No. 12-1802

IN THE UNITED STATES COURT OF APPEALS
FOR THE FOURTH CIRCUIT

DR. MICHAEL JAFFÉ, as Insolvency Administrator over the Estate of Qimonda AG, i.In.,

Appellant,

v.

SAMSUNG ELECTRONICS COMPANY, LTD.; INFINEON TECHNOLOGIES AG; INTERNATIONAL BUSINESS MACHINES CORP.; HYNIX SEMICONDUCTOR, INC.; INTEL CORPORATION; NANYA TECHNOLOGY CORP.; MICRON TECHNOLOGY, INC.,

Appellees.

ON APPEAL FROM THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE IN SUPPORT OF NEITHER PARTY

STUART F. DELERY
Acting Assistant Attorney General

NEIL H. MACBRIDE
United States Attorney

ROBERT M. LOEB
MARK R. FREEMAN
(202) 514-5714
Attorneys, Appellate Staff
Civil Division, Room 7228
U.S. Department of Justice
950 Pennsylvania Ave., N.W.
Washington, D.C. 20530

TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES

Cases: **Page**

Statutes:

Legislative Materials:

Rules:

Other Authorities:

The United States respectfully submits this brief as amicus curiae under Fed. R. App. P. 29(a) and this Court's order of September 28, 2012.

INTRODUCTION AND SUMMARY

For the reasons explained below, this case does not present the questions that this Court accepted this interlocutory appeal to resolve. There is no need for the Court to decide whether Section 365(n) of the Bankruptcy Code embodies a fundamental public policy within the meaning of 11 U.S.C. 1506, nor whether Section 365(n) must apply in this case to ensure that appellees are "sufficiently protected" under 11 U.S.C. 1522(a). That is because Section 365(n) cannot "apply" in this case at all: it is a limitation on a power granted to bankruptcy trustees under U.S. bankruptcy law, and it has no bearing on the operation of German insolvency law in Germany. Appellant (the "Foreign Administrator") did not need the permission of a U.S. bankruptcy court to reject appellees' licenses under German law in a German insolvency proceeding. Nor was the Foreign Administrator required to comply with U.S. bankruptcy law when he did so. A U.S. bankruptcy court had no authority to order

otherwise. This Court should reverse the decision of the bankruptcy court on that ground.

Whether, in a future case, a court in the United States should decline to recognize the rejection of appellees' patent licenses as a matter of U.S. law is a different question. But that question is not presented here. Likewise, this appeal does not require the Court to decide whether the bankruptcy court could condition the availability of affirmative, discretionary relief sought by the Foreign Administrator in this Chapter 15 proceeding on the Foreign Administrator's agreement to honor appellees' licenses. A condition of that kind could raise difficult questions regarding the scope of the bankruptcy court's discretionary authority under 11 U.S.C. 1522. But the Foreign Administrator has not sought any affirmative relief with regard to appellees' licenses in this case, nor did the bankruptcy court frame its order as a condition of granting such relief. Instead, it purported to forbid the Foreign Administrator from rejecting appellees' licenses in the German insolvency proceeding itself. Nothing in Chapter 15 or Section 365(n) permits such an order.

INTEREST OF THE UNITED STATES

The United States has a substantial interest in this Court's disposition of this appeal. The bankruptcy court's decision implicates issues of importance to several agencies of the United States. The State Department, for example, actively participated in formulating the United Nations model law on which Chapter 15 is based, and the Commerce Department was instrumental in the enactment of Section 365(n), on which the bankruptcy court rested its decision.

QUESTION PRESENTED

Whether the bankruptcy court erred in ruling that Section 365(n) of the U.S. Bankruptcy Code may constrain the operation of German law in a German insolvency proceeding.

STATEMENT

A. Statutory Background

This case concerns the relationship between Chapter 15 of the Bankruptcy Code, under which U.S. bankruptcy courts generally must grant comity to and cooperate with foreign insolvency proceedings, and

Section 365(n) of the Bankruptcy Code, which guarantees certain protections for patent licensees in U.S. bankruptcy proceedings.

