

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF TENNESSEE

In re:

No. 97-10709
Chapter 11

NOXSO CORPORATION
Debtor

REPUBLIC FINANCIAL CORPORATION
and RFC S0₂

Plaintiffs

v.

Adversary Proceeding
No. 98-1057

CALABRIAN CORPORATION and
NOXSO CORPORATION

Defendants

MEMORANDUM

Appearances: William H. Horton, Horton, Maddox & Anderson, PLLC, Chattanooga,
Tennessee, Attorney for Plaintiffs

Shelley D. Rucker, Miller & Martin LLP, Chattanooga, Tennessee,
Attorneys for Calabrian Corporation

Kyle R. Weems, Weems & House, Chattanooga, Tennessee,
Attorney for Noxso Corporation; and

Joel M. Walker, Deopken, Keevican & Weiss, Pittsburgh, PA,
Attorneys for Noxso Corporation

HONORABLE R. THOMAS STINNETT
UNITED STATES BANKRUPTCY JUDGE

Calabrian Corporation granted Noxso Corporation a license to use Calabrian's process for making sulfur dioxide. Noxso intended to use the license at a plant located in Tennessee. Noxso was subsequently forced into bankruptcy. In Noxso's chapter 11 case, the court allowed it to sell the manufacturing plant and related assets to Republic Financial Corporation. The court also allowed Noxso to assume the license from Calabrian and assign it to Republic Financial. Republic Financial subsequently assigned the license to its subsidiary RFCSO₂.

Republic Financial and RFCSO₂ brought this suit primarily to obtain a declaratory judgment regarding their rights and duties under the license agreement with Calabrian. They also ask the court to enjoin Calabrian from continuing or beginning suits in any other court to obtain a decision on the same issues. (The court will refer to Republic Financial and RFCSO₂ collectively as "Republic".)

Republic's complaint also names the chapter 11 debtor, Noxso, as a defendant, but it does not ask for any specific relief against Noxso. Paragraph 18 of the complaint alleges that Noxso is named as a party because it may still have an interest in the license and claims may still exist between it and Calabrian regarding the license.

Calabrian has filed a motion to dismiss for lack of subject matter jurisdiction. This memorandum deals first with that motion. In the process of dealing with that motion, the court must also deal with claims filed by the Republic in Noxso's bankruptcy case because Republic relies on those claims as a basis for subject matter jurisdiction.

In addition to the facts stated above, the following facts have been gleaned from Noxso's chapter 11 case file, the materials submitted in this proceeding, and the record in adversary proceeding number 97-1233, Republic's first suit against Calabrian.

FACTS

Calabrian developed a process for producing sulfur dioxide. It licensed the process to Noxso for use in a plant being built in Tennessee. The plant is generally referred to as “the facility.”

In briefs regarding assumption of the license, both Noxso and Calabrian stated that sulfur dioxide produced at the facility would be sold to Olin Corporation for use in a nearby manufacturing plant.

Creditors filed an involuntary bankruptcy petition against Noxso. Noxso allowed the court to enter an order for relief and then converted the case to a Chapter 11 reorganization. As debtor in possession, Noxso filed a motion to sell the facility to Republic pursuant to a sale contract that accompanied the motion. Paragraph 5 of the sale contract provided that Noxso would use its best efforts to assume the license agreement and assign it to Republic.

Calabrian opposed the assumption and assignment of the license on three grounds. First, Calabrian contended the license had been terminated before Noxso’s bankruptcy. Second, Calabrian contended Noxso had breached the license and could assume it only if it cured the defaults. Third, Calabrian contended it did not have adequate assurance that its process for making sulfur dioxide would be protected from disclosure to other manufacturers.

Calabrian’s arguments relied not only on the license agreement but also on other contracts between Calabrian and Noxso. Calabrian relied on the Calabrian-Noxso purchase agreement as to the manufacturing plant, another contract called the “Repayment Agreement,” and finally the “Nondisclosure Agreement” with Noxso. Calabrian asserted that the contracts were so related that some, if not all, of Noxso’s obligations under each of the other contracts were also obligations under the license. For example, the license provides that Calabrian will be paid for the license as provided in the plant purchase agreement.

The question of whether to allow assumption and assignment of the license came on for hearing at the same time as the question of whether to allow the sale of the plant. To answer the questions raised by Calabrian, the court would have been required to determine the relationship between the written license and the other contracts, but the court ultimately did not make any explicit ruling on those questions. That result came about as follows.

The court recessed the hearing to allow the parties to discuss a settlement. When court resumed, the attorney for Calabrian stated that he thought the parties had worked out an agreement, but it apparently had fallen through. He represented that Republic would not settle without a determination by the court as to the terms of the license.

The court stated that it would rule on questions relevant to assumption and assignment, and it would rule on whether to approve a settlement already entered into by the parties, but the court would not interpret the license so that one party or the other could decide whether to settle. The court remarked that the parties could renegotiate the license if they wanted.

Republic's attorney stated that he assumed the court could enter an order allowing the assumption and assignment since there was no objection by Calabrian. Calabrian's attorney then orally withdrew its objection to the assumption and assignment. The result was to allow Noxso to assume the license and assign it to Republic without any express conclusions by the court as to whether the executory contract included terms from agreements other than the written license agreement. No one asked the court to interpret the license for the purpose of allowing assumption and assignment.

On October 22, 1997, the court entered the order allowing the sale of the facility and related assets. The same order allowed the assumption and assignment of the license agreement. In the order, the court found that (1) Noxso had cured or would cure any defaults that occurred before the date of the order so that Republic would not be liable for any default or any obligation arising from

a default before the date of the order; and (2) Noxso and Republic had provided evidence of adequate assurance of future performance. The order relieved Noxso from any liability for defaults by Republic after the assignment. The order also provided that the license would remain in full force and effect between Republic and Calabrian. Finally, the order provided that the court retained jurisdiction to enforce the provisions of the order and the sale contract and to adjudicate any disputes that might arise in connection with the order or the sale contract.

