.*, 385 F.3d 1324, 1331 (11th Cir. 2004). Further, the term "trustee" as in used in section 365(c) plainly includes a Chapter 11 debtor in possession. *Sunterra*, 361 F.3d at 261; *Catapult*, 165 F.3d at 750; *see also James Cable Partners*, 27 F.3d 534, 537 (11th Cir. 1994). This is so because in a Chapter 11 case, a debtor-in-possession has the same right and power as a trustee to assume or reject executory contracts or unexpired leases under Section 365. *See* 11 U.S.C. § 1107(a).

[4] The term "applicable law" as used in Section 365(f)(1) refers to "general prohibitions barring assignment." *James Cable Partners*, 27 F.3d 534, 538 (11th Cir. 1994); *see also Sunterra*, 361 F.3d 257, 266 (4th Cir. 2004) ("Section 365(f)(1) lays out the broad rule -- a law that, as a general matter, 'prohibits, restricts, or conditions the assignment' of executory contracts. . . . "); *Catapult*, 165 F.3d 747, 752 (9th Cir. 1999) (same).

assignment authority is subject to the carefully crafted exception found in Section 365(c)(1), which provides in pertinent part that:

> The trustee **may not assume or assign** any executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if
>
> (1)(A) ***applicable law*** excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to an entity other than the debtor or debtor in possession, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties; and
>
> (B) such party ***does not consent*** to such assumption or assignment.

11 U.S.C. § 365(c)(1) (emphasis added). Thus, the plain language of Section 365(c)(1) of the Bankruptcy Code "links nonassignability under 'applicable law' together with a prohibition on assumption in bankruptcy." *Catapult,* 165 F.3d 747, 749 (9th Cir. 1999), *citing* 1 David G. Epstein, Steve H. Nickles & James J. White, BANKRUPTCY § 5-15 at 474 (1992). The term "applicable law" under Section 365(c)(1) "'does not merely recite a general ban on assignment, but instead more specifically excuses a party . . . from accepting performance from or rendering performance to an entity different from the one with which the party originally contracted. . . ." *Sunterra*, 361 F.3d 257, 266 (4th Cir. 2004). In other words, Section 365(c)(1), by its terms, bars a debtor-in-possession from *assuming* an executory contract without the non-debtor's consent where applicable law precludes *assignment* of such contract to a third party. *Catapult,* 165 F.3d at 749.

The plain language of Section 365(c)(1) of the Bankruptcy Code *also* makes clear that assumption and assignment are two distinct events and that each of these events is contingent upon the non-debtor's separate consent. *See id; see also Sunterra,* 361 F.3d 257, 267 (4th Cir. 2004). For example, where a non-debtor consents to the *assumption* of an executory contract, "subsection (c)(1) will have to be applied a second time if the debtor in possession wishes to

assign the contract in question. On that second application, the relevant question would be whether 'applicable law excuses a party from accepting or rendering performance to an entity other than . . . the debtor in possession." *Id.*, citing 11 U.S.C. § 365(c)(1)(A) ; *see also Sunterra,* 361 F.3d at 267. Thus, because applicable federal trademark law precludes the Debtor's assumption or assignment of the Franchise Agreement, the Bankruptcy Court correctly determined that cause existed to grant PVI relief from the automatic stay to pursue its rights under the contract, including its termination.

B. Section 365(c)(1 of the Bankrutpcy Code Creates a Hypothetical Test

While the Debtor in this case argues that this Court should adopt a different approach,[5] the Eleventh Circuit Court of Appeals has clearly held that Section 365(c)(1) of the Bankruptcy Code creates a hypothetical test – namely that a debtor cannot assume an executory contract if applicable law prevents the involuntary assignment of that contract. *See James Cable Partners,* 27 F.3d 534, 537 (11th Cir. 1994).[6] The test is deemed "hypothetical" because the debtor need not actually propose to assign the executory contract in question in order to prevent the assumption of such contract. *See id.; see also In re West Elecs., Inc.*, 852 F.2d 79, 83 (3d Cir. 1988); *Sunterra*, 361 F.3d at 269; *Catapult*, 165 F.3d at 750.

Following the Eleventh Circuit, the Ninth Circuit in *Catapult* held, that under a plain reading of Section 365(c)(1) of the Bankruptcy Code, the debtor was barred from assuming

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[5] In its brief, the Debtor argues that the Bankruptcy Court and this Court should adopt the "actual test." Appellant's Br. at 6-9. However, because the Eleventh Circuit has already adopted the "hypothetical test" in *James Cable Partners*, this Court, as the Bankruptcy Court, below is constrained to apply the "hypothetical test."

