

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA**

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:
In re: :
: Chapter 11
POLAROID CORPORATION, *et al.*, :
: Case No. 08-46617 (GFK)
Debtors. :
: (Jointly Administered)
:
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**NIKON CORPORATION’S OBJECTION TO (A) INITIAL NOTICE OF
ASSUMPTION AND ASSIGNMENT OF AND AMOUNTS NECESSARY
TO CURE DEFAULTS UNDER CONTRACTS AND LEASES TO BE
ASSUMED AND ASSIGNED TO SUCCESSFUL PURCHASER AND
(B) DEBTOR'S MOTION FOR AN ORDER PURSUANT TO 11 U.S.C.
§§ 105(A), 363 AND 365 (1) APPROVING AUCTION AND BIDDING
PROCEDURES; (2) APPROVING BREAK-UP FEE, EXPENSE
REIMBURSEMENT AND OTHER BUYER PROTECTIONS;
(3) APPROVING FORM AND MANNER OF NOTICE; (4) AUTHORIZING
SALE OF ASSETS FREE AND CLEAR OF LIENS, CLAIMS AND
ENCUMBRANCES, SUBJECT TO HIGHER OF BETTER OFFERS;
(5) APPROVING ASSUMPTION AND ASSIGNMENT OF CERTAIN
EXECUTORY CONTRACTS AND UNEXPIRED LEASES IN
CONNECTION WITH THE SALE AND
(6) GRANTING RELATED RELIEF**

Polaroid Corporation and certain of its debtor and non-debtor subsidiaries (collectively, “New Polaroid” or “Debtors”), have filed a motion seeking approval to sell substantially all of their assets to PHC Acquisitions, LLC (“PHC”) (the “Motion”) pursuant to that certain Asset Purchase Agreement dated January 24, 2009 between Debtors and PHC (the “Purchase Agreement”). In connection with the proposed sale, Debtors have sought court approval for the assumption of certain executory contracts and non-residential real estate leases (collectively, the “Acquired Contracts”) and the assignment of the Acquired Contracts to PHC, including a certain

license agreement between Polaroid Corporation (“Old Polaroid”)¹ and Nikon Corporation (“Nikon”) dated July 15, 1996 (the “License Agreement”).² Through this objection (the “Objection”), Nikon objects to the assumption and assignment of the License Agreement on the basis that the License Agreement was already rejected by Old Polaroid in Old Polaroid’s previous bankruptcy in the United States Bankruptcy Court for the District of Delaware, Case No. 01-10864 (the “Prior Bankruptcy”). Therefore, New Polaroid cannot assign the License Agreement in the instant bankruptcy case. In addition, Nikon objects to the sale of Debtors’ assets pursuant to the Purchase Agreement, to the extent Debtors seek to sell the patents that are the subject of the License Agreement free and clear of Nikon’s rights under the License Agreement — rights to which Nikon is entitled under section 365(n)(1)(B) of the Bankruptcy Code. In any event, the License Agreement may not be assumed and assigned without Nikon’s consent. In support of the Objection, Nikon, by and through its undersigned counsel, hereby states as follows:

BACKGROUND

1. On or about July 15, 1996, Nikon and Old Polaroid (together, the “Parties”) entered into the License Agreement whereby the Parties agreed to cross-license each other’s photographic camera-related patents. The License Agreement grants Nikon “an irrevocable, fully paid up, royalty free, nontransferable, nonexclusive, worldwide license without the right to

¹ As described herein, Polaroid Corporation (as “Old Polaroid”) originally filed for relief under Chapter 11 on October 12, 2001 in the U.S. Bankruptcy Court for the District of Delaware (Case No. 01-10864). On July 3, 2002, the Delaware Bankruptcy Court approved the purchase by OEP Imaging Corp. of, among other things, all of the stock in Polaroid subsidiaries, and all tangible and intangible assets of Old Polaroid, including all Assumed Contracts. Upon information and belief, New Polaroid has effectively operated from the same Old Polaroid facilities, using the same Polaroid name. To avoid any confusion or misunderstanding, the Objection differentiates Old Polaroid (as party to the License Agreement) and OEP Imaging Corp./New Polaroid (as debtor in the above-captioned bankruptcy case).