Before the sale was closed, Republic filed its first complaint in this court against Calabrian to determine the terms of the license. Republic and Calabrian settled the lawsuit by an agreed order that provides:

(1) Neither the license nor any other document restricts [Republic], or any other assignee of the license, with respect to whom it may sell sulfur dioxide or the markets in which it may sell sulfur dioxide.

(2) Neither the license nor any other document prohibits, restricts or limits the ability or right of [Republic] or any other assignee from making improvements as defined in the license agreement or any repairs, replacements or modifications in order to bring the facility to and maintain actual production of 45,000 tons of sulfur dioxide per year throughout the life of the license.

(3) This order does not constitute a waiver or release of any rights, claims, counterclaims, cross-claims, causes of action or defenses (to the extent such exist) any of the parties may have with respect to other issues relating to the license agreement or to one another.

(4) Upon this stipulation and agreed order, the complaint for declaratory judgment action is hereby dismissed without prejudice except as to the issues resolved in this agreed order.

The court entered this order on December 22, 1997.

On February 23, 1998, Calabrian filed a lawsuit against Republic in state court in Texas. The Texas lawsuit was subsequently removed to federal district court in Texas and is still pending in that court. Calabrian's complaint in the Texas lawsuit seeks a declaratory judgment as to the terms of the license. The complaint contains the following allegations:

The License Agreement, the Purchase Contract and the related contract documents, understandings and agreements of the parties also provide the following: (1) the volume of production at the Facility is limited, (2) the types of products that may be produced at the Facility are limited, (3) the parties to whom products produced at the Facility [may be sold] is limited, (4) Calabrian is granted access to the Facility, and (5) there is to be complete disclosure of all modifications, improvements and changes to the Facility.

A justiciable controversy exists between Calabrian and [Republic] regarding the parties' respective rights, duties and obligations under and in connection with the License Agreement. Such controversy includes, but is not limited to, the following issues in dispute:

(1) How many tons of product may be produced each year pursuant to the License Agreement?

(2) What types of derivative products may be produced at the Facility?

(3) To whom may products produced at the Facility be sold?

(4) Does [Republic] have the right to relocate the Facility?

(5) To what extent may [Republic] make improvements or modifications to the Facility?

(6) What disclosure obligations exist on [Republic] in connection with the Facility, changes and modifications to the Facility, and production at the Facility?

(7) What obligations exist on [Republic] to allow Calabrian access to the Facility?

(8) What confidentiality obligations exist on [Republic]?

(9) What payment obligations exist to Calabrian under or in connection with the License Agreement?

(10) What access rights does Calabrian have to the Facility?

The written license includes provisions dealing with improvements, disclosure, confidentiality, and payment for use of the license (questions 5, 6, 8 and 9). It does not contain provisions dealing with the amount of production, who the licensee can sell to, relocation of the facility, or access to facility by Calabrian (questions 1, 3, 4, 7 and 10). The license does not specifically deal with the kinds of derivative products that can be produced (question 2).

About a month later (on March 24, 1998), Republic filed its complaint commencing this adversary proceeding. Republic's complaint generally tracks Calabrian's complaint in the Texas lawsuit. The complaint asks the court for a declaratory judgment that the written license agreement is the only document that determines the rights and duties between Republic and Calabrian. Republic's complaint also asks the court to enjoin Calabrian from proceeding in any other court to have these and similar issues regarding the license decided.

In July 1998 the court approved Noxso's amended disclosure statement, and Noxso began the final steps toward confirmation of a plan of reorganization. The hearing on confirmation was set for August 26, 1998.

About a week before the hearing, Republic filed two motions asserting claims in Noxso's bankruptcy case. Each motion alleges that the assignment of the license was supposed to be free and clear of encumbrances. The "Motion for Allowance of Post-petition Claim" asserts that a decision in the Texas lawsuit in favor of Calabrian will be an encumbrance on the license and will entitle Republic to recover the purchase price of the facility and assets. In other words, Republic asserts a contingent claim for return of the purchase price if Calabrian prevails in the Texas lawsuit. The "Motion for Payment of Post-petition Administrative Claim" asserts that the Texas lawsuit is already an encumbrance on the license and therefore Republic is entitled to an administrative expense claim for the costs of the litigation, which are expected to be around \$50,000.

With regard to these claims, paragraph 1 of the Noxso-Republic sale contract refers to the sale of the facility and related assets as free and clear of claims, liens, encumbrances, and rights held by any party other than Republic. However, this paragraph, paragraph 5, the preamble, and Exhibit A leave little doubt that the license was not included among the related assets that were sold. The license was not sold; it was assumed and assigned.

One order approved both the sale and the assumption and assignment of the license. It also treats them as distinct parts of one transaction. Numbered paragraphs 1 through 7 and the fourth and fifth ORDERED paragraphs deal with the sale. They provide for sale of the assets free and clear. Paragraphs 8 through 12 and the eighth through the twelfth ORDERED paragraphs provide for the assumption and assignment of the license. They do not say that it was assumed or assigned free and clear of anything.

The order does not require Noxso to indemnify or pay damages to Calabrian if the license turns out to be different from what Noxso represented it to be or what Republic thought it to be, without regard to any representation by Noxso.

Noxso has filed an objection to the claims on the ground that the dispute between Republic and Calabrian is not an encumbrance on the license and Republic can not have a claim on the theory that Noxso breached its promise to assign the license free and clear of encumbrances.