[6] In *James Cable Partners,* the Eleventh Circuit ultimately concluded that the contract in question could be assumed by the debtor because the "applicable law" cited by the City of Jamestown, Tennessee, was merely a law prohibiting a general assignment as opposed to the Lanham Act, which excuses PVI from accepting performance from or rendering performance to a third party. *See Catapult,* 165 F.3d at 752.

patent licenses without the licensor's consent. The Ninth Circuit noted that federal patent law constitutes "applicable law" within the meaning of Section 365(c)(1) and that nonexclusive patent licenses are "personal and assignable only with the consent of the licensor." *Catapult,* 165 F.3d at 750, *citing Everex Sys. v. Cadtrak Corp. (In re CFLC, Inc.),* 89 F.3d 673, 680 (9th Cir. 1996). The Ninth Circuit further held that the debtor was precluded from assuming the patent licenses, on the basis that applicable non-bankruptcy law excused the licensor from accepting performance from any hypothetical third party – even though the debtor did not intend to assign the contract to a third party. *See id.* at 747-54. Moreover, the Ninth Circuit conducted a detailed analysis with regard to the statutory construction of Section 365(c)(1) by closely examining its plain meaning and legislative history. The Court concluded that if applicable non-bankruptcy law prohibited the non-consensual assignment of an executory contract, then a debtor would be prohibited from assuming such contract – even if the debtor did not intend to assign the contract to a third party. *See id.*

The Third Circuit has likewise adopted the hypothetical test. In *West Elecs.*, the debtor was a party to a contract with the United States government to provide missile launcher supply units to the United States Air Force. After the debtor filed for bankruptcy, the government moved for relief from the automatic stay in order to terminate the contract. The Bankruptcy Court denied the government's motion. After the District Court affirmed, the Third Circuit reversed the lower court's decision and held that the government should have been granted stay relief to terminate the contract. Indeed, the Third Circuit analyzed Section 365(c)(1) and its legislative history thereby concluding that if non-bankruptcy law provided that the debtor could not *assign* the contract without the government's consent, then the debtor was also unable to *assume* the contract without the government's consent. Specifically, the Third Circuit stated:

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> Thus, if non-bankruptcy law provides that the government would have to consent to an assignment of the West contract to a third party, i.e., someone 'other than the debtor or debtor in possession,' then West, as the debtor in possession, cannot assume the contract. This provision limiting assumption of contracts is applicable to any contract subject to a legal prohibition against assignment.

West Elecs., 852 F.2d at 83.

The Third Circuit went on to note that the applicable non-bankruptcy law in that case, 41 U.S.C. § 15, required the government's consent to the assignment of the contract at issue. *See id.* Thus, the Court concluded that "[i]t therefore necessarily follows that under 11 U.S.C. § 365(c)(1), West, as a debtor in possession, cannot assume this contract." *Id.*

More recently, the Fourth Circuit also adopted the hypothetical approach of the Eleventh, Ninth and Third Circuits. In the Fourth Circuit's *Sunterra* decision, the Court held that a debtor was precluded from assuming a computer software licensing agreement, on the basis that applicable copyright law excused the other party to the contract from accepting performance from any hypothetical third party - even though the debtor did not intend to assign the contract to a third party. *See Sunterra,* 361 F.3d at 257. The Fourth Circuit performed an extensive analysis with regard to the statutory construction of Section 365(c) by looking to the statute's plain meaning and legislative history. The Court concluded, that if applicable non-bankruptcy law prohibited the non-consensual assignment of an executory contract, then a debtor would be prohibited from assuming such contract - even if the debtor did not intend to assign the contract to a third party. *See id.* at 262-71.

In the instant case, the Debtor does not dispute, because it cannot, that the Franchise Agreement is an executory contract. Further, applicable federal trademark law excuses PVI from accepting performance from or rendering performance to an entity other than the Debtor. Additionally, the Franchise Agreement may not be assumed or assigned by the Debtor, without

the consent of PVI, which PVI has not given. Thus, as a matter of law and in accordance with the Eleventh, Ninth, Fourth and Third Circuits, the Debtor is prohibited from assuming or assigning the Franchise Agreement.

C. Federal Trademark Law Is the Applicable Law under Section 365(c)(1) which Excuses PVI from Accepting Performance from or Rendering Performance to a Party Other than the Debtor

Because of the personal, non-exclusive non-assignable nature of the trademark license contained in the Franchise Agreement, which prohibits the assignment of any of PVI's Marks, the Debtor, cannot assume the Franchise Agreement as a matter of law.

1. The Lanham Act Is the "Applicable Law" under Section 365(c)(1)

The Lanham Trademark Act (the "Lanham Act") governs the parties' rights with respect to PVI's federally registered Marks, and is the "applicable law" under Section 365(c)(1). *See In re Travelot Co.*, 286 B.R. 447, 455 (Bankr. S.D. Ga. 2002) (trademark law is the 'applicable law' under Section 365(c)(1)). The Act provides protection to PVI as the registrant of its Marks. 15 U.S.C. § 1072. The Lanham Act defines a "trademark" as "any word, name, symbol or device, or any combination thereof . . . used by a person . . . to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown." 15 U.S.C. § 1127. PVI's Marks plainly fall under this definition.

As part of the many protections afforded to PVI under the Lanham Act, a party, for example, can be held liable for infringing a trademark when the party "without the consent of the registrant . . . use[s] in commerce any reproduction . . . of a registered mark in connection with the sale . . . of any goods." 15 U.S.C. § 1114. Also, a party can be held liable for civil damages if he "uses in commerce any . . . word . . . symbol . . . which . . . is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person

with another person, or as to the origin, sponsorship, or approval of his or her goods, services or commercial activities by another person." 15 U.S.C. § 1125.

Because a trademark, by definition, is used to identify goods or services with a person or business, a trademark cannot be assigned apart from the goodwill of the business with which the mark has been associated. 15 U.S.C. § 1060(a)(1) (a mark "shall be assignable with the goodwill of the business in which the mark is used").. Further, the owner of a trademark may grant a license or permission to use a trademark to another party, and must also retain quality control over the party's use of the mark in the contract. *Travelot*, 286 B.R. at 455.

