
In re Qimonda AG: Fourth Circuit Upholds US Patent Licensee Protections in Chapter 15 Cross-Border Bankruptcy Case

2013-12-19

As described in our [previous Client Alert](#) regarding *In re Qimonda AG*, the US Bankruptcy Court for the Eastern District of Virginia concluded in October 2011 that the protections afforded to nondebtor intellectual property licensees under Section 365(n) of the US Bankruptcy Code should be available in the Chapter 15 proceeding of Qimonda AG, a German company. According to the US Bankruptcy Court, Qimonda's foreign representative could not extinguish the US licenses under German insolvency law without allowing the licensees to continue exercising their rights to the patents for the duration of the license term, as required by the US Bankruptcy Code. After more than two years, the US Court of Appeals for the Fourth Circuit recently affirmed the US Bankruptcy Court's ruling.¹

In its affirmance, the Fourth Circuit upheld the balance of interests employed by the lower court under Section 1522(a) of the US Bankruptcy Code. The Fourth Circuit found that the US Bankruptcy Court was correct in considering the rights of Qimonda's licensees in that balance, and in holding that protecting licensee rights under Section 365(n) was a necessary part of allowing the Qimonda foreign representative to proceed with its Chapter 15 case. Even though the Qimonda foreign representative did not seek to invoke Section 365 of the US Bankruptcy Code to reject Qimonda's patent out-licenses-the foreign representative relied solely on German law for that rejection-the US Bankruptcy Court and the Fourth Circuit held that Section 365(n) could still be imposed on the Qimonda foreign representative in the Chapter 15 context.

Because it affirmed the US Bankruptcy Court's decision based on the application of Section 1522(a)'s balancing of interests, the Fourth Circuit did not expressly address the US Bankruptcy Court's alternative holding that depriving US patent licensees of Section 365(n) protection would be "manifestly contrary" to the public policy of the United States within the meaning of Section 1506, and that Section 365(n) could be imposed on that basis as well. However, the Fourth Circuit did recognize the important public policy underlying Section 365(n)-to avoid imposing a burden on American technological development by depriving licensees of their rights in a licensor's bankruptcy.

The *Qimonda* decision is the only circuit-level decision on this issue. It remains to be seen whether other courts outside the Fourth Circuit will follow *Qimonda*, and whether courts in and outside the Fourth Circuit will limit the application of the Fourth Circuit's ruling to the narrow circumstances at

issue in *Qimonda*, or whether they will view the holding more broadly as support for applying Section 365(n) in other contexts (because the Section 1522(a) balancing of interests is a fact-based exercise).² It is also possible that courts could view the decision as support for imposing on foreign representatives other US Bankruptcy Code provisions-such as lessee protections under Section 365(h) or even the absolute priority rule under Section 1129(b)-that may also be deemed necessary to satisfy Section 1522(a)'s balancing of interests.

¹*Jaffe v. Samsung Elecs. Co., Ltd.*, No. 12-1802, 2013 WL 6388591 (4th Cir. Dec. 3, 2013).

² The US House of Representatives recently passed a bill-the "Innovation Act" (H.R. 3309)-that would, among other things, amend Chapter 15 of the US Bankruptcy Code to make Section 365(n) apply automatically in a Chapter 15 case. Essentially, the bill legislatively imposes the result of *Qimonda* in all Chapter 15 cases.

Authors



**George W. Shuster
Jr.**

PARTNER

✉ george.shuster@wilmerhale.com

☎ +1 212 937 7232



**Benjamin W.
Loveland**

PARTNER

✉ benjamin.loveland@wilmerhale.com

☎ +1 617 526 6641