Republic also filed an objection to confirmation of Noxso's proposed plan of reorganization. The objection asserted that Republic's claims should be dealt with by the plan. The objection also sought a revision of the plan to provide the court would retain jurisdiction after confirmation of this proceeding and "any other future claims or litigation concerning interpretation or construction of the License Agreement." The court overruled the objection, and entered an order confirming the chapter 11 plan on September 2 1998.

As to jurisdiction retained by this court, the plan provides:

Under sections 105(a) and 1142 of the Bankruptcy Code, and notwithstanding entry of the Confirmation Order and occurrence of the Consummation Date, the Bankruptcy Court will retain exclusive jurisdiction over various matters arising out of, and related to, the Case and the Plan to the fullest extent permitted by law, including, among other things, jurisdiction to:

...

C. Hear and determine all matters with respect to the assumption and rejection of any executory contract or unexpired lease to which the Debtor is a party or with respect to which the Debtor may be liable, including, if necessary, the liquidation or allowance of any claims arising therefrom;

D. Determine any and all pending adversary proceedings, motions, applications, and contested or litigated matters;

.....

The plan also provides:

Further, under sections 105(a) and 1142 of the Bankruptcy Code, and notwithstanding entry of the Confirmation Order and occurrence of the Consummation Date, the Bankruptcy Court may exercise jurisdiction until December 31, 1998 over certain other matters arising out of, and related to, the Case and the Plan to the fullest extent permitted by law, including, among other things, jurisdiction to:

...

C. Enforce all orders, judgments, injunctions, releases, indemnifications, and rulings entered in connection with the Case.

Article IV of the plan, paragraph A, deals with executory contracts and unexpired leases that were not assumed or rejected before confirmation of the plan. It provides for the rejection of all except those listed for assumption. Paragraph C provides for cure as to contracts and leases to be assumed.

Republic's first response to Calabrian's motion to dismiss reveals that Calabrian has a separate lawsuit against Noxso pending in Texas. Calabrian mentions this lawsuit in its own documents — its complaint against Republic in the Texas lawsuit and its brief in this court with regard to assumption and assignment of the license.

Republic has also filed a motion to amend its complaint. The motion seeks to bring in Olin Corporation as a party. The motion included a copy of Olin's complaint against Calabrian in the federal district court for this district. Olin's complaint requests a declaratory judgment as to its rights under the license agreement. This includes a request to declare that Noxso's rights under the license have been assigned to Republic. In a brief regarding Noxso's ability to assume the license, Calabrian stated that Olin took part in negotiating the license because it wanted the license to meet its usual requirements, but Olin is not a party to the license and has rights under the license only as a "client" of Noxso.

DISCUSSION

Bankruptcy jurisdiction includes the bankruptcy case, matters arising in the bankruptcy case, matters arising under the Bankruptcy Code, and matters related to the bankruptcy case. 11 U.S.C. § 1334(a) & (b). Matters related to the bankruptcy case make up the broadest category. *In re Marcus Hook Development Park, Inc.*, 943 F.2d 261 (3rd Cir. 1991); *Pipkin v. JVM Operating*, 197 B.R. 47 (E.D. Tex. 1996).

If Noxso or Calabrian or Republic had asked the court to determine the terms of the license before the assumption and assignment were complete, the court apparently had jurisdiction to do so. This was true even after Calabrian dropped its objection to the assumption and assignment. When a chapter 11 debtor proposes assumption and assignment of an executory contract for the benefit of the debtor or the bankruptcy estate, the court may be required to determine the terms of the contract in order for the deal to be completed. The court should have jurisdiction to do so.¹

In this case, however, the assumption and assignment are complete, and Noxso's chapter 11 plan has been confirmed. As a result, the court's jurisdiction is doubtful. See *Banc One Capital Partners v. Addison Airport of Texas, Inc. (In re H. B. Leasing Co.)*, 188 B.R. 810 (E. D. Tex. 1995); *Poplar Run Five Ltd. Partnership v. Virginia Electric & Power Co. (In re Poplar Run Five Ltd. Partnership)*, 192 B.R. 848 (E. D. Va. 1995).

Republic contends the court has jurisdiction because Calabrian's lawsuit against Republic has resulted or will result in claims by Republic in Noxso's bankruptcy case. See *Michigan Employment Security Commission v. Wolverine Radio Co., Inc. (In re Wolverine Radio Co.)*, 930 F.2d 1132 (6th Cir. 1991); *In re G.S.F. Corp.*, 938 F.2d 1467 (1st Cir. 1991). Republic's claims are based

¹ The *Orion Pictures* decision does not deny jurisdiction; it stands for the proposition that such a request would be a related proceeding. *Orion Pictures Corp. v. Showtime Networks, Inc. (In re Orion Pictures Corp.)*, 4 F.3d 1095 (2^d Cir. 1993).

on the theory that Calabrian's lawsuit represents a breach by Noxso of an agreement to assign the license free and clear.

The courts have given broad scope to the kinds of interests or claims that can be cut off by a sale free and clear. *United Mine Workers of America 1992 Benefit Plan v. Leckie Smokeless Coal Co. (In re Leckie Smokeless Coal Co.)*, 99 F.3d 573 (4th Cir. 1996) *cert. den.* ____ U.S. ____, 117 S.Ct. 1251, 137 L.Ed.2d 332 (1997); *In re Dow Corning Corp.*, 198 B.R. 214 (Bankr. E. D. Mich. 1996); *In re Lady H. Coal Co.*, 193 B.R. 233 (Bankr. S. D. W. Va. 1996). Nevertheless, the court disagrees with Republic's argument.