In *Travelot*, a web-based travel booking company entered into a contract with the Cable News Network ("CNN"). *Id.* at 450. Under the terms of the contract, CNN agreed to provide Travelot with popup ads on CNN.com. *Id.* at 451. In exchange, Travelot agreed to purchase advertising from CNN and pay a licensing fee for the use of CNN's trademarks on its website. The licensing fee, however, was not tied to Travelot's use of CNN's trademarks, but, rather, it was part of the total consideration paid by Travelot to CNN for the "popup" ads. *Id.* When Travelot missed the first and second installment payments due under the contract, and failed to procure certain technology to integrate Travelot's website with CNN.com, CNN declared Travelot in default. *Id.* at 452. Subsequently, Travelot filed a petition for relief under Chapter 11 of the Bankruptcy Code. *Id.* at 453.

In seeking the dismissal of Travelot's bankruptcy case, CNN sought to prevent the debtor from assuming its contract, arguing that the Lanham Act precluded the assumption pursuant to Section 365(c)(1) because the contract at issue provided a license to use CNN's trademarks on its website. *Id.* There, the court found that the Lanham Act constituted the "applicable law" under Section 365(c)(1), and that the statute prohibited a party to use in commerce another's federally

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registered trademark without authorization. *Id.* at 455. Specifically, the court observed that "[i]f the [CNN Contract] provided for the [debtor] to be a recipient of a trademark license, the applicable trademark law precludes the assignment of that trademark." *Id.*[7]

Travelot's reasoning is consistent with other cases dealing with intellectual property rights. For example, in *Catapult*, a software company commenced a case under Chapter 11 of the Bankruptcy Code. 165 F.3d at 748. As a debtor-in-possession, Catapult sought to assume certain patent licenses as a part of its plan of reorganization, and the party that granted Catapult the right to use certain patented technologies objected. *Id.* at 749. The bankruptcy court granted the debtor's motion and approved the plan of reorganization, which decision the district court affirmed on appeal. *Id.* The Ninth Circuit, however, reversed. *Id.* at 755. The Ninth Circuit found that, under Section 365(c)(1) of the Bankruptcy Code, the debtor-in-possession could not assume the patent licenses. *Id.* at 754-55 ("[W]here applicable nonbankruptcy law makes an executory contract nonassignable because the identity of the nondebtor party is material, a debtor in possession may not assume the contract absent consent of the nondebtor party"). Under federal patent law, the court determined that the patent licenses were "personal and assignable only with the consent of the licensor." *Id.* at 750. Accordingly, the Ninth Circuit concluded that the debtor could not assume or assign the underlying patent licenses. *Id.* at 755.

In *Sunterra*, a company that owned and managed numerous resort properties filed a case under Chapter 11 of the Bankruptcy Code. 361 F.3d at 260. Before filing, the debtor had launched a program called "Club Sunterra," under which timeshare owners at Sunterra resorts could trade their timeshare rights for similar rights at other Sunterra resorts. *Id.* The debtor

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[7] Ultimately, the *Travelot* court held that the debtor-in-possession was not precluded from assuming the contract by application of Section 365(c)(1), because the contract at issue did not contain an express grant of a trademark license. *Id.* at 459, 462.

needed software to facilitate the trading. *Id.* Thus, the debtor entered into a software license agreement with RCI Technology Corp. under which it obtained a nonexclusive license to use and modify certain copyrighted software. *Id.* at 260-261. After filing its bankruptcy case, the debtor sought to assume the license of copyrighted software, and RCI Technology Corporation moved the court to have the agreement deemed rejected on the grounds that the license did not expressly permit assignment, precluding its assumption pursuant to Section 365(c)(1) . *Id.* at 261.

The Fourth Circuit determined that federal copyright law was the "applicable law" under Section 365(c)(1), which excused RCI from accepting performance from or rendering performance to an entity other than the debtor. *Id.* at 271. Accordingly, the Fourth Circuit concluded that the debtor could not assume the copyright licenses. *Id.* at 271-72.[8]

Here, PVI granted the Debtor a "non-transferable, non-exclusive right, license and privilege to use the Pearl Vision System," [C.P. 19, "Franchise Agreement," ¶ 1(A)], which, as noted above, included a limited license to use PVI's Marks as authorized under the Franchise Agreement. [*Id.*, ¶¶ 40(A)-(B)]. Because the Franchise Agreement expressly grants a license for the use of PVI's Marks to the Debtor, the Lanham Act is the "applicable law" specifically protecting PVI from the non-consensual assignment of the Franchise Agreement to a third party,

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[8] The Debtor argues that *Sunterra* somehow supports its position that the Franchise Agreement in this case allows for assignment under certain circumstances and therefore section 365(c)(1) does not apply. However, the Debtor herein misreads *Sunterra*. In *Sunterra*, the Court found that the agreement in that case allowed Sunterra to assign the agreement **without RCI's consent** so long as the assignment included substantially all of Sunterra's assets. *Id.* at 271. However, the Court then held that, because the agreement only applied to assignments, and not to assumptions, and that assignment and assumption were "two conceptually distinct events, Sunterra was precluded from assuming the agreement without RCI's consent. *Id.*

In this case, unlike *Sunterra*, the transfer provisions in the Franchise Agreement require PVI's consent under all circumstances. PVI plainly did not consent. Thus, the Debtor's argument fails. Further, the transfer provisions in the Franchise Agreement herein address assignments not assumptions. Therefore, as in *Sunterra,* without PVI's consent, the Debtor is precluded from assuming (as well as assigning) the Franchise Agreement.