1. Chapter 15 and Cross-Border Insolvency Cases

Congress enacted Chapter 15 of the Bankruptcy Code in 2005 as part of an international effort to harmonize the procedures for resolving cross-border insolvency cases—*i.e.*, insolvency cases involving debtors whose assets and liabilities are spread across the globe. *See* 11 U.S.C. 1501(a); *see generally* Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, Pub. L. No. 109-8, Title VIII, 119 Stat. 134. Congress's purpose in enacting Chapter 15 was to incorporate into American law the Model Law on Cross-Border Insolvency (Model Law), U.N. Doc. A/52/17 (1997). *See* 11 U.S.C. 1501(a). Representatives from the United States actively participated in the formulation of the Model Law, which was proposed in 1997 by the United Nations Commission on International Trade Law. *See* H.R. Rep. No. 109-31, at 106 n.101 (2005) (House Report). As enacted, Chapter 15 "largely tracks the language of the Model Law with appropriate United States references." *Id*. at 106.

Chapter 15 generally provides that, when an insolvency proceeding concerning a foreign debtor has been commenced in the debtor's home country, U.S. bankruptcy courts should act in aid of the foreign proceeding, afford comity to foreign law, and cooperate with the foreign court "to the maximum extent possible." 11 U.S.C. 1504, 1509(b)(3), 1525(a). A Chapter 15 case is commenced when the representative of a foreign insolvency proceeding—*i.e.*, the official administrator of the insolvency, roughly equivalent to the trustee under U.S. bankruptcy law—files a petition for recognition of the foreign proceeding. *See* 11 U.S.C. 1504, 1509(a), 1515, 1517. If the bankruptcy court grants the petition for recognition, various provisions of U.S. bankruptcy law, such as the automatic stay under 11 U.S.C. 362, immediately take effect with respect to debtor's assets in the United States, *see* 11 U.S.C. 1520(a), and the foreign representative acquires a subset of the powers that a trustee in a domestic bankruptcy case would possess, *see, e.g.*, 11 U.S.C. 1509(b), 1520(a)(3). In addition, at the request of the foreign representative, the bankruptcy court may provide additional discretionary assistance to the foreign proceeding, such as by providing for

the examination of witnesses. *See* 11 U.S.C. 1521(a)(4). In general, however, the principal forum for resolving claims against the foreign debtor remains the foreign insolvency proceeding: the U.S. bankruptcy court simply lends its authority to facilitate that process. *See* House Report 106 ("Cases brought under chapter 15 are intended to be ancillary to cases brought in a debtor's home country.").

Chapter 15 thus seeks to ensure that, to the extent practicable, a single body of insolvency law will govern the worldwide resolution of the debtor's assets and liabilities.[1] As the legislative history explains, Congress chose the word "ancillary" to "emphasize[] the United States policy in favor of a general rule that countries other than the home country of the debtor, where a main proceeding would be brought, should usually act through ancillary proceedings in aid of the main proceedings, in preference to a system of full bankruptcies . . . in each state where assets are found."

[1] Chapter 15 recognizes that certain governmental claims, such as tax liabilities and public-law claims, may require different treatment. *See, e.g.*, 11 U.S.C. 1513(b)(2); 11 U.S.C. 1521(d). This case does not concern any such claim.

House Report 108. Thus, in enacting Chapter 15, Congress repealed former Section 304 of the Bankruptcy Code, under which bankruptcy courts had the discretion to cooperate (or not) with foreign insolvency proceedings, and replaced it with a scheme that "mandates cooperation with foreign courts and foreign representatives." 8 COLLIER ON BANKRUPTCY 1501.01; *see* Pub. L. No. 109-8, §§ 801, 802(d)(3), 119 Stat. 146 (repealing Section 304).

Nevertheless, Chapter 15 also 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." 11 U.S.C. 1506. And while Chapter 15 authorizes the bankruptcy court to grant an array of discretionary relief to the foreign representative, it provides that the bankruptcy court may do so "only if the interests of the creditors and other interested entities, including the debtor, are sufficiently protected." 11 U.S.C. 1522(a).

2. Protections For Intellectual-Property Licensees Under U.S. Bankruptcy Law

One of the reorganizational powers of a trustee under the U.S. Bankruptcy Code is to assume or to reject any executory contract or

unexpired lease of the debtor. *See* 11 U.S.C. 365. The trustee's rejection of a contract under Section 365 constitutes a breach, but the breach is deemed to have occurred "immediately before the date of the filing of the petition," 11 U.S.C. 365(g)(1), leaving the contract counterparty with a pre-petition claim for damages only.