Republic's argument must be rejected first on a simple ground: the sale agreement and the court's order do not provide for assignment of the license to be free and clear. Even if they did, Republic could not prevail on this argument, for the reasons given below.

Republic's argument amounts to saying that assumption and assignment can modify the contract without the other party's consent. To accomplish this, the order need only say that the assumption or assignment is free and clear of claims, rights, interests, liens, or encumbrances. This will modify the contract by preventing the other party from proving its view of the contract. The other party will be bound to the debtor's or the assignee's view of the contract. The court disagrees. For the debtor to assume a contract, it must provide for cure of defaults. The debtor or the assignee and the other party may agree to modifications of the contract. The contract is not modified in other respects as a result of the assumption process. The debtor assumes the contract as it exists, with the potential for future disputes as to its terms. *City of Covington v. Covington Landing Ltd. Partnership*, 71 F.3d 1221 (6th Cir. 1991). The debtor or assignee can not change this rule by providing for assumption or assignment free and clear.

In other words, potential disputes between the assignee and the other party as to the terms of the contract are not an interest, right, claim, lien, or encumbrance that can be defeated by

a provision for assignment free and clear. Of course, the court's order allowing the assumption and assignment can have preclusive effect on some claims or issues according to the rules of res judicata and collateral estoppel, but that is a different question.

This leads to the conclusion that Calabrian's lawsuit does not represent a breach by Noxso of any agreement to assign the license free and clear and does not give rise to the claims asserted by Republic. Thus, the claims asserted by Republic can not support subject matter jurisdiction of this proceeding.²

The confirmation order retained jurisdiction with regard to executory contracts, but that provision appears to apply to executory contracts that were assumed or rejected under the plan, not executory contracts that had previously been assumed and assigned, such as the license agreement.

The confirmation order also retained jurisdiction of pending matters. This adversary proceeding was the only dispute pending as to terms of the license. Since the court could have retained only the jurisdiction it already had, this provision adds nothing to the court's jurisdiction of this proceeding.

The confirmation order also retained jurisdiction to enforce the court's earlier orders entered in connection with the case. This is broad enough to include the agreed order that settled Republic's first suit against Calabrian. Thus, the court retained jurisdiction to enforce that order.

² Noxso did not expressly agree to indemnify Republic against losses that might result from an unfavorable interpretation of the license. Compare *Michigan Employment Security Commission v. Wolverine Radio Co., Inc. (In re Wolverine Radio Co.)*, 930 F.2d 1132 (6th Cir. 1991). Republic has not asserted any claim against Noxso for rescission or damages based on fraud, misrepresentation, failure of consideration, mutual mistake, or other such grounds. See, e.g., *Maitland v. Mitchell (In re Harris Pine Mills)*, 44 F.3d 1431 (9th Cir. 1995), cert. den. 515 U.S. 1131, 115 S.Ct. 2555, 132 L.Ed.2d 809 (1995); *River Production Co. v. Webb (In re Topco, Inc.)*, 894 F.2d 727 (5th Cir. 1990); *Ford Motor Credit Co. v. Weaver*, 680 F.2d 451 (6th Cir. 1982); *Back v. LTV Corp. (In re Chateaugay Corp.)*, 213 B.R. 633 (S. D. N. Y. 1997).

The court doubtlessly had jurisdiction to enter the order that approved the assumption and assignment. That order retained jurisdiction to determine its effect, including the effect of the sale agreement. It also retained jurisdiction to enforce the provisions of the order and the sale agreement and to adjudicate any disputes that might arise in connection with the order or the sale contract. These provisions effectively retained jurisdiction to decide the effect of the order as to the terms included in the license contract.

Thus, the confirmation order retained jurisdiction to determine the effect of the order that settled Republic's first lawsuit against Calabrian. Likewise, the order approving the assumption and assignment retained jurisdiction to determine its effect. *Cf. Local Loan Co. v. Hunt*, 292 U.S. 234, 54 S.Ct. 695, 78 L.Ed. 1230 (1934); *Kokkonen v. Guardian Life Insurance Company of America*, 511 U.S. 375, 114 S.Ct. 1673, 128 L.Ed.2d 391 (1994); *Wang Laboratories, Inc. v. Applied Computer Sciences, Inc.*, 958 F.2d 355 (Fed. Cir. 1992).

These orders do not, however, clearly retain jurisdiction to determine the terms of the license generally; they only retain jurisdiction to determine the effect of the court's earlier orders on Republic's or Calabrian's ability to prove what terms are included in the license. *See Beck v. LTV Corp. (In re Chateaugay Corp.)*, 213 B.R. 633 (S.D.N.Y. 1997).

Even if the court did not retain jurisdiction, the court has jurisdiction to enforce its earlier orders, and this jurisdiction includes jurisdiction to determine their effect. *See., e.g., In re G.S.F. Corp.*, 938 F.2d 1467 (1st Cir. 1991); *American General Finance, Inc. v. Tippins (In re Tippins)*, 221 B.R. 11 (Bankr. N. D. Ala. 1998); *In re Peck*, 155 B.R. 301 (Bankr. D. Conn. 1993).³

³ The Supreme Court's decision in *Rivet* did not involve an original suit in federal court to enforce the court's earlier order. *Rivet v. Regions Bank of Louisiana*, 522 U.S. 470, 118 S.Ct. 921, 926 n.2, 139 L.Ed.2d 912 (1998); *see Fairchild Aircraft Inc. v. Campbell (In re Fairchild Aircraft Corp.)*, 220 B.R. 909 (Bankr. W. D. Tex. 1998).