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even if the Debtor did not plan on actually assigning it.[9] PVI clearly has not consented to an assignment of its Marks or the Franchise Agreement to the Debtor, or anyone else. Therefore, the Debtor lacks the ability to assume and/or assign the Franchise Agreement *in totum* pursuant to Section 365(c)(1) .

2. Trademark Licenses Are Personal and Cannot Be Assigned

Similar to non-exclusive patents and copyrights, trademark licenses are personal and cannot be assigned without the licensor's consent. *See In re N.C.P. Mktg. Group, Inc.*, 337 B.R. 230, 236 (D. Nev. 2005). Since federal trademark law permits use of a registered trademark only by persons licensed to do so, a trademark license is not freely assignable and "a licensor need not accept performance from or render performance to an entity other than the licensee." *Travelot*, 286 B.R. at 455.

In *N.C.P. Mktg. Group.*, NCP signed an agreement delineating its use of a trademark in connection with marketing and selling body fitness products. 337 B.R. at 232. After having breached the agreement, NCP filed a petition for relief under Chapter 11 of the Bankrutpcy Code. *Id.* at 233. Soon thereafter, NCP, as debtor-in-possession, filed a proposed reorganization plan in which it intended to either assume and/or assign the agreement pursuant to 11 U.S.C. § 365. *Id.* The trademark owner, however, filed a motion for an order to consider the non-exclusive trademark license agreement as rejected. *Id.* The bankruptcy court ruled that the agreement "did 'not give [NCP] permission to assign rights to any other party.'" *Id.*

[9] The Debtor also argues without citation that there is no evidence that the Franchise Agreement provides the non-exclusive right to use the PVI Marks. This argument is entirely without merit. Plainly, the Franchise Agreement was in evidence below. [C.P. 19, Terrell Aff. ¶ 2]. Further, the Franchise Agreement provides for the nontransferable, non-exclusive right license and privilege to use the Pearle Vision System, including PVI's Marks.

On appeal, the District Court of Nevada found that a debtor-in-possession, like a trustee, subject to bankruptcy court approval, may assume any executory contract subject to the exception set forth in Section 365(c)(1). In applying the "hypothetical test," the District Court explained that

> Trademark rights are intangible property rights because their primary feature and value are consumers' perceptions of the mark. *Power Test Petroleum Distribs., Inc. v. Calcu Gas, Inc.*, 754 F.2d 91, 96 (2d Cir.1985) ("The metes and bounds of a trademark are defined by the perceptions that exist in the minds of the relevant buying public."). Trademarks are valuable property rights that allow their owners to protect the good will of their name and products by preventing unwarranted interference and use of their mark by others. *Stork Restaurant v. Sahati*, 166 F.2d 348, 354 (9th Cir.1948). As a grant of ***permission*** to use another's mark, the trademark owner has a significant interest in controlling to whom the mark is transferred because the subsequent value of the trademark will be based entirely on good will. *Id.* Good will and trademarks "go hand in hand, at least to the extent that an attempted transfer of a trademark is void without transfer of the good will associated with the trademark." *In re Travelot Co.*, 286 B.R. 447, 458 (Bankr. S.D. Ga. 2002). Indeed, the Lanham Act provides that "a registered mark shall be assignable with the good will of a business in which the mark is used." The trademark owner not only has a right to assign a trademark, but the same owner also maintains a right and duty to control the quality of goods sold under the mark. 15 U.S.C. § 1060. Because the owner of the trademark has an interest in the party to whom the trademark is assigned so that it can maintain the good will, quality, and value of its products and thereby its trademark, trademark rights are personal to the assignee and not freely assignable to a third party. J. Thomas McCarthy, 4 *McCarthy on Trademarks and Unfair Competition* § 25.33 (4th ed. 2005) ("since the licensor-trademark owner has the duty to control the quality of goods sold under its mark, it must have the right to pass upon the abilities of new potential licensees.").

Id. at 236 (emphasis in original). Accordingly, the District Court held that NCP, as a debtor-in-possession, could not assume the non-exclusive trademark license agreement because "under applicable trademark law, trademarks are personal and non-assignable without the consent of the licensor." *Id.*

Similarly, in *In re Joly, Inc.*, Nos. 04-18069 (SJS) through 04-18070 (SJS) (Bankr. W.D. Wa. Jan.7, 2005) [A-3], Burger King Corporation ("BKC") moved for relief from the automatic stay to, among other things, terminate its franchise agreements with one of the debtors and

pursue related relief, including to prohibit the debtor from using BKC's trademarks and service marks. There, the bankruptcy court found cause for the relief requested by BKC, because the debtor was unable to assume or assign the franchise agreements. *Id.*, slip op. at 1-2 and transcript at 3-4.