Since 1988, however, United States law has provided an exception to that treatment for certain intellectual-property licenses under Section 365. In 1985, this Court ruled in *Lubrizol Enterprises* v. *Richmond Metal Finishers, Inc.*, that a patent license agreement could be rejected in bankruptcy in the same manner as any other executory contract, even if the only purpose of the rejection was to enable the patent owner to re-license the technology to others on more advantageous terms. *See* 756 F.2d 1043 (4th Cir. 1985).[2] Congress responded by enacting an exception to Section 365 for license agreements to intellectual property. *See* Pub. L. No. 100-506, 102 Stat. 2538

[2] The Seventh Circuit recently held that *Lubrizol* was incorrect to assume that rejecting a license in bankruptcy necessarily cancels the licensee's right to continue using the intellectual property. *See Sunbeam Prods., Inc.* v. *Chicago American Mfg., LLC*, 686 F.3d 372, 376-378 (7th Cir. 2012). We express no view on that question.

(1988). Under what is now Section 365(n) of the Bankruptcy Code, if a debtor invokes Section 365 and seeks to reject a license granted for intellectual property owned by the debtor, the licensee generally may elect to retain its license rights. *See* 11 U.S.C. 365(n).

The legislative history of Section 365(n) reflects Congress's concern that permitting debtors to "unilaterally cut off" their licensees through bankruptcy would "leave[] licensees in a precarious position and thus threaten the very flexible and beneficial system of intellectual property licensing which has developed in the United States." S. Rep. No. 100-505, at 1, 3 (1988). Without confidence in their ability to retain the necessary rights, Congress feared, businesses would be unwilling to invest in new businesses or products based on licensed technologies. *Id*. at 3.

B. Factual and Procedural Background

1. This case arises from the insolvency of Qimonda AG, a German semiconductor manufacturer headquartered in Munich. *In re Qimonda AG*, 462 B.R. 165, 168 (Bankr. E.D. Va. 2011). The company, which has ceased operations, filed for insolvency in a German court in January 2009. *Ibid*.

Among Qimonda's remaining assets are approximately 10,000 patents, including roughly 4,000 United States patents. *Ibid*. Consistent with the common practice in the semiconductor industry, *see id.* at 175, Qimonda had entered into worldwide patent cross-license agreements with its major competitors, including appellees. *See id*. at 169-173. This litigation concerns the fate of those cross-licenses in the wake of Qimonda's insolvency.

The Foreign Administrator, who was appointed by the German court to administer the insolvency, determined that the company should be liquidated. 462 B.R. at 173. Section 103 of the German Insolvency Code, like Section 365 the U.S. Bankruptcy Code, permits an insolvent debtor to decide whether to continue to perform executory contracts. Under German law, "such contracts are automatically unenforceable unless the insolvency administrator elects to perform the contracts." 462 B.R. at 173. Because Qimonda was no longer an operating concern, the Foreign Administrator determined that cancelling the cross-licenses and re-licensing the patents would yield more value for the estate. *Id*. at 174. Accordingly, the Foreign

Administrator elected not to perform the contracts under Section 103 of the German Insolvency Code and notified appellees of his decision. *Ibid*.

2. In June 2009, the Foreign Administrator commenced this ancillary case under Chapter 15 in the United States Bankruptcy Court for the Eastern District of Virginia by filing a petition for recognition of the German insolvency proceedings. 462 B.R. at 168.

The bankruptcy court granted the petition. *See* No. 09-14766, Docket No. (DN) 56 (Bankr. E.D. Va.). At the same time, the court issued a "supplemental order" granting certain discretionary relief requested by the Foreign Administrator under 11 U.S.C. 1521(a), such as the authority to examine witnesses, take evidence, and seek the production of documents "as such information is required in the German Proceedings." DN 57, at 2.[3] The supplemental order also declared, however, that "in addition to those sections made applicable pursuant to § 1520, the following sections of

[3] The supplemental order also addressed the relationship between the Chapter 15 case and a separate Chapter 11 bankruptcy case filed in the District of Delaware concerning a U.S.-based Qimonda subsidiary. *See* DN 57, at 1-2.

title 11 are also applicable in this proceeding: §§ 305-307, 342, 345, 349, 350, 364-366, 503, 504, 546, 551, 558." *Id*. at 2-3. The Foreign Administrator subsequently received letters from several of the appellees contending that, because the bankruptcy court's supplemental order made Section 365 "applicable in this proceeding," the Foreign Administrator was precluded from rejecting their patent licenses by Section 365(n).