² Due to confidentiality concerns, the License Agreement is not attached to the Objection, but has been provided to Debtors’ counsel.

sublicense under Polaroid License Patents to make, have made, import, export, operate, use, lease, offer to sell, sell or otherwise transfer Nikon Licensed Products that bear a trademark or name owned by Nikon and/or its Affiliates as the principal brand name.” *License Agreement* at ¶

2.1. Likewise, Nikon granted Polaroid “an irrevocable, fully paid up, royalty free, nontransferable, nonexclusive, worldwide license without the right to sublicense under Nikon Licensed Patents to make, have made, import, export, operate, use, lease, offer to sell, sell or otherwise transfer Polaroid Licensed Products that bear a trademark or name owned by Polaroid and/or its Affiliates as the principal brand name.” *License Agreement* at ¶ 2.2.

2. While the Parties intended for each entity to freely use the identified licenses in accordance with the terms of the License Agreement, the License Agreement expressly prohibits any assignment of those licenses. Specifically, the License Agreement provides “[t]he licenses granted hereunder extend to the parties and their Affiliates and are personal to the parties and the Affiliates and shall not be assigned by any act of one of the parties, by operation of law or otherwise.” *License Agreement* at ¶ 10.

3. In the Prior Bankruptcy, the License Agreement was originally included among the assets to be sold and assigned to OEP Imaging Corp., but in response to several objections filed by Nikon indicating Nikon’s non-consent to such assumption and assignment,³ the License Agreement was excluded.

4. On November 13, 2002, the Delaware Bankruptcy Court approved Old Polaroid’s plan of reorganization (the “Old Plan”), which provided that any contract not previously assumed

³ See Nikon’s Objection to Notice of Amounts Necessary to Cure Defaults Under Contracts and Leases Proposed to be Assumed and Assigned to Potential Purchaser of Substantially all of Assets of Debtors and Nikon’s Objection Debtors’ Motion for Order Authorizing and Approving Sale to OEP Imaging Corp. attached hereto as Exhibits 1 and 2.

would be rejected.⁴ Old Plan at ¶ 7.1. Upon rejection of the License Agreement by virtue of the Old Plan, Nikon continued to retain its rights under the License Agreement pursuant to section 365(n)(1)(B) of the Bankruptcy Code.

5. In the Purchase Agreement, the License Agreement is listed as an “Acquired Contract” to be sold to the Proposed Purchaser (as defined therein).⁵ Additionally, the Debtors’ “Initial Notice of Assumption and Assignment of and Amounts Necessary to Cure Defaults Under Contracts and Leases to be Assumed and Assigned to Successful Purchaser” dated March 13, 2009 (the “Cure Notice”), the License Agreement is listed in the attached list as one of the “Executory Contracts Proposed to be Assumed and Assigned.”⁶

6. The License Agreement cannot be assumed and assigned by Debtors given that it was rejected in the Prior Bankruptcy by Old Polaroid. Even assuming, arguendo, that the License Agreement could be assumed and assigned by Debtors, Nikon does not consent to the proposed assumption and assignment of the License Agreement and Debtors have not provided adequate assurance of future performance as required under section 365(f)(2)(B) of the Bankruptcy Code.

7. Although it is possible that the License Agreement’s inclusion on the list of Acquired Contracts may have been the result of Debtors’ oversight, Nikon files the Objection in an abundance of caution to make clear that: (i) any sale of the Debtors’ assets to PHC (or any other successful bidder) shall not include the License Agreement as an Assigned Contract (as defined in the Purchase Agreement and Cure Notice); (ii) any sale order shall not purport to

⁴ See Findings of Fact, Conclusions of Law and Order Confirming the Third Amended Joint Plan of Reorganization of Primary PDC, Inc. (F/K/A Polaroid Corporation) and Its Debtor Subsidiaries and the Official Committee of Unsecured Creditors, entered on November 18, 2003, Exhibit A [Docket No. 3432] attached hereto as Exhibit 3.

⁵ See Purchase Agreement, Schedule 4.1(k)(iii) at p. 174, no. 32, and Schedule 4.1(t) at p. 203, no. 203, attached hereto as Exhibit 4.

⁶ See Cure Notice at 15, and related certificate of service at 11, attached hereto as Exhibit 5.

assign or otherwise affect the License Agreement; and (iii) the sale of the License Agreement's underlying Polaroid patents free and clear of all liens, claims, and encumbrances pursuant to the Purchase Agreement remain subject to Nikon's rights and defenses under the License Agreement afforded to it under section 365(n)(1)(B) of the Bankruptcy Code.