Likewise, in this case, based upon the plain language of Section 365(c)(1) of the Bankruptcy Code, the Debtor cannot assume the Franchise Agreement without PVI's consent pursuant to federal trademark law. Because the Debtor the cannot assume or assign the Franchise Agreement, the Bankruptcy Court correctly determined that cause existed under Section 362(d) of the Bankruptcy Code to grant PVI relief from the automatic stay to exercise its rights under the Franchise Agreement, including the termination of the Franchise Agreement. Therefore, this Court should affirm the Appealed Orders.

II. THE BANKRUPTCY COURT CORRECTLY REJECTED THE SUBLEASE AND DENIED THE DEBTOR'S MOTION TO EXTEND TIME TO ASSUME OR REJECT THE SUBLEASE

The Bankruptcy Court likewise correctly rejected the Sublease, which, as noted above, was an integral part of the Franchise Agreement. Because the Debtor could not assume or assign the Franchise Agreement, the Debtor lacked the ability to assume the Sublease for all of the same reasons stated above. Similarly, the Bankruptcy Court correctly denied the Debtor's Motion to Extend Time to Assume or Reject the Sublease. There was nothing for the Debtor to assume or reject. Therefore, this Court should affirm the Appealed Orders.

III. THE BANKRUPTCY COURT DID NOT ABUSE ITS DISCRETION IN DENYING THE DEBTOR'S MOTION FOR RECONSIDERATION

The Debtor argues that the Bankruptcy Court erred in denying the Debtor's Motion for Reconsideration. First, the Debtor has waived this issue by not raising it in its Statement of Issues on Appeal. Pursuant to Rule 8006 of the Federal Rules of Bankruptcy Procedure, an

appellant has ten days from the date of filing the notice of appeal to file and serve the designation of items to be included on the record on appeal as well as the statement of issues to be presented on appeal. Fed. R. Bankr. P. 8006. An issue that is not listed pursuant to this rule is deemed waived and may not be considered on appeal. *In re Freeman*, 956 F.2d 252, 255 (11th Cir. 1992). Further, in its Initial Brief, the Debtor only lists two issues in its Statement of Issues. Appellant's Br. at v. Thus, the Debtor has waived this issue.

Assuming that this Court finds that the Debtor has not waived this issue, the Debtor wrongly states the standard for review of denial of a motion for reconsideration as clearly erroneous. However, the standard of review for a motion for reconsideration is abuse of discretion. *Am. Home Assurance Co. v. Glenn Estess & Assocs., Inc.*, 763 F.2d 1237, 1238-39 (11th Cir. 1985). It is well settled that a request by a litigant for reconsideration of an order is typically treated as a motion to alter or amend the order pursuant to Fed. R. Civ. P. 59(e). *See In re Investors Fla. Aggressive Growth Fund, Ltd.*, 168 B.R. 760 (Bankr. N.D. Fla. 1994). An order, however, can only be altered or amended if one of the following three conditions is satisfied: (1) there is an intervening change in the controlling law on the subject, (2) evidence not previously available has become available, or (3) the amendment is necessary to correct a clear error of law or to prevent manifest injustice. *See Deutsch v. Burlington N. Ry. Corp.*, 983 F.2d 741 (7th Cir. 1992), *cert. denied*, 507 U.S. 1030 (1993).

The Debtor failed to demonstrate any of the above conditions in the proceedings below. The Debtor again argued that the "hypothetical test" should not be applied in this case. However, as set forth above, this argument contravenes express Eleventh Circuits case law. *See James Cable Partners*, 27 F.3d at 537. Additionally, as set forth above, Section 365(c)(1) applies to a debtor-in-possession. *Sunterra*, 361 F.3d at 261; *Catapult*, 165 F.3d at 750; *see also*

James Cable Partners, 27 F.3d at 537 (11th Cir. 1994). Further, the Debtor did not present any evidence to the Bankruptcy Court that had not previously been available, but had become available. For the foregoing reasons, the Bankruptcy Court did not abuse its discretion, and for this reason as well, this Court should affirm the Appealed Orders.

CONCLUSION

Section 365(c)(1) of the Bankruptcy Code allows "applicable law" to excuse a party "from accepting performance from or rendering performance to" a third party absent such party's consent to assignment or assumption. In this case, the Franchise Agreement between PVI and the Debtor grants the Debtor the right to use PVI's Marks. An assignment of PVI's Marks without PVI's consent is prohibited by the Lanham Act. PVI has not consented to the assumption or assignment of the Franchise Agreement. Because PVI is excused from accepting performance from or rendering performance to an entity other than the Debtor, the Debtor lacked the ability to assume or assign the Franchise Agreement as a matter of law. Thus, the Bankruptcy Court correctly determined that cause existed under Section 362(d) of the Bankruptcy Code to grant PVI relief from the automatic stay to exercise its rights under the Franchise Agreement, including its termination.

For these same reasons, the Debtor could not assume or reject the Sublease. Accordingly, the Bankruptcy Court correctly denied the Debtor's Motion to Extend Time to Assume or Reject the Sublease because there was nothing for the Debtor to assume or reject.

For the foregoing reasons, PVI requests that the Court enter an order (i) affirming the Appealed Orders; (ii) entering judgment in favor of PVI; (iii) awarding PVI all costs incurred below and on appeal, including reasonable attorneys' fees; and (iv) any other and further relief as the Court deems just and proper.

Respectfully submitted this 11th day of August, 2006.