Finally, the courts have generally decided that they have subject matter jurisdiction to determine the meaning of such orders. See, e.g., *Eastern Air Lines, Inc. v. Insurance Company of the State of Pennsylvania (In re Ionosphere Clubs, Inc.)*, 85 F.3d 992 (2d Cir. 1996); *Free-Tan Corp. v. 49-50 Associates (In re Liberty Music and Video, Inc.)*, 50 B.R. 379 (S. D. N. Y. 1985); *Stokes v. Firestone (In re Firestone)*, 198 B.R. 168 (E. D. Va. 1996); *In re Lawrence United Corp.*, 221 B.R. 661 (Bankr. N. D. N. Y. 1998); *Walter v. Celotex Corp. (In re Hillsborough Holdings Corp.)*, 197 B.R. 366 (Bankr. M. D. Fla. 1996); *Hiser v. Neumann Medical Center (In re St. Mary Hospital)*, 117 B.R. 125 (Bankr. E. D. Pa. 1990); compare *In re Hall's Motor Transit Co.*, 889 F.2d 520 (3d Cir. 1989); *In re Urban Health Services, Ltd.*, 154 B.R. 486 (Bankr. N. D. Ill. 1993) (both cases denying jurisdiction since dispute did not concern meaning of court's prior orders).⁴

This jurisdiction also allows the court to determine the effect of the orders under the rules of res judicata and collateral estoppel and whether judicial estoppel applies as a result of the earlier proceedings in this court. *Eastern Air Lines, Inc. v. Insurance Company of the State of Pennsylvania (In re Ionosphere Clubs, Inc.)*, 85 F.3d 992 (2d Cir. 1996); *Direct Air, Inc. v. Fairchild Aircraft, Inc. (In re Direct Air, Inc.)*, 189 B.R. 444 (Bankr. N. D. Ill. 1995).

Jurisdiction summary.

The court concludes that it has jurisdiction to determine the meaning and effect of its earlier orders as to what terms are included in the license. The court doubts that it has jurisdiction of

⁴ The court may have subject matter jurisdiction of this matter as a related proceeding on the ground that determining the effect of the order is necessary to preserve the integrity of bankruptcy sales or contract assignments. 28 U.S.C. § 1334(b); cf. *Paris Manufacturing Corp. v. Ace Hardware Corp. (In re Paris Industries Corp.)*, 132 B.R. 504 (D. Me. 1991); *Allnut v. Associates Leasing, Inc. (In re Allnut)*, 220 B.R. 871 (Bankr. D. Md. 1998); *Forde v. Kee-Lox Manufacturing Co.*, 437 F.Supp. 631 (W. D. N. Y. 1977) *aff'd* 584 F.2d 4 (2d Cir. 1978).

When administration of the bankruptcy case ends, the court may not have jurisdiction or may be justified in abstaining. *Linkway Investment Co. v. Olsen (In re Casamont Investors, Ltd.)*, 196 B.R. 517 (Bankr. 9th 1996); *Poplar Run Five Ltd. Partnership v. Virginia Electric & Power Co. (In re Poplar Run Five Ltd. Partnership)*, 192 B.R. 848 (E. D. Va. 1995). But this case has not advanced to that point.

the dispute as to the terms of the license to the extent it is not affected by the court's earlier orders. This raises the question of whether the court should abstain from deciding that dispute.

Abstention.

The court thinks it should abstain. The underlying dispute is a related proceeding at best. The outcome of the dispute depends on state contract law, not bankruptcy law. A decision by this court is not necessary for the efficient administration of the bankruptcy estate. There are already two other lawsuits pending as to the meaning of the license. Calabrian's Texas lawsuit raises essentially the same issues as this proceeding. Olin's suit raises related issues. It reveals that there may really be a three party dispute as to the terms of the license. The court will not accuse any of the parties of forum shopping, but there appear to be multiple forums available for the underlying dispute, and the court sees no good reason for it to be tried in this court. 28 U.S.C. § 1334(c)(1); *Beneficial National Bank v. Best Receptions Systems, Inc. (In re Best Reception Systems, Inc.)*, 220 B.R. 932, 952-56 (Bankr. E. D. Tenn. 1998).

Summary judgment *sua sponte*.

The court has decided that it has jurisdiction to determine the effect of its earlier orders with regard to the terms of the license. In other respects, the court abstains from deciding the terms of the license. With regard to the effect of the court's earlier orders, all the relevant facts should be in the record in this adversary proceeding, in Noxso's case file, and in the file from Republic's first suit against Calabrian in this court. The court's findings of fact were intended to recite all the relevant facts so that the court can dispose of this proceeding by *sua sponte* summary judgment.

The court can not grant summary judgment *sua sponte* without giving the parties an opportunity to demonstrate why summary judgment should not be entered. 10A Charles A. Wright, et al., *Federal Practice and Procedure* § 2720 (1998). The court's proposed opinion follows this

paragraph. The court will allow the parties time to review it and file briefs as to whether or in what respects the proposed summary judgment should not be entered.

Proposed opinion.

The court's reasoning leads to the conclusion that it had jurisdiction of Republic's first lawsuit against Calabrian in this court. The parties ended the lawsuit with an agreed order. The agreed order provides that neither the license agreement nor any other document limits the customers that Republic can sell to or the markets it can sell in. Calabrian's complaint in the Texas lawsuit raises this question again. Question number 3 is: "To whom may products produced at the Facility be sold?" By raising this question, Calabrian's complaint directly contradicts the agreed order entered by this court.

The agreed order also provides that Republic can make improvements or modifications to bring production up to 45,000 tons per year and keep it at that level. The complaint in the Texas lawsuit raises the question of whether production at the facility is limited. The agreed order partially answers this question. Calabrian will contradict the agreed order if it asserts that production is limited to less than 45,000 tons.