The Foreign Administrator responded by moving to amend the supplemental order. 462 B.R. at 168. The motion asked the bankruptcy court to strike the reference to Section 365 altogether, or alternatively, to insert a proviso stating that Section 365(n) would apply "only if the Foreign [Administrator] rejects an executory contract pursuant to Section 365 (rather than simply exercising the rights granted to the Foreign [Administrator] pursuant to the German Insolvency Code)." *Ibid*. The bankruptcy court granted the motion, explaining that the inclusion of Section 365 in the supplemental order had been "improvident" and that the fate of the patent cross-licenses was not a matter for resolution under U.S. law, but rather for resolution by the German court in the German

insolvency proceeding. *In re Qimonda AG*, 2009 WL 4060083, at *3 (Bankr. E.D. Va. Nov. 19, 2009). The court accordingly amended its supplemental order to include a proviso essentially in the form proposed by the Foreign Administrator, *see* DN 180, at 3, and directed that "[n]o additional rights are afforded to creditors, or obligations imposed upon the Administrator, under Section 365(n) of the Bankruptcy Code as a result of any [non-performance] election by the Administrator under Section 103 of the German Insolvency Code," DN 179, at 2.

3. On appeal, the district court vacated the bankruptcy court's order. *In re Qimonda AG Bankr. Litig.*, 433 B.R. 547 (E.D. Va. 2010). The district court reasoned that, under 11 U.S.C. 1522, the bankruptcy court could not modify any discretionary relief it had previously granted (*i.e.*, the "improvident" reference to Section 365 in the supplemental order) without ensuring that the interests of appellees were "sufficiently protected." *See* 11 U.S.C. 1522(a). In the district court's view, the bankruptcy court had not adequately explained why "the application of § 365(n)" would prejudice the Foreign Administrator or, conversely, why refusing to apply Section

365(n) would prejudice appellees. 433 B.R. at 558. In addition, the district court concluded, the bankruptcy court had failed to consider whether acquiescing in the treatment of intellectual-property licenses under German insolvency law would be "manifestly contrary to the public policy of the United States" under 11 U.S.C. 1506. *See* 433 B.R. at 564-571. The court accordingly remanded the case to the bankruptcy court.

4. On remand, the bankruptcy court conducted a four-day hearing in which it received testimony concerning the likely effect on appellees, the semiconductor industry, and the U.S. economy of permitting the Foreign Administrator to reject the cross-licenses. *See In re Qimonda AG*, 462 B.R. at 167. The bankruptcy court concluded that "public policy, as well as the economic harm that would otherwise result to the licensees, requires that the protections of § 365(n) apply to Qimonda's U.S. patents." *Id*. at 167-168. The court reasoned that, although "the issue is close," a balancing of the parties' interests "weighs in favor of making § 365(n) applicable to [the Foreign Administrator's] administration of Qimonda's U.S. patents." *Id*. at 182. In addition, the court held, "failure to apply § 365(n) under the

circumstances of this case would . . . undermine a fundamental U.S. public policy promoting technological innovation." *Id*. at 185.

Accordingly, the court denied the Foreign Administrator's motion to amend the supplemental order and "confirm[ed]" that Section 365(n) "applies with respect to Qimonda's U.S. patents." 462 B.R. at 185. The court added that "nothing in the court's ruling affects the foreign administrator's right, to the extent permitted under German insolvency law, to terminate licenses to non-U.S. patents." *Id*. at 186.

5. The district court certified the bankruptcy court's ruling for direct appeal to this Court under 28 U.S.C. 158(d)(2), and this Court granted the Foreign Administrator's petition for leave to appeal.