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CERTIFICATE OF SERVICE

I, HEREBY CERTIFY that I have served a true and correct copy of the foregoing via U.S. Mail on this 11th day of August, 2006 on all counsel and parties of record on the attached service list.

____
Carlos E. Sardi

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Attorneys for Appellant
Wellington Vision, Inc.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

Case No. 06-80446-CIV-GOLD/TURNOFF

WELLINGTON VISION, INC., (Bankr. Court Case No. 05-32994-BKC-SHF)

Appellant,

v.

PEARLE VISION, INC.,

Appellee.

ON APPEAL OF A FINAL ORDER FROM
THE UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF FLORIDA

**APPENDIX TO
APPELLEE'S ANSWER BRIEF**

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Nina Greene Kersh, Esq.
Florida Bar No. 072079
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TABLE OF CONTENT

Tab

January 5, 2006 Order on Motion of Pearle Vision, Inc. for Relief from the Automatic Stay and (II) Motion of Debtor to Extend Time to Assume or Reject Sublease [C.P. 66] **A-1**

March 15, 2006 Order Denying Debtor's Motion for Reconsideration of the Order on (I) Motion of Pearle Vision, Inc. for Relief from the Automatic Stay and (II) Motion of Debtor to Extend Time to Assume or Reject Sublease [C.P. 108] **A-2**

In re Joly, Inc., Case Nos. 04-18069 (SJS) through 04-18070 (SJS) (Bankr. W.D. Wa. Jan. 7, 2005) (Unpublished) **A-3**

APPENDIX TO
APPELLE'S ANSWER BRIEF

A – 1

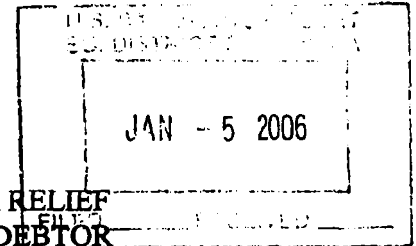
UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF FLORIDA
West Palm Beach Division

In re:

CASE NO.: 05-32994-BKC-SHF
Chapter 11

WELLINGTON VISION, INC.

Debtor.
_____________________________/



ORDER ON (I) MOTION OF PEARLE VISION, INC. FOR RELIEF FROM THE AUTOMATIC STAY AND (II) MOTION OF DEBTOR TO EXTEND TIME TO ASSUME OR REJECT SUBLEASE

This matter came on for hearing upon notice on the motion of Pearle Vision, Inc., ("PVI") pursuant to 11 U.S.C. §362(d), Fed. R. Bankr. P 4001 and 9013 and Local Bankruptcy Rules 4001-1 and 90013-1, for entry of an order granting PVI relief from the automatic stay to, among other things, terminate a franchise agreement (the "Franchise Agreement") between PVI and Wellington Vision, Inc. (the "Debtor"). This matter also came on for hearing upon notice on the motion of the Debtor seeking the entry of an order extending the Debtor's time to assume or reject a certain non-residential sublease entered into between PVI and the Debtor. Notice of both motions was adequate and no further notice is required for entry of this order. The Court after considering the motions and supporting papers submitted relating to both motions by PVI and the Debtor and after hearing extensive oral argument of counsel for PVI and the Debtor relating to PVI's motion for relief from the automatic stay, and the files and records herein, finds that cause exists for granting the relief requested by PVI and denial of the relief requested by the Debtor.

The Court is persuaded that under the case law cited by PVI including, but not limited to, In re Sunterra Corp., 361 F.3rd 257 (4th Cir. 2004) and In re Catapult , 165 F. 3d 749 that pursuant to §365(c)(1) of the Bankruptcy Code the Debtor herein may not assume or assign the Franchise

Agreement without consent of Pearle Vision, Inc. based on, among other things, the fact that the Debtor has a non-exclusive trademark license with PVI. As a result, because the Franchise Agreement is an executory contract, applicable federal trademark law excuses PVI from accepting performance from or rendering performance to an entity other than the Debtor thereby precluding assumption by the Debtor without the consent of PVI as a matter of law; it is therefore

ORDERED that PVI's motion is GRANTED and PVI is granted relief from the automatic stay to terminate the Franchise Agreement with the Debtor and to exercise all of its rights under applicable non-bankruptcy law; and it is further

ORDERED that the sublease is rejected effective December 27, 2005, the date of the oral ruling on the Debtor's Motion to Extend Time to Assume or Reject the Sublease; and it is further

ORDERED that the Debtor's Motion to Extend Time to Assume or Reject the Sublease between PVI, as sub-landlord, and the Debtor, as sub-tenant, is DENIED.

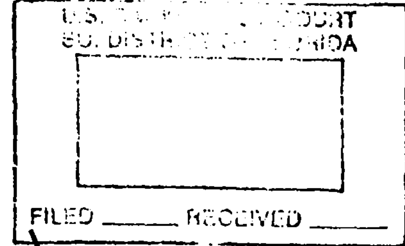
ORDERED in the Southern District of Florida on this 5th day of January, 2006.

UNITED STATES BANKRUPTCY JUDGE

APPENDIX TO APPELLE'S ANSWER BRIEF

A – 2

ORDERED in the Southern District of Florida on March 15, 2006.