ARGUMENT

A. New Polaroid Cannot Assume and Assign an Agreement that Old Polaroid Rejected in the Prior Bankruptcy.

8. Once a contract is rejected, "it stays rejected" and may not be subsequently assumed. *See Collier On Bankruptcy* ¶ 365.09 (15th ed. rev. 2009). This view is supported by the wording of sections 1123(b)(2) and 1322(b)(7) of the Bankruptcy Code, which permit the assumption or rejection in the plan of contracts "not previously rejected." Accordingly, Debtors may not now assume the License Agreement after it was rejected in the Prior Bankruptcy by Old Polaroid.

9. Furthermore, confirmation of a plan operates as a final judgment. *See Stoll v. Gottlieb*, 305 U.S. 165, 170-71 (1938); *Kimm v. Cox*, 130 F.2d 721, 737 (8th Cir. 1942); *In re Charterhouse, Inc.*, 84 B.R. 147, 154 (Bankr. D. Minn. 1988). Questions concerning the disposition of any property under the plan may no longer be raised after plan confirmation. Thus, Old Polaroid's rejection of the License Agreement in the Prior Bankruptcy is final and not subject to challenge.

B. Debtors Cannot Assume and Assign the License Agreement Without Nikon's Consent.

10. Section 365 of the Bankruptcy Code governs the assumption and assignment of executory contracts within the bankruptcy context. Section 365(c)(1) provides:

[t]he trustee [or debtor in possession] may not assume or assign an executory contract . . . of the debtor whether or not such contract . . . prohibits or restricts assignment of rights or delegation of duties, if 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 to the debtor in possession, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties *and such party does not consent to such assumption or assignment.*

11 U.S.C. §365(c)(1) (emphasis added).

11. In accordance with section 365(c) of the Bankruptcy Code, a debtor may not assume or assign an executory contract where applicable non-bankruptcy law provides that such a contract is not assignable without the consent of the non-debtor. *Perlman v. Catapult Entm't, Inc. (In re Catapult Entm't Inc.)*, 165 F.3d 747, 750-51 (9th Cir. 1999); *In re Access Beyond Techs., Inc.*, 237 B.R. 32 (Bankr. D. Del. 1999) (“[t]he language of section 365(c)(1) also clearly and unambiguously prohibits the assumption of the License Agreement.”). *See also Cargill, Inc. v. Nelson (In re LGX, LLC)*, BAP Nos. WO-05-008, WO-05-009, 2006 Bankr. LEXIS 635, at *9-10 (B.A.P. 10th Cir. January 13, 2006) (acknowledging that “it is now well settled that a licensee has only a personal and not a property interest in the patent that is not transferable, unless the patent owner authorizes the assignment or the license itself permits assignment” and that assignment of a patent license is limited by section 365(c)); *In re Buildnet, Inc.*, Case Nos. 01-82293 - 01-82299, 2002 Bankr. LEXIS 1851, at *14-15 (Bankr. M.D.N.C. September 20, 2002) (explaining that “the holder of a non-exclusive license does not obtain the rights of ownership of the copyright, but acquires only a personal interest in a copyright,” and therefore, because a nonexclusive license cannot be assigned by a licensee under applicable copyright law, it also cannot be assigned by a debtor without the consent of the non-debtor party as provided by section 365(c)).

12. In *Access Beyond*, the debtor and non-debtor⁷ entered into a non-exclusive cross-license agreement. The debtor sought approval of a sale of assets, including the debtor's rights under the cross-license agreement. The non-debtor objected to the sale asserting that the debtor's interest in the cross-license agreement could not be sold pursuant to section 363 or assigned pursuant to section 365(c). *Id.* at 47-48. The court held that the debtor could not avoid the section 365 requirements by labeling the transaction as a sale of the debtor's rights in the agreement. *Id.* at 47. "To hold otherwise would lead to ludicrous results." *Id.*

13. More importantly, the court held that the non-exclusive cross-license agreement could not be assumed or assigned where applicable non-bankruptcy law precludes an assignment. *Id.* at 48. The court reviewed applicable federal patent law which recognized a patent holder's right to refuse to accept performance from a third party unless it consents to the assignment. *Id.* at 45. It observed that the "long standing federal rule of law with respect to the assignability of patent license agreements provides that these agreements are personal to the licensee and not assignable unless expressly made so in the agreement." *Id.* (quoting *Unarco Indus., Inc. v. Kelley Co., Inc.*, 465 F.2d 1303, 1306 (7th Cir. 1972), *cert. denied*, 410 U.S. 929 (1973)).

