

## Bankruptcy Code's Patent Protection Extended to Licensees of Foreign Debtors in Chapter 15 Case

In a case of first impression, *In re Qimonda AG*, the Bankruptcy Court for the Eastern District of Virginia (the "**Bankruptcy Court**") found that the protections of section 365(n) of the Bankruptcy Code are available to licensees of U.S. patents in a chapter 15 case even when these protections are not available under the foreign law applicable to the foreign debtor. The Bankruptcy Court found that a refusal to apply section 365(n) was "manifestly contrary to the public policy of the United States" and results in the licensees not being "sufficiently protected."<sup>1</sup>

### Qimonda's German Insolvency Proceeding

On January 23, 2009, Qimonda AG ("**Qimonda**"), a German manufacturer of semiconductor memory devices, filed an insolvency proceeding in Munich. Dr. Michael Jaffe, who was appointed as its insolvency administrator, decided that the company should be liquidated. After Jaffe concluded that a going-concern sale of Qimonda could not be achieved, he looked for ways to monetize the estate's principal asset: its patent portfolio. Jaffe identified contracts known in the United States as executory contracts (mutual contracts with respect to which the obligations of both the debtor and the counter-party have not been completely performed), which are automatically unenforceable under section 103 of the German Insolvency Code unless the insolvency administrator elects to

perform under the contract.<sup>2</sup> Many of these contracts were cross-licenses pursuant to which no royalties are due. Jaffe elected to not perform under Qimonda's patent cross-license agreements, through which Qimonda and various counterparties (including Samsung, IBM, and Intel) acquired rights to use each other's patents, with the intent of re-licensing the patents to the counterparties in exchange for royalties.

### Section 365 of the Bankruptcy Code

Section 365(n) provides intellectual property licensees with certain rights, including the right to continue using the intellectual property, when a trustee or debtor in possession rejects an executory contract under which the debtor is a licensor. The Bankruptcy Court noted that section 365(n) was added "to make clear that the rights of an intellectual property licensee to use the licensed property cannot be unilaterally cut off... in the event of the licensor's bankruptcy."

### Chapter 15 of the Bankruptcy Code

Section 1509(b)(3) of the Bankruptcy Code requires U.S. courts to "grant comity or cooperation to the foreign representative." The extent of comity is limited, however, by, among others, section 1522(a) providing that the court may grant are sufficiently protected" and section 1506

<sup>1</sup> Memorandum Opinion on Remand, Case No. 09-14766 (SSM) (Bankr. E.D. Va. Oct. 28, 2011) [Docket No. 635].

<sup>2</sup> The Bankruptcy Court noted that the prevailing view is that patent cross-licenses fall within the scope of section 103 of the German Insolvency Code but it remains a technically open question because it has not been ruled upon by Germany's highest court.

certain relief “only if the interests of the creditors . . . providing that nothing in chapter 15 “prevents the court from refusing to take an action governed by this chapter if the action would be manifestly contrary to the public policy of the United States.”

## Procedural Background

On July 22, 2009, the Bankruptcy Court entered an order recognizing Qimonda’s German insolvency proceeding as a foreign main proceeding under chapter 15 of the Bankruptcy Code, as well as a Supplemental Order which, among other provisions, made section 365 of the Bankruptcy Code applicable in the chapter 15 proceeding. Absent the Court’s order, section 365(n) is not made automatically applicable to cases under Chapter 15.<sup>3</sup> Upon a motion by Jaffe, who was appointed as foreign representative of Qimonda in the chapter 15 case, the Bankruptcy Court determined that deference to German law was appropriate and entered an “**Amended Supplemental Order**” which provided that section 365 would not in any way limit or restrict the German insolvency administrator’s ability to elect non-performance under section 103 of the German Insolvency Code.

Several patent licensees opposed Jaffe’s motion and appealed the Bankruptcy Court’s Amended Supplemental Order. The District Court affirmed the order in part but remanded to the Bankruptcy Court to determine whether restricting the applicability of section 365(n) was “manifestly contrary to the public policy of the United States” and whether the licensees would be “sufficiently protected” if section 365(n) did not apply.

## The Bankruptcy Court’s Opinion on Remand

On remand, the Bankruptcy Court found for the objectors on both grounds: restricting the applicability of section 365(n) did not sufficiently protect creditors and that it would be contrary to public policy.