Steven H. Friedman, Judge
United States Bankruptcy Court

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF FLORIDA
West Palm Beach Division

In re:

WELLINGTON VISION, INC.,

Debtor.
______________________________/

Case No.: 05-32994-BKC-SHF
Chapter 11

ORDER DENYING DEBTOR'S MOTION FOR RECONSIDERATION OF THE ORDER ON (I) MOTION OF PEARLE VISION, INC. FOR RELIEF FROM THE AUTOMATIC STAY AND (II) MOTION OF DEBTOR TO EXTEND TIME TO ASSUME OR REJECT SUBLEASE

THIS MATTER came before the Court, on March 8, 2006, at 2:30 p.m., upon consideration of the Motion for reconsideration (the "Reconsideration Motion")[1] of Wellington Vision, Inc. (the "Debtor"), by its attorneys, Lasky Bigge & Rodriguez, P.A., dated January 16, 2006, for the entry of an order vacating the Court's January 5, 2006 Order granting Pearle Vision Inc.'s ("PVI") motion for relief from the automatic stay to, among other things, terminate a Franchise Agreement and Lease Agreement, and denying Debtor's motion to extend time to

[1] All capitalized terms not defined herein shall have the same meaning as prescribed in the Motion.

assume or reject a certain non-residential sublease entered into between PVI and the Debtor, and after due deliberation and consideration of all the facts and circumstances herein, any opposition thereto, and upon the certificate of service of the Reconsideration Motion, and after hearing argument of counsel herein, and no further notice being necessary or required, it is

ORDERED, that the Debtor's Reconsideration Motion is denied in its entirety.

###

Submitted by:
Craig P. Rieders, Esq.
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Facsimile No. (305) 349-2310

Copies furnished to:
Craig P. Rieders, Esq.
(Attorney Rieders is directed to serve a copy of this Order upon all parties in interest)

APPENDIX TO APPELLE'S ANSWER BRIEF

A – 3

Entered on Docket Jan. 07, 2005

FILED
Western District of Washington
at Seattle

JAN - 7 2005

U.S. Bankruptcy Court

The Honorable Samuel J. Steiner
Chapter 11
Hearing Date: January 7, 2005
Hearing Time: 9:30 a.m.
Hearing Location: Seattle
Response Date: January 3, 2005

UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

In re

JOLY, INC. and DANA QSR, INC.,

Debtors.

Nos. 04-18069 (SJS) through 04-18070 (SJS)

Substantively Consolidated

ORDER ON MOTION OF BURGER KING CORPORATION FOR RELIEF FROM THE AUTOMATIC STAY

This matter came on for hearing upon notice on the motion of Burger King Corporation, pursuant to 11 U.S.C.§ 362, Fed. R. Bankr. P. 9013 and LBR 9013-1, for entry of an order granting Burger King Corporation's relief from the automatic stay: (i) to terminate its Franchise Agreements with one of the Debtors, Joly, Inc., (ii) to exercise its rights with respect to certain terminated Franchise Agreements with the principals of the Debtors, and (iii) to pursue related relief, including to prohibit the Debtors from using Burger King Corporation's trademarks and service marks (the "Motion"). Notice of the Motion was adequate and no further notice is required for entry of this order. The Court, after considering the Motion and supporting Affidavit of Frank Taylor, any response to the Motion, and the files and records herein, finds that cause exists for granting the relief requested: (a) with respect to the non-debtor Franchise Agreements because those agreements are not property of the estate and have terminated pre-petition, and (b) due to the Debtors' inability to assume or assign the Franchise Agreements; it is therefore

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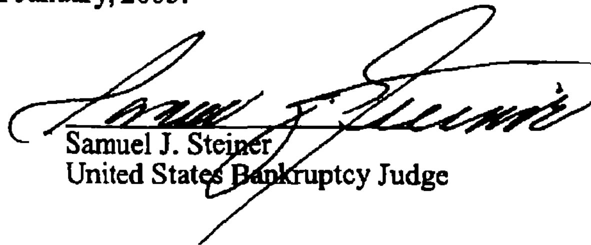
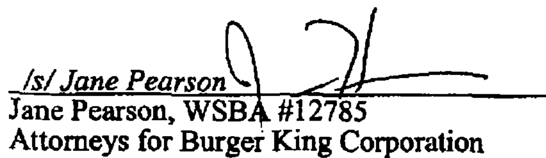
1 ORDERED that Burger King Corporation is granted relief from the automatic stay to
2 terminate the Franchise Agreements with the Debtors and to exercise all of its rights under
3 applicable non-bankruptcy law, including to seek to enjoin and prohibit the Debtors from
4 operating the restaurants located at 108th Avenue SE in Renton, Washington, 4th Avenue South in
5 Seattle, Washington, Broadway Avenue in Seattle, Washington and W. Meeker Street in Kent,
6 Washington, using Burger King Corporation's trademarks and service marks.
7 DATED this 7 day of January, 2005.
8

9 Samuel J. Steiner
10 United States Bankruptcy Judge
11
12 Presented by:
13 FOSTER PEPPER & SHEFELMAN PLLC
14

15 /s/ Jane Pearson
Jane Pearson, WSBA #12785
16 Attorneys for Burger King Corporation
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1 UNITED STATES BANKRUPTCY COURT
2 WESTERN DISTRICT OF WASHINGTON
3 AT SEATTLE
4 ORIGINAL
5
6 In re:
7 Joly, Inc.,) Case No. 04-18069
Debtor.)
8
9 TRANSCRIPT OF THE RULING
10 BY THE HONORABLE SAMUEL J. STEINER
FRIDAY, JANUARY 7, 2005
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25 Reported by: Shari L. Ahearn
CCR# 2396

