

IP Licensee Protection Recognized in Chapter 15 Foreign Bankruptcy Proceeding

In *Jaffé v. Samsung Electronics Company, Limited*,¹ a Court of Appeals protected the rights of cross-licensees of a German debtor's American patents by applying the U.S. Bankruptcy Code, instead of inconsistent German law. Specifically, in Chapter 15 U.S. bankruptcy proceedings ancillary to German insolvency proceedings, the administrator notified certain cross-licensees of the debtor's patents that their cross-licenses were not enforceable under German law. The cross-licensees argued that under U.S. law, they had the option to retain their rights under the cross-licenses. The Court concluded that the cross-licensees should be protected under U.S. law, relying on a balancing of the interests of the cross-licensees and the foreign debtor and U.S. public policy considerations.

Qimonda AG ("Qimonda") was a manufacturer of semiconductor devices whose principal assets included 4,000 U.S. patents, subject to cross-license agreements with many other semiconductor manufacturers. In 2009, Qimonda commenced insolvency proceedings in the Munich Insolvency Court, and an insolvency administrator (Dr. Michael Jaffé) was appointed. The administrator filed a Chapter 15 petition for recognition of the German proceedings as a "foreign main proceeding" under Bankruptcy Code section 1517(a) and (b).² In connection therewith, the administrator sought an order pursuant to Bankruptcy Code section 1521(a)(5)³ authorizing him, among other things, to administer the assets of Qimonda located within the United States. The Bankruptcy Court entered an order recognizing the German insolvency proceedings as a foreign main proceeding, and by a separate supplemental order granted further relief under section 1521, specifying that a number of provisions of the Bankruptcy Code, including section 365 (permitting the rejection of executory contracts, but including a provision protecting IP licensees under certain circumstances, as discussed below), would be applicable.

Subsequently, the administrator sent letters to the cross-licensees of Qimonda's patents, asserting that their cross-licenses were not enforceable pursuant to a particular section of the German Insolvency Code. In

¹ 737 F.3d 14 (4th Cir. 2013).

² Bankruptcy Code section 1517(a) and (b) provide:

(a) Subject to section 1506 [quoted in footnote 8, below], after notice and a hearing, an order recognizing a foreign proceeding shall be entered if—

- (1) such foreign proceeding for which recognition is sought is a foreign main proceeding or foreign nonmain proceeding within the meaning of section 1502;
- (2) the foreign representative applying for recognition is a person or body; and
- (3) the petition meets the requirements of section 1515.

(b) Such foreign proceeding shall be recognized—

- (1) as a foreign main proceeding if it is pending in the country where the debtor has the center of its main interests; or
- (2) as a foreign nonmain proceeding if the debtor has an establishment within the meaning of section 1502 in the foreign country where the proceeding is pending.

³ Bankruptcy Code section 1521(a)(5) provides:

(a) Upon recognition of a foreign proceeding, whether main or nonmain, where necessary to effectuate the purpose of this chapter and to protect the assets of the debtor or the interests of the creditors, the court may, at the request of the foreign representative, grant any appropriate relief, including—

- (5) entrusting the administration or realization of all or part of the debtor's assets within the territorial jurisdiction of the United States to the foreign representative or another person, including an examiner, authorized by the court;

response, certain cross-licensees took the position that section 365(n)⁴ of the Bankruptcy Code, which protects licensee parties to executory contracts and enables them to retain their rights under some circumstances notwithstanding rejection by a debtor-licensor, should apply. The administrator then sought to have the Bankruptcy Court’s supplemental order amended either to delete the reference to section 365 or to specify that such provision would be applicable only if the administrator were to reject the cross-licenses pursuant to the Bankruptcy Code, instead of relying on the German Insolvency Code.