In addressing the requirements of chapter 15, the Bankruptcy Court found that the licensees were not “sufficiently protected” as required by section 1522(a)

<sup>3</sup> Bankruptcy Code, sections 103(a); 1520.

of the Bankruptcy Code without the protection of 365(n). Finding that the test required balancing the relief granted to the foreign representative with the interests of those affected by such relief, and noting that “the issue is close,” the Bankruptcy Court found that the interest of the licensees was stronger due to “the risk to the very substantial investment the objectors... have collectively made in research and manufacturing facilities in the United States in reliance on the design freedom provided by the cross-license agreements.”

Next, though noting that the District Court had interpreted the use of the word “manifestly” to “substantially limit” the public policy exception “to the most fundamental policies of the United States,” the Bankruptcy Court found that denying the licensees the protections of section 365(n) was manifestly contrary to the public policy of the United States. The Bankruptcy Court was persuaded by expert witness testimony that although innovation would not grind to a halt if U.S. patent licenses could be cancelled in a foreign insolvency proceeding, “the resulting uncertainty would nevertheless slow the *pace* of innovation, to the detriment of the U.S. economy. Thus, the court determines that failure to apply § 365(n) under the circumstances of this case and this industry would ‘severely impinge’ an important statutory protection accorded licensees of U.S. patents and thereby undermine a fundamental U.S. public policy promoting technological innovation.”

## Implications

As a legal matter, the *Qimonda* decision is notable in its refusal to grant comity to the laws of Germany, a western European ally which, by all accounts, has a well developed modern legal system. As an economic matter, the *Qimonda* decision, if followed by other U.S. courts, could have significant impact on U.S. industries that rely heavily on intellectual property. Ensuring that licensees of U.S. patents will be able to continue using those patents regardless of a foreign licensor’s financial situation and the contrary provision of the applicable foreign law, will provide licensees with greater legal and business certainty, allowing them to invest more capital in manufacturing products requiring the use of U.S. patents. Moreover, by making U.S. patents more desirable to license, both domestic and foreign companies may be encouraged to invest more capital into developing technology in the United States.

---

## Practice group contacts

If you have questions regarding the information in this legal update, please contact the Dechert attorney with whom you regularly work, or any of the attorneys listed. Visit us at [www.dechert.com/business\\_restructuring](http://www.dechert.com/business_restructuring).

Sign up to receive our other [DechertOnPoints](#).

**Allan S. Brilliant**

New York  
+1 212 698 3600  
allan.brilliant@dechert.com

**Ethan D. Fogel**

Philadelphia  
+1 215 994 2965  
ethan.fogel@dechert.com

**Shmuel Vasser**

New York  
+1 212 698 3691  
shmuel.vasser@dechert.com

**G. Eric Brunstad, Jr.**

Hartford  
+1 860 524 3960  
eric.brunstad@dechert.com

**Brian E. Greer**

New York  
+1 212 698 3536  
brian.greer@dechert.com

**Charles I. Weissman**

New York  
+1 212 698 3847  
charles.weissman@dechert.com

**Katherine A. Burroughs**

Hartford  
+1 860 524 3953  
katherine.burroughs@dechert.com

**Michael J. Sage**

New York  
+1 212 698 3503  
michael.sage@dechert.com

**Craig P. Druehl**

New York  
+1 212 698 3601  
craig.druehl@dechert.com

**Glenn E. Siegel**

New York  
+1 212 698 3569  
glenn.siegel@dechert.com



[www.dechert.com](http://www.dechert.com)

© 2011 Dechert LLP. All rights reserved. Materials have been abridged from laws, court decisions, and administrative rulings and should not be considered as legal opinions on specific facts or as a substitute for legal counsel. This publication, provided by Dechert LLP as a general informational service, may be considered attorney advertising in some jurisdictions. Prior results do not guarantee a similar outcome.

---

**U.S.** Austin • Boston • Charlotte • Hartford • Los Angeles • New York • Orange County • Philadelphia  
Princeton • San Francisco • Silicon Valley • Washington, D.C. • **EUROPE** • Brussels • Dublin • London  
Luxembourg • Moscow • Munich • Paris • **ASIA** Beijing • Hong Kong