ARGUMENT

THE BANKRUPTCY COURT'S DECISION SHOULD BE REVERSED ON THE GROUND THAT SECTION 365(n) HAS NO BEARING ON THE OPERATION OF GERMAN INSOLVENCY LAW

This appeal does not present the questions that the Court accepted this interlocutory appeal to resolve. The parties urge the Court to decide whether the bankruptcy court erred under Section 1506 or Section 1522(a) of Chapter 15 when it held that Section 365(n) applies to the Foreign Administrator's rejection of appellees' license agreements. Both of those questions, however, rest on the erroneous assumption that Section 365(n) could "apply" in this case at all. The decision of the bankruptcy court should instead be reversed on the threshold ground that Section 365(n) cannot constrain the operation of German insolvency law in Germany. Nothing more is necessary to resolve this appeal. It would be neither practical nor prudent for the Court to decide here the difficult issues that may arise in future litigation over appellees' license rights under Qimonda's U.S. patents, such as whether a federal court presiding over a patent infringement action against appellees should give effect, as a matter

of U.S. patent law, to the rejection of appellees' licenses in the German insolvency proceeding.

A. The Bankruptcy Court and the Parties Have Erroneously Assumed that Section 365(n) Could "Apply" To, and Thereby Void, the Rejection of Appellees' License Agreements Under German Law

1. The bankruptcy court ruled that the Foreign Administrator cannot terminate appellees' cross-license agreements in the German proceedings because "public policy, as well as the economic harm that would otherwise result to [appellees], requires that the protections of § 365(n) apply to Qimonda's U.S. patents." *In re Qimonda AG*, 462 B.R. 165, 185-186 (Bankr. E.D. Va. 2011). In his petition for interlocutory review and in his opening brief on appeal, the Foreign Administrator has challenged the bankruptcy court's ruling on essentially two grounds: applying German insolvency law rather than Section 365(n), he argues, would not violate a fundamental "public policy of the United States" under 11 U.S.C. 1506, nor would it leave the appellees without "sufficient protect[ion]" under 11 U.S.C. 1522(a). *See* Appellant Br. 3 (statement of issues presented).

As that formulation of the issues illustrates, the parties and the courts below have approached this case as though it were potentially open to the bankruptcy court to superimpose Section 365(n) on the operation of German insolvency law in a German proceeding. Thus, the parties dispute whether the bankruptcy court applied the correct standard under the public-policy exception in Section 1506 (*see* Appellant Br. 24-40), or gave sufficient consideration to the Foreign Administrator's proposed re-licensing terms (*see id.* at 43-50, 57-61), when it decided to "apply" Section 365(n) in this case. But neither the bankruptcy court nor the parties appears to have examined the premise that Section 365(n) could "apply" in these circumstances at all.

That premise is flawed. Section 365(n) does not constrain the operation of German insolvency law in Germany. Section 365(n) establishes an exception in U.S. bankruptcy law to the exercise of a power created under U.S. bankruptcy law: it operates as a limit on the authority of trustees in domestic bankruptcy cases to assume or reject executory contracts under 11 U.S.C. 365. Section 365(n) does not create a freestanding

prohibition on the termination of intellectual-property licenses, let alone authorize a U.S. bankruptcy court to forbid the termination of such licenses in foreign jurisdictions under foreign law.

Contrary to the bankruptcy court's view, Section 365(n) cannot "apply" in this case to prevent the Foreign Administrator from rejecting appellees' license agreements in the German insolvency proceeding. It is fundamental that United States bankruptcy law has no bearing on the operation of German law in Germany. Acting in Germany as the official administrator of a German insolvency proceeding, the Foreign Administrator did not require the blessing of the bankruptcy court—or any United States court—to reject contracts between appellees and the German debtor. Indeed, under Section 103 of the German Insolvency Code, a debtor's outstanding executory contracts become "automatically unenforceable unless the insolvency administrator elects to perform the contracts." 462 B.R. at 173. It is undisputed that the Foreign Administrator has not elected to perform appellees' license agreements. *See id*. at 174. Assuming the bankruptcy court's understanding of German law is correct,

therefore, appellees' license agreements became invalid by operation of German law.[4] No action or approval from the U.S. bankruptcy court was required.