The complaint in the Texas lawsuit also raises the question of the extent to which Republic can make improvements or modifications to the facility. The agreed order partially answers this question. It decided that Republic can make improvements or modifications to raise production to 45,000 tons per year and keep it at that level. Thus, Calabrian will contradict the agreed order if it contends that Republic can not make improvements and modifications for the purpose of producing 45,000 tons per year.

The facts found in the agreed order are binding on Calabrian as a matter of res judicata or collateral estoppel. The res judicata and collateral estoppel effects of a prior federal judgment,

including an agreed order, are determined by rules of federal law. *Remus Joint Venture v. McAnally*, 116 F.3d 180, 184 n.5 (6th Cir. 1997); *Shearer v. Dunkley (In re Dunkley)*, 221 B.R. 207 (Bankr. N. D. Ill. 1998). Res judicata refers to claim preclusion, whereas collateral estoppel deals with issue preclusion, but the distinction is not always easy to make. 18 Charles A. Wright, et al., *Federal Practice and Procedure* § 4416 (1981).

Res judicata and collateral estoppel follow opposite general rules as to the effect of an agreed order. An agreed order has the same res judicata effect as any other judgment, but it does not have collateral estoppel effect. However, since an agreed order is also in the nature of a contract, the parties can vary these results by the agreement stated in the order. 18 Charles A. Wright, et al., *Federal Practice and Procedure* § 4443 (1981). The parties can draft the order so that its res judicata effect will be limited. They can also draft the order so that it will have collateral estoppel effect. *Young-Henderson v. Spartanburg Area Mental Health Center*, 945 F.2d 770 (4th Cir. 1991); *Berr v. Federal Deposit Insurance Corp. (In re Berr)*, 172 B.R. 299 (B.A.P. 9th Cir. 1994); *Smith v. Smith (In re Smith)*, 189 B.R. 240 (Bankr. D. N. H. 1995); *Masters v. Crouch*, 872 F.2d 1248 (6th Cir. 1989) *cert. den.* 493 U.S. 977, 110 S.Ct. 503, 107 L.Ed.2d 506 (1989).

Generally the court will determine the parties' intent from the wording of the order itself, but in some situations the court may also consider other evidence. *Unsecured Creditors' Committee v. Southmark Corp. (In re Robert L. Helms Construction and Development Co.)*, 139 F.3d 702, 704 n. 3 (9th Cir. 1998); *Barber v. International Brotherhood of Boilermakers*, 778 F.2d 750 (11th Cir. 1985); *Berr v. Federal Deposit Insurance Corp. (In re Berr)*, 172 B.R. 299 (B.A.P.. 9th Cir. 1994).

Res judicata or claim preclusion appears to be the correct doctrine for dealing with the effect of the agreed order. Republic and Calabrian have a number of separate claims regarding the terms of the license. See *May v. Parker-Abbott Transfer & Storage, Inc.*, 899 F.2d 1007 (10th Cir. 1990); *J.Z.G. Resources, Inc. v. Shelby Insurance Co.*, 84 F.3d 211 (6th Cir. 1996). This means the

order is res judicata at least with regard to the claims specifically dealt with by the order. As to those claims, the agreed order precludes Calabrian from obtaining a different decision in the Texas lawsuit.

The question is whether the parties limited the res judicata effect of the agreed order to the claims it specifically dealt with. The agreed order specifically answers some questions regarding the terms of the license and then provides that it is not a waiver or release as to any other claims or defenses regarding the license. This indicates that the parties intended to limit the res judicata effect of the agreed order to the claims it specifically dealt with. The agreed order also provides for dismissal with prejudice as to the “issues” specifically dealt with, but not as to any other issues. If “claims” is substituted for “issues,” this also reveals the parties’ intent to limit the order’s res judicata effect to the claims it specifically dealt with. The court concludes that the agreed order is res judicata only as to the claims it specifically dealt with.

If the court treats the question as involving collateral estoppel, instead of res judicata, the court reaches the same result. Normally, an agreed order does not have collateral estoppel effect. This agreed order provides, however, that it is not binding as to issues not specifically decided in the order. It also provides for dismissal without prejudice as to issues not resolved by the order. This reveals the parties’ intent to make the order binding — to give it collateral estoppel effect — as to the issues specifically decided. *Compare Universal City Studios, Inc. v. Nintendo Co.*, 578 F.Supp. 911 (S. D. N. Y. 1983) *aff’d* 746 F.2d 112 (2d Cir. 1984) (Dismissal with or without prejudice reveals no intent as to collateral estoppel when the agreed order makes no findings of fact.)

Next the court deals with Republic’s more general argument regarding the effect of the order allowing the assumption and assignment.

In a proceeding by a trustee or debtor for assumption of an executory contract, the other party to the contract has the burden of asserting defaults that might prevent the assumption. *In re F. W. Restaurant Associates, Inc.*, 190 B.R. 143 (Bankr. D. Conn. 1995); *Pyramid Operating*

Authority v. City of Memphis (In re Pyramid Operating Authority), 144 B.R. 795 (Bankr. W. D. Tenn. 1992). When Calabrian withdrew its objection, it failed to assert any defaults that would prevent assumption of the license. The court entered an order allowing the assumption. The order allowing the assumption necessarily decided there were no uncured defaults when the license was assigned to Republic. *NCL Corp. v. Lone Star Building Centers (Eastern), Inc.*, 144 B.R. 170 (S. D. Fla. 1992); *Georgia Ports Authority v. Diamond Manufacturing Co. (In re Diamond Manufacturing Co.)*, 164 B.R. 189 (Bankr. S. D. Ga. 1998); see also *Eastern Airlines, Inc. v. Insurance Company of the State of Pennsylvania (In re Ionosphere Clubs, Inc.)*, 85 F.3d 992 (2d Cir. 1996); *In re Superior Toy & Mfg. Co.*, 78 F.3d 1169 (7th Cir. 1996); *Nostas Associates v. Costich (In re Klein Sleep Products, Inc.)*, 78 F.3d 18 (2d Cir. 1996); *Continental Illinois National Bank and Trust Co. v. Tacoma Boatbuilding Co. (In re Tacoma Boatbuilding Co.)*, 129 B.R. 365 (Bankr. S. D. N. Y. 1991), *aff'd in part, rev'd in part* 158 B.R. 19 (S.D.N.Y. 1993).