2005 JAN 13 PM 1:58
FILED

1 APPEARANCES

2

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4

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13 For Burger King
Corporation: MS. JANE PEARSON
14 Attorney at Law
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17 and

18 MR. GLENN D. MOSES
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(305) 349-2300
21

22

23

24

25

1 SEATTLE, WASHINGTON; FRIDAY, JANUARY 7, 2005
2 9:30 A.M. SESSION
3 --oo0oo--
4 (OTHER PROCEEDINGS WERE HAD ON THIS DAY
5 BUT ARE NOT TRANSCRIBED AT THIS TIME.)
6 * * * * *
7 THE COURT: Well, I'll tell you, the first
8 problem we have here is whether the franchise
9 agreements pertaining to the stores operated by Dana
10 ever became property of the estate. I think,
11 clearly, the agreements, or contracts, between the
12 principals and Burger King are not property of the
13 estate. I simply cannot follow the estoppel
14 argument. So it appears to me that those two
15 agreements were terminated pursuant to their terms
16 prior to the filing and that Dana is in possession,
17 and the motion for relief from stay will be
18 granted.
19 MR. SHAFER: Could I --
20 THE COURT: As to the others, and as to the
21 Dana ones, I agree with Burger King that the
22 Catapult Entertainment case out of the Ninth Circuit
23 is applicable and controls.
24 MR. SHAFER: Judge, I would like to add
25 something that I think is very crucial here.

1 THE COURT: I'm making my ruling now.
2 Under that case, the contract cannot be assumed
3 and assigned without the consent of Burger King; and
4 obviously Burger King is not consenting. So I'm
5 going to grant the motion for relief from stay as to
6 all the locations.
7 Now, the only hesitancy I have here is that
8 there will be this tremendous job loss, but I think
9 legally Burger King is within its rights.
10 Now, again, I think another cause for relief
11 from stay is the tremendous amount owed to Burger
12 King. I can't visualize how that could be cured by
13 this debtor.
14 Now, the debtor is talking about an increase in
15 profitability; and that would mean a bootstrap plan,
16 which in my experience has never worked out.
17 So with reluctance, I'm going to grant the
18 motion.
19 Ms. Pearson, Mr. Moses, if you have an order,
20 let me have it.
21 MR. SHAFER: What I would suggest, Judge, is if
22 we could make the motion effective as of the end of
23 February so we can wrap things up, if necessary. I
24 don't know how fast Burger King wishes to move, but
25 that's a concern I have.

1 And, you know, I do want to put something on
2 the record. I'm very disappointed that I didn't get
3 a chance to say this, Judge. The law, at least as
4 far as patents -- and you have ruled as far as
5 trademarks -- is that non-exclusive patent licenses
6 or trademark licenses, in this case, are not
7 assignable without the consent of the licensor.
8 There is a specific section of each franchise where
9 each franchise is assignable if you meet a whole
10 bunch of requirements. So the franchise agreement,
11 per its own terms, allows for assignment. And if
12 you meet all those requirements, Burger King -- and
13 that's paragraph 15 -- paragraph 16 says Burger King
14 has the right of first refusal.
15 There's no risk here that those marks are going
16 to somehow be damaged or anything like that. And
17 even with patent law, it's the same thing. If the
18 patent license permits assignment per its own terms,
19 those terms are binding.
20 THE COURT: Okay. Now, Mr. Moses, what about
21 this request that there will be no action taken
22 until the end of February?
23 MR. MOSES: Your Honor, I respectfully request
24 that we have immediate relief from the automatic
25 stay. We still need to proceed in Court in Miami,

1 and that will obviously take some time. So if Your
2 Honor grants relief from the automatic stay today,
3 the stores are not going to necessarily go dark
4 today.
5 THE COURT: Have the defendants made an
6 appearance in that case in Miami?
7 MR. SHAFER: Yes, Judge.
8 THE COURT: Have you filed an answer?
9 MR. SHAFER: Yes, Judge.
10 THE COURT: Okay. What's the status? Is there
11 a trial date?
12 MR. MOSES: Your Honor, I'm not sure whether
13 there's a trial date. I know that one of the
14 debtors actually answered -- Joly answered, but
15 obviously the stay is in place as to that. And I
16 believe also the individuals, Mr. Lively and
17 Ms. Jones, filed an answer. I don't know the status
18 of that. It's not going to happen anytime soon.
19 THE COURT: Okay. I have signed the order as
20 presented, as I said, with reluctance.
21
22 (THE PROCEEDINGS IN THIS MATTER WERE
23 CONCLUDED.)
24
25

1 C E R T I F I C A T E

2

3 I, Shari L. Ahearn, hereby certify that:

4

5 the foregoing pages represent an accurate and

6 complete transcription of the ruling by The

7 Honorable U.S. Bankruptcy Judge presiding in the

8 aforementioned matter; and

9

10 that these pages constitute the original or a true

11 copy of the transcript of the ruling.

12

13

14 Signed and dated this 10th day of January, 2005.

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23 by: Shari L. Ahearn

24 Shari L. Ahearn
Certified Court Reporter
CCR# 2396

25