The bankruptcy court here nevertheless approached this case as though it were empowered to decide whether the Foreign Administrator should be permitted to reject appellees' license agreements at all. After weighing the Foreign Administrator's reasons for rejecting the patent licenses against the anticipated consequences of that rejection for appellees and the American economy, *see* 462 B.R. at 180-183, the court concluded that the Foreign Administrator "*should* be subject to the constraints

[4] Appellees have argued that German law does not, in fact, authorize the termination of patent licenses in insolvency, and that the bankruptcy court and the Foreign Administrator have misunderstood German law. The district court and the bankruptcy court both concluded that, although the question is not free from doubt, German law likely does permit the rejection of such licenses. *See* 462 B.R. at 174; 433 B.R. at 565 n.28. For present purposes, the point is simply that, whatever the consequences under German law of the Foreign Administrator's refusal to perform the patent license agreements, those consequences are entirely a matter of German law to be resolved by the German courts. It is not the proper role of a U.S. bankruptcy court to pretermit that inquiry by superimposing the requirements of United States law.

imposed by § 365(n)," *id*. at 183 (emphasis added), and that the "*failure to apply* § 365(n) under the circumstances of this case would . . . undermine a fundamental U.S. public policy promoting technological innovation," *id*. at 185 (emphasis added). The bankruptcy court accordingly issued an order declaring that "§ 365(n) applies with respect to Qimonda's U.S. patents," although the court added that nothing in its decision "affects the [F]oreign [A]dministrator's right, to the extent permitted under German insolvency law, to terminate licenses to non-U.S. patents." *Id*. at 185-186.

That approach reflects a fundamental misapprehension of the relationship between United States law and German law in this case. The fate of appellees' licenses in the German insolvency proceeding is entirely, and properly, a question of German law. As we explain below, a court in the United States may have occasion to decide, in a future case, whether to give effect to the rejection of appellees' patent licenses as a matter of U.S. law. But the bankruptcy court had no authority, under Section 365(n) or otherwise, to dictate the results of the German insolvency proceeding.

2. That conclusion is not altered by the fact that the Foreign Administrator petitioned for recognition of the German proceedings in the United States under Chapter 15. A Chapter 15 ancillary case enables the administrator of a foreign insolvency proceeding to ensure an orderly disposition of the assets of the foreign debtor in the United States. But Chapter 15 does not expose the foreign proceedings themselves to supervision by United States courts, nor does it alter the operation of foreign insolvency law in its proper sphere.

Indeed, nothing required the Foreign Administrator to file a Chapter 15 ancillary case in the United States at all. By doing so, the Foreign Administrator secured a number of important advantages in administering the worldwide Qimonda estate, including an automatic stay under U.S. bankruptcy law to prevent creditors from executing on any Qimonda assets in the United States without awaiting the outcome of the German insolvency proceedings. *See* 11 U.S.C. 1520(a)(1). The Chapter 15 petition was not necessary, however, for the Foreign Administrator to effectuate his rejection of appellees' license agreements under Section 103

of the German Insolvency Code. And if the Foreign Administrator had never commenced an ancillary case in this country, it would have been apparent that Section 365(n) had no relevance to the Foreign Administrator's ability to reject appellees' license agreements.

It is possible for Section 365(n) to apply in an ancillary case under Chapter 15. But such a case would look nothing like this one. Ordinarily, the rejection or assumption of a foreign debtor's executory contracts will be decided in the context of the foreign insolvency proceeding itself, as occurred here. In an unusual case, however, the foreign representative in an ancillary case under Chapter 15 might request that the bankruptcy court permit the rejection or assumption of a contract under the terms of Section 365 of the U.S. Bankruptcy Code. *Cf.* 11 U.S.C. 1521(a)(7) (at request of the foreign representative, the court may "grant[] any additional relief that may be available to a trustee," subject to enumerated exceptions). In that circumstance, the foreign representative's actions under Section 365 would be subject to any relevant exceptions or limitations under the terms of that

provision, including the protections for intellectual-property licensees in Section 365(n).

The bankruptcy court was therefore correct to rule, in its original decision granting the Foreign Administrator's motion to amend the supplemental order, that "Section 365(n) applies only if the Foreign [Administrator] rejects an executory contract pursuant to Section 365 (rather than simply exercising the rights granted to the Foreign [Administrator] pursuant to the German Insolvency Code)." DN 180, at 3. The court erred when it subsequently reversed course and held that Section 365(n) could forbid the rejection of appellees' cross-licenses in the German insolvency proceeding.