14. The court also noted that the rationale underlying the exclusive nature of patents is to "foster and reward invention. . . . Limiting assignability to licenses in which the patent holder expressly agrees to assignment aids the patent holder in exploiting the patent and thus 'rewards' the patent holder. Free assignability of a nonexclusive patent license without the consent of the patent holder is inconsistent with patent monopoly and thus inconsistent with

⁷ The non-debtor objector was a successor by merger to the original party to the cross-license agreement. However, the court found that the non-debtor was the patent owner with standing to object to the assignment of the license agreement.

federal policy.’” *Id.* (quoting *CFLC, Inc.*, 174 B.R. 119, 123 (N.D. Cal. 1994), *aff’d sub nom.*, *Everex Sys., Inc. v. Cadtrak Corp. (In re CFLC, Inc.)*, 89 F.3d 673 (9th Cir. 1996)).

15. The holding in *In re Catapult Entm’t, Inc.*, 165 F.3d 747 (9th Cir. 1999), provides support for the requirement that a debtor in possession obtain a non-debtor’s consent for the assumption of a non-exclusive patent license. The Catapult court concluded that under applicable law, the license agreement was not assignable without consent. *Id.* at 751. The subject licenses granted the debtor a right to exploit certain technology, including patents and patent applications. Under applicable non-bankruptcy law — *i.e.*, federal patent law — the court held that the licenses were “personal and assignable only with the consent of the licensor.” *Id.* at 750 (quoting *Everex Systems, Inc. v. Cadtrak Corp. (In re CFLC, Inc.)*, 89 F.3d 673, 680 (9th Cir. 1996)). Since the non-debtor refused to consent to the assignment, the plain language of section 365(c)(1) barred the debtor from assuming the patent licenses. *Id.* at 751. Accordingly, the court refused to approve assumption over the objection of the licensor regardless of whether the debtor intended to assign the license. *Id.*

16. In the instant case, assuming, *arguendo*, that the License Agreement was not rejected in the Prior Bankruptcy, it is clear that (i) the License Agreement is an executory contract because obligations to perform exist for both Parties, (*see Access Beyond*, 237 B.R. at 43 (holding patent license is executory)); (ii) Old Polaroid and Nikon were parties to the License Agreement; and (iii) the License Agreement is a non-exclusive patent license governed by federal patent law. The License Agreement is similar to the license agreement analyzed by the court in *Access Beyond*. It is a cross-license granting each party the non-exclusive right to make, use and sell the other party’s patented technology in licensed products, but it does not convey the underlying patent or patent monopoly. *See id.* at 45. As demonstrated in *Access Beyond* and

Catapult, federal patent law prohibits assumption and assignment of non-exclusive patent licenses without the patent holder's consent.

17. Applying *Access Beyond*, the persuasive language of *Catapult*, and applicable federal patent law, assuming the License Agreement had not been rejected, Debtors are prohibited from assuming and assigning the License Agreement to PHC (or any other successful bidder) without Nikon's consent.

C. **Even Assuming the License Agreement Could be Assumed and Assigned, Debtors Have Not Provided Adequate Assurance of Performance Under the License Agreement.**

18. Even assuming that Debtors had the ability to assume and assign the License Agreement, Nikon has not been provided adequate assurance that PHC (or any successful bidder) will be able to perform under the License Agreement going forward. Section 365(f)(2)(B) of the Bankruptcy Code requires that “adequate assurance of future performance by the assignee of such contract or lease [be] provided. . . .” 11 U.S.C. § 365(f)(2)(B); *see also In re Rickel Home Ctrs., Inc.*, 209 F.3d 291, 299 (3d Cir. 2000) (recognizing that adequate assurance “is necessary to protect the rights of the non-debtor party to the contract or lease, because assignment relieves the trustee and the estate from liability arising from a post-assignment breach), *cert. denied sub nom, L.R.S.C., Co. v. Rickel Home Centers, Inc.*, 531 U.S. 873 (2000); *Four B. Corp. v. Food Barn Stores, Inc. (In re Food Barn Stores, Inc.)*, 107 F.3d 558, 562 (8th Cir. 1997) (stating that, “before the court will sanction an assignment, however, the trustee must provide ‘adequate assurance’ that the assignee will satisfactorily perform under the contract”); *In re Wills Motors, Inc.*, 133 B.R. 297, 302 (Bankr. S.D.N.Y. 1991) (same). Unless Nikon receives adequate

assurance that PHC (or any other successful bidder) will be able to perform under the License Agreement, this Court should not allow Debtors to assume and assign the License Agreement.