As a result, Calabrian can not assert against Republic any default by Noxso that occurred before the order was entered. The order specifically sets out this rule. It provides Calabrian can not assert against Republic a default that occurred before the order was entered or a claim based on a default that occurred before the order was entered. This includes defaults based on the terms of the written license agreement and any other terms Calabrian asserts to be part of the license agreement. *In re Rachels Industries, Inc.*, 109 B.R. 797 (Bankr. W. D. Tenn. 1990).

For example, the license agreement does not provide for payment of royalties to Calabrian. It provides that Noxso will pay Calabrian under the plant purchase agreement between them. Calabrian asserted that Noxso was in default under the agreement and was required to pay Calabrian \$665,000 to cure the default. The court's decision to allow the assumption means that Calabrian can not assert against Republic any default *by Noxso* with regard to payment obligations under plant purchase agreement.

The decision to allow the assumption and assignment does not lead to the conclusion that the payment requirement is no longer part of the license agreement. The payment requirement may have been rendered meaningless by a combination of the no-default decision and other facts, but the court does not have the information needed to make any such ruling.

There are other arguments for treating the order as barring proof by Calabrian that the full agreement with Noxso includes terms not in the written license agreement. One argument focuses on the effect of the order with regard to adequate assurance of future performance by Republic.

When the other party objects to assumption or assignment, the court may be called upon to determine the terms of the contract. *See, e.g., Byrd v. Gardiner, Inc. (In re Gardiner, Inc.)*, 831 F.2d 974 (11th Cir. 1987); *cert. den.* 513 U.S. 808, 115 S.Ct. 55, 130 L.Ed.2d 14 (1994); *Emplexx Software Corp. v. AGI Software, Inc. (In re AGI Software, Inc.)*, 199 B.R. 850 (Bankr. D. N. J. 1995); *In re Karfakis*, 162 B.R. 719 (Bankr. E. D. Pa. 1993). In this case, however, Calabrian withdrew its objection before the issues were fully tried. As a result, there was no direct ruling on the terms of the license.

The court assumes for the purpose of argument, however, that it was still required to find adequate assurance of future performance by Republic. 11 U.S.C. § 365(f)(2). This leads to the argument that the court must have determined what terms make up the license in order to rule on adequate assurance.

The court disagrees. When Calabrian withdrew its objection, that removed the need for an express decision as to what terms are included in the agreement. After that, neither party expressly asked the court for a decision as to what terms are included in the license. As a result, adequate assurance became primarily an economic question that could be answered without deciding the exact terms of the license. *See, e.g., In re Martin Paint Stores*, 199 B.R. 258 (Bankr. S.D.N.Y. 1996) *aff'd Southern Blvd., Inc. v. Martin Paint Stores*, 207 B.R. 57 (S.D.N.Y. 1997); *In re Prime Motor*

Inns, Inc., 166 B.R. 993 (Bankr. S.D. Fal. 1994); *In re Rachels Industries, Inc.*, 109 B.R. 797 (Bankr. W.D. Tenn. 1990). Thus, the court's order allowing the assignment did not require a decision as to what terms are included in the license. As a result, the order does not collaterally estop Calabrian as to the terms of the license. *Smith v. Securities and Exchange Commission*, 129 F.3d 356 (6th Cir. 1997) (elements of collateral estoppel).

Republic also relies on res judicata or claim preclusion. Under the rules of res judicata, the order prevents Calabrian from attacking the assumption or the assignment on the ground that it lacked adequate assurance of future performance. This leads to the following argument. First, Calabrian is asserting lack of adequate assurance of Republic's performance based on Calabrian's understanding that the license agreement includes terms not in the written agreement. Second, the court's order allowing the assignment bars Calabrian from asserting lack of adequate assurance on any ground. Therefore, Calabrian can not assert that the license agreement includes terms not in the written agreement.

This argument is not logical. It also suffers from the same problem as the preceding argument; the earlier proceedings in this court do not allow the court to find that the assumption and assignment was based on any particular set of contract terms. This argument does, however, lead to the heart of the res judicata problem, as explained below.

Republic might accuse Calabrian of withdrawing its objection to force Republic to buy a pig in a poke — to assume the license agreement without knowing what it included. This might be called the Davy Crockett approach to the problem. When Mr. Crockett lost his bid for re-election to Congress from a district in West Tennessee, he allegedly remarked that his constituents could go to hell, but he was going to Texas.⁵

⁵ Crockett quotations can be found at <http://www.infoporium.com/heritage/crockquotes.html> and <http://www.numedia.tddc.net/hot/hillcountry/sa/Alamo/crockett.html>. The decision by Mr. Crockett turned out to be a questionable one.

In a less colorful tone, Calabrian might reply as follows:

A debtor wanting to assume an executory contract must assume the contract as it exists. The debtor can not create a different contract by assuming only part of the original contract. It appears that Noxso and Republic were attempting to do just that. They proposed to assume the license agreement, but they meant to exclude terms that Calabrian thought were included. Now Republic wants the court to say that Calabrian is bound by Republic's view of what terms are included in the contract. Republic's view of the terms can not be the court's view of the terms because Calabrian's withdrawal of its objection relieved the court from having to decide exactly what terms make up the contract.