B. Because Section 365(n) Is Irrelevant Here, the Parties' Arguments Concerning Sections 1506 and 1522 Are Misplaced

Because Section 365(n) cannot "apply" in this case to constrain the operation of German law in Germany, it is unnecessary for the Court to decide whether Section 365(n) embodies a fundamental public policy of the United States within the meaning of 11 U.S.C. 1506. Similarly, in this context, there is no reason to examine whether appellees would be

"sufficiently protected" under 11 U.S.C. 1522(a) absent the protections of Section 365(n). Neither Section 1506 nor Section 1522 permits a U.S. bankruptcy court to dictate the outcome of a foreign insolvency proceeding.

1. Section 1506 provides an exception to the general rule under Chapter 15 that a U.S. bankruptcy court must "cooperate to the maximum extent possible" with a recognized foreign insolvency proceeding. 11 U.S.C. 1525(a). Section 1506 authorizes the bankruptcy court to "refus[e] to take an action governed by this chapter if the action would be manifestly contrary to the public policy of the United States." 11 U.S.C. 1506. It thus allows a bankruptcy court to refuse to provide affirmative assistance in the United States to a foreign representative when the particular form of assistance requested would contravene a fundamental public policy of the United States.

Section 1506 does not, however, purport to require the foreign insolvency proceeding *itself* to be conducted in accordance with "the public policy of the United States." Regardless of whether Section 365(n)

embodies a sufficiently fundamental public policy to trigger Section 1506's public-policy exception, therefore, Section 1506 cannot support the bankruptcy court's order here. The Foreign Administrator did not need the bankruptcy court's approval before rejecting appellees' license agreements under Section 103 of the German Insolvency Code. Nor did the Foreign Administrator ask the bankruptcy court to take some affirmative action effectuating the rejection of the license agreements as a matter of United States law. There was, accordingly, no "action governed by this chapter" for the bankruptcy court to "refus[e] to take" under Section 1506.

Even where Section 1506 applies, moreover, the consequence of a bankruptcy court's refusal to take a particular action under Chapter 15 on public-policy grounds is exactly that: the court declines to take the requested action. Section 1506 does not permit a bankruptcy court affirmatively to *require* a foreign representative or foreign court to act in accordance with U.S. public policy. In this case, for example, if the Foreign Administrator had asked the bankruptcy court to take some affirmative action to invalidate appellees' cross-licenses as a matter of United States

law, the bankruptcy court would have faced a question comparable to the one framed by the parties in this appeal: whether the congressional policy judgment embodied in Section 365(n) constitutes a sufficiently fundamental public policy of the United States that the court would be justified under Section 1506 in refusing to grant the requested relief.[5] In no circumstance, however, would the bankruptcy court have been justified in entering the order that it did, which purported to forbid the rejection of appellees' licenses in the German insolvency proceeding. *See* 462 B.R. at 185-186.

2. The bankruptcy court's reliance on Section 1522(a) was misplaced for essentially the same reasons. Section 1522 concerns the authority of the bankruptcy court under Chapter 15 to ensure that the interests of creditors and other affected parties are "sufficiently protected" when the court grants a foreign representative's request for discretionary, affirmative relief under 11 U.S.C. 1521, or preliminary relief pending recognition of a foreign

[5] Section 365(n) would not apply of its own force in that situation, of course, because it governs only the conduct of U.S. bankruptcy trustees under Section 365(a). *See* pp. 17-21, *supra*.

proceeding under 11 U.S.C. 1519. *See* 11 U.S.C. 1522(a). Section 1522 also provides that the court must consider the interests of creditors and interested parties whenever it modifies or terminates any discretionary relief that it previously granted to the foreign representative. *See* 11 U.S.C. 1522(a) and (c).

Like Section 1506, therefore, Section 1522(a) is only implicated when the bankruptcy court is asked to grant, modify, or terminate some affirmative relief in aid of the foreign insolvency proceeding. *Cf.* 11 U.S.C. 1521(a) (enumerating examples of affirmative relief the bankruptcy court may grant "at the request of the foreign representative"). Nothing in Section 1522 authorizes or imposes any limitation on the foreign insolvency proceeding *itself*, or on the conduct of the foreign representative under foreign law.