D. Debtors Cannot Sell the Patents Which are the Subject of the License Agreement Free and Clear of Nikon's Rights Under the License Agreement.

19. A number of courts have recognized that rejection of an executory contract pursuant to section 365(a) of the Bankruptcy Code does not give a debtor/trustee power to terminate the contract at issue. *See, e.g., In re Lavigne*, 114 F.3d 379, 386-87 (2d Cir. 1997) (holding that rejection of an executory contract does not constitute termination thereof). In the context of intellectual property licenses in particular, courts have held that Congress specifically qualified the licensor-debtor's right of rejection by allowing the licensee to retain its rights. *See, e.g., In re Prize Frize*, 32 F.3d 426, 428 (9th Cir. 1994).

20. Nikon retained its rights and defenses under the License Agreement in the Prior Bankruptcy in accordance with section 365(n)(1)(B) of the Bankruptcy Code. Section 363(f) of the Bankruptcy Code does not authorize or permit a debtor under the guise of a section 363 sale to override the express provisions of section 365(n) of the Bankruptcy Code. Therefore, notwithstanding the relief requested in the Motion and form of proposed sale order, Debtors cannot sell or assign the patents in issue free and clear of Nikon's rights under the License Agreement, which rights are afforded to Nikon under section 365 of the Bankruptcy Code.

E. The Objection Should be Deemed Timely Given Debtors' Failure to Provide Proper Notice (Which Error Was Made Clear in the Prior Bankruptcy).

21. Nikon acknowledges that the Cure Notice objection deadline expired on March 26, 2009. However, Notice of the Motion was erroneously sent to Nikon's Corporate

Headquarters in Japan (as listed on Debtors' Cure Notice schedule)⁸ and not to the address identified in the License Agreement. The License Agreement specifically provides:

all notices under this Agreement shall be deemed to have been fully given when done in writing and deposited in the United States or Japanese mail, registered or certified, or sent by facsimile with confirmation thereof sent by courier. . . TO NIKON: Mr. Takao Watanabe, General Manager, Third Department (Legal Affairs), Intellectual Property Headquarters, NIKON Corporation, Ohi Plant, 6-3, Nishi-Ohi 1chome, Shinagawa-ku, Tokyo 140, Japan.

License Agreement at ¶ 16. Despite making this point clear to all parties in the Prior Bankruptcy,⁹ all notices in Debtors' above-captioned bankruptcy cases — including the Notice of Sale and Bidding Procedures and Cure Notice — were received at Nikon Corporation, 2-3, Marunouchi 3-chome, Chiyoda-ku, Tokyo 140, Japan with no specific name referenced in the addressee line.

22. Pursuant to the License Agreement, notice of the proposed assumption and assignment of the License Agreement should have been sent to the address identified in the License Agreement. To the extent that the notice was misdirected and the proper parties at Nikon only recently became aware of the proposed assumption and assignment, Nikon requests that this Objection be deemed timely. Further, the hearing to approve the proposed sale is currently scheduled for 1:30 p.m. (CST) on Tuesday, March 31, 2009.

23. The Objection was filed following efforts by the undersigned counsel and Debtors' counsel to resolve all of Nikon's concerns prior to the sale hearing. On March 27, 2009, Debtors' counsel was provided with a copy of all relevant documents supporting Nikon's

⁸ See Cure Notice at 15, and related certificate of service at 11, attached hereto as Exhibit 5.

⁹ See Exhibit 2 at 6.

concerns about the assumption and assignment of the License Agreement. Accordingly, Nikon asserts that no entity will be prejudiced by considering the Objection timely.

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WHEREFORE, for the foregoing reasons, this Court should (i) deny Debtors' request to assume and assign the License Agreement; (ii) deem the Objection timely filed; (iii) request that Debtors incorporate language in the sale order making clear that (x) any sale of the Debtors' assets to PHC (or any other successful bidder) shall not include the License Agreement as an Assigned Contract (as defined in the Purchase Agreement and Cure Notice); (y) the sale order shall not purport to assign or otherwise affect the License Agreement; and (z) the sale of the License Agreement's underlying Polaroid patents free and clear of all liens, claims, and encumbrances pursuant to the Purchase Agreement remain subject to Nikon's rights and defenses to the License Agreement under section 365(n)(1)(B) of the Bankruptcy Code; and (iv) provide further relief as this Court deems just and proper.

Dated: March 30, 2009

Respectfully submitted,

/s/ Steven W. Meyer

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