The Bankruptcy Court granted the relief sought by the administrator, and the cross-licensees appealed. The United States District Court for the Eastern District of Virginia remanded and directed the Bankruptcy Court to balance competing interests and consider public policy concerns. The Bankruptcy Court ultimately ruled that section 365(n) applied, recognizing that this ruling “would ‘result in less value [] being realized by the Qimonda estate,’”⁵ but reasoning that if the cross-licenses could be unilaterally rejected, there would be a “‘very real’ ‘risk to the very substantial investment the [Licensees] ... [had] collectively made in research and manufacturing facilities.’”⁶ In doing so, the Bankruptcy Court concluded that “‘deferring to German law, to the extent it allows cancellation of the U.S. patent licenses, would be manifestly contrary to public policy’”⁷ pursuant to section 1506.⁸

In affirming the decision of the Bankruptcy Court,⁹ the U.S. Court of Appeals for the Fourth Circuit concluded that the District Court properly recognized that a request for discretionary relief under Bankruptcy Code section 1521 requires consideration of the interests of creditors and other parties-in-interest pursuant to Bankruptcy Code section 1522(a),¹⁰ and that a balancing test is an appropriate mechanism to weigh such interests. The Court of Appeals also concluded that the Bankruptcy Court reasonably exercised its discretion in balancing the interests of Qimonda and the cross-licensees to find that the application of Bankruptcy Code section 365(n)

⁴ Bankruptcy Code section 365(n) provides, in relevant part:

- (1) If the trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee under such contract may elect—
 - (A) to treat such contract as terminated by such rejection if such rejection by the trustee amounts to such a breach as would entitle the licensee to treat such contract as terminated by virtue of its own terms, applicable nonbankruptcy law, or an agreement made by the licensee with another entity; or
 - (B) to retain its rights (including a right to enforce any exclusivity provision of such contract, but excluding any other right under applicable nonbankruptcy law to specific performance of such contract) under such contract and under any agreement supplementary to such contract, to such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law), as such rights existed immediately before the case commenced, for—
 - (i) the duration of such contract; and
 - (ii) any period for which such contract may be extended by the licensee as of right under applicable nonbankruptcy law.

⁵ *Jaffé*, 737 F. 3d 14, 22 (citing *In re Qimonda AG*, 462 B.R. 165, 182 (Bankr. E.D.Va. 2011)).

⁶ *Id.* (citing *Qimonda*, 462 B.R. at 182-183).

⁷ *Id.* at 23 (citing *Qimonda*, 462 B.R. at 185).

⁸ Bankruptcy Code section 1506 provides, that “[n]othing in this chapter 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.”

⁹ The insolvency administrator appealed the Bankruptcy Court’s decision and obtained an order authorizing direct appeal to the Court of Appeals pursuant to 28 U.S.C. § 158(d)(2).

¹⁰ Bankruptcy Code section 1522(a) provides, in relevant part, that “the court may grant relief under section . . . 1521 . . . only if the interests of the creditors and other interested entities, including the debtor, are sufficiently protected.

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was necessary to protect such cross-licensees. Finally, the Court of Appeals recognized that, it was furthering “the public policy inherent in and manifested by § 365(n),”¹¹ including ““U.S. public policy promoting technological innovation,””¹² noting that “the United States’ commitment [to cooperation with foreign insolvency proceedings] is not untempered”¹³ and that a court is authorized “to refuse to take an action that would be manifestly contrary to U.S. public policy.”¹⁴

Although the Court of Appeals affirmed the application of the Bankruptcy Code, instead of German law, to protect the cross-licensees in this Chapter 15 proceeding, the decision was the result of a fact-based determination and specific public policy considerations, including the “critically important role”¹⁵ of the licensing system “in the semiconductor industry, as well as other high-tech sectors of the global economy”.¹⁶ Such a determination, coupled with the Court’s emphasis on the United States’ general commitment to international cooperation, suggests that the application of the decision could be very limited. However, if more broadly construed, the decision could serve as a bar on unilateral rejection or termination of intellectual property licenses, notwithstanding contrary foreign law, and could even potentially impact all Chapter 15 proceedings where the result under the Bankruptcy Code would be different from applicable foreign law in simultaneous proceedings outside the United States.

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If you have any questions about the issues addressed in this memorandum or if you would like a copy of any of the materials mentioned, please do not hesitate to call or email Joel H. Levitin at 212.701.3770 or jlevitin@cahill.com; Richard A. Stieglitz Jr. at 212.701.3393 or rstieglitz@cahill.com; or Maya Peleg at 212.701.3969 or mpeleg@cahill.com.

¹¹ *Jaffé*, 737 F. 3d at 32.

¹² *Id.* at 18.

¹³ *Id.* at 32.

¹⁴ *Id.*

¹⁵ *Id.* at 31.

¹⁶ *Id.*