Moreover, Calabrian had no duty to proceed with its objections so that Republic might obtain a decision by the court as to the terms of the contract. Republic and Noxso decided to go ahead without asking for or obtaining a decision. As a result, Noxso assumed and assigned its license agreement with Calabrian according to the terms between Noxso and Calabrian. This procedure left open the question of what terms are included in the agreement.

The key question is whether, before the assumption and assignment, Calabrian had a duty to obtain a decision regarding the terms of the license or be bound by Noxso's and Republic's understanding of what terms make up the license.

In this regard, the court agrees with Calabrian's argument. The debtor can negotiate changes and assume the contract as changed, but the debtor can not partially assume an executory contract. Noxso could not assume only the written license agreement if it was not the entire licensing agreement. *City of Covington v. Covington Landing Ltd. Partnership*, 71 F.3d 1221 (6th Cir. 1991). Noxso or Republic could have requested a decision by the court as to the terms of the license, on the ground that it was necessary in order to carry out the assumption and assignment, but they did not do that. The court concludes that Calabrian did not have a duty to pursue its "claim" regarding the terms of the license agreement. As a result, the court's order allowing the assumption and assignment is not res judicata as to the terms of the license agreement.

This leaves the possibility of judicial or equitable estoppel against Calabrian as a result of its actions in the earlier proceedings. Calabrian, Noxso, and Republic knew there was a dispute as to what terms were included in the license. Calabrian's objection to the assumption and assignment was based partly on terms that Noxso and Republic apparently did not consider to be part of the agreement. Calabrian withdrew its objection after the hearing began, thereby leaving no immediate litigation pending as to the terms of the license. Calabrian's actions did not reasonably lead Republic to think it was assuming the license based on Republic's or Noxso's view of the terms. Calabrian obviously took the opposite view of the effect of withdrawing its objection. Calabrian intended to allow the assumption and assignment without Republic having obtained a favorable ruling as to the terms of the license agreement. The court understood this to be Calabrian's intent. The court could not have been certain that Calabrian's action would preserve its right to dispute the terms of the license agreement. But the court was not misled as to Calabrian's intent to leave the question open. Noxso and Republic must also have understood what Calabrian intended. Furthermore, Republic was not justified in thinking Calabrian had the burden of obtaining a decision as to what terms are included in the license. Calabrian's actions do not justify judicial or equitable estoppel. *Anderson v. AT & T Corp.*, 147 F.3d 467 (6th Cir. 1998) (elements of equitable estoppel); *Warda v. Commissioner of Internal Revenue*, 15 F.3d 533 (6th Cir. 1994) (elements of judicial estoppel), *cert. den.* 513 U.S. 808, 115 S.Ct. 55, 130 L.Ed.2d 14 (1994).

Republic's first suit in this court and the agreed order are evidence that Republic did not think the controversy ended with the order allowing the assumption and assignment. They are only weak evidence because Republic has always relied on the order as disposing of the controversy, even in the first lawsuit, and the agreed order did not bar Republic from continuing this argument.

In summary, the order allowing the assumption and assignment does not have the effect of limiting the terms of the license agreement to those that Noxso or Republic considered to be part of the agreement.

Republic has requested an injunction against Calabrian as to proceedings in other courts. The court sees no need for such an injunction. A declaratory judgment based on the court's conclusions should be sufficient for the other courts.

The court will enter an order accordingly.

This memorandum constitutes findings of fact and conclusions of law as required by *Fed. R. Bankr. P. 7052*.

ENTER:

BY THE COURT

entered 12/22/1998

R. THOMAS STINNETT
UNITED STATES BANKRUPTCY JUDGE

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF TENNESSEE

In re:

No. 97-10709
Chapter 11

NOXSO CORPORATION
Debtor

REPUBLIC FINANCIAL CORPORATION
and RFC S0₂

Plaintiffs

v.

Adversary Proceeding
No. 98-1057

CALABRIAN CORPORATION and
NOXSO CORPORATION

Defendants

ORDER

In accordance with the court's memorandum opinion entered this date:

IT IS ORDERED that the motion to dismiss filed by the defendant, Calabrian Corporation, is denied to the extent it challenges this court's jurisdiction to determine the effect of its earlier orders regarding the license agreement in question.

IT IS FURTHER ORDERED that the court abstains from exercising jurisdiction of the dispute over the meaning of the license agreement to the extent the dispute is not controlled by the effect of this court's earlier orders.

IT IS FURTHER ORDERED that the parties, Republic Financial Corporation, RFCSO₂, and Calabrian Corporation, are allowed 20 days after the date of this order to file briefs regarding the court's proposed opinion on summary judgment.

ENTER:

BY THE COURT

entered 12/22/1998

R. THOMAS STINNETT
UNITED STATES BANKRUPTCY JUDGE

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF TENNESSEE

In re:

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CALABRIAN CORPORATION and
NOXSO CORPORATION

Defendants

ORDER

Republic Financial Corporation and RFC S0₂ filed motions asserting claims against the bankruptcy estate of Noxso Corporation on the ground that Noxso breached its duty to assume and assign its license agreement with Calabrian Corporation free and clear of encumbrances. Noxso filed an objection to the claims.

In accordance with the court's memorandum opinion entered this date,

IT IS ORDERED that the motions are denied, the objection sustained, and the claims disallowed.

ENTER:

BY THE COURT

entered 12/22/1998

R. THOMAS STINNETT
UNITED STATES BANKRUPTCY JUDGE