The parties' dispute over Section 1522 in this case is particularly beside the point. In the supplemental order that it issued when it granted recognition of the German insolvency proceeding, the bankruptcy court *sua sponte* listed Section 365 as among the "sections of title 11 [that] are also

applicable in this proceeding." DN 57, at 3.[6] The Foreign Administrator then moved to modify the supplemental order to omit the reference to Section 365. Appellees objected that the bankruptcy court could not do so under 11 U.S.C. 1522(a) because appellees would no longer be "sufficiently protected" without the benefit of Section 365(n).

Appellees, however, never *had* the benefit of Section 365(n). The Foreign Administrator rejected appellees' license agreements under German law in the German insolvency proceeding, not under Section 365 of the U.S. Bankruptcy Code. The fact that the bankruptcy court listed Section 365 as among the "sections of title 11" that would apply in the Chapter 15 ancillary case is therefore irrelevant to the fate of appellees' license agreements in the German insolvency proceeding, because neither

[6] As the Foreign Administrator observes (Br. 56-57), the bankruptcy court purported to issue that supplemental order as discretionary relief under Section 1521(a), but the Foreign Administrator never requested that the court make Section 365 applicable to this proceeding. Section 1521(a) contemplates relief only "at the request of the foreign representative." For the reasons discussed in the text, however, even if the court permissibly included Section 365 in its supplemental order, Section 365 had no bearing on the rejection of appellees' licenses under German law in the German insolvency proceeding.

Section 365(n) nor any other "section[] of title 11" has any bearing on the conduct of that proceeding.

C. The Court Should Not Attempt To Resolve in This Appeal the Issues That Might Arise Between the Parties in Future Litigation Over Qimonda's U.S. Patents

It is therefore not necessary or appropriate for the Court to decide in this case whether the bankruptcy court misinterpreted Section 1506 or misapplied Section 1522(a). The bankruptcy court's decision should instead be reversed on the threshold ground that nothing in Chapter 15 or Section 365(n) authorized the court to forbid the rejection of appellees' licenses under German law in the German insolvency proceeding. The Court should not attempt to resolve in this appeal the issues that might arise between the parties in future litigation over appellees' license rights under Qimonda's U.S. patents. Depending on the posture in which the dispute arises, such litigation may implicate an array of novel and fact-dependent questions that it would be neither practical nor prudent to address here.

Appellees might persuade the bankruptcy court, for example, to make the availability of particular discretionary relief in the Chapter 15 proceeding—such as approving the sale of Qimonda's U.S. patents to a third party under 11 U.S.C. 363, *see* 11 U.S.C. 1520(a)(3) and 1521(a)(5)—contingent upon the Foreign Administrator's binding agreement to perform appellees' cross-license agreements.[7] Such a condition, which would ask the Foreign Administrator to abandon a benefit to the estate under applicable German law and materially reduce the value of the patents proposed to be sold, could raise difficult questions concerning the scope of the bankruptcy court's authority under Chapter 15 to subject discretionary relief "to conditions [the court] considers appropriate, including the giving of security or the filing of a bond." 11 U.S.C. 1522(b).

---

[7] At one point during the Chapter 15 proceeding below, the Foreign Administrator did request an order approving procedures for the sale of Qimonda's U.S. patents. *See* DN 202. The bankruptcy court granted the motion but required that any such sale be made "expressly subject" to appellees' interests in the patents, "if any," under applicable law, and that any contract for sale of the patents must include a notice of the parties' dispute over the applicability of Section 365(n). *See* DN 254, at 2-4. The court did not, however, attempt to make the sale order contingent upon the Foreign Administrator's consent to perform the patent licenses.

Alternatively, the Foreign Administrator might file an action for patent infringement in the United States against one or more of appellees. *See* 11 U.S.C. 1509(b) (foreign representative "has the capacity to sue and be sued in a court in the United States" and "may apply directly to a court in the United States for appropriate relief in that court"); 11 U.S.C. 1509(f) (foreign representative may "sue in a court in the United States to collect or recover a claim which is the property of the debtor"). Appellees would presumably assert their licenses as a defense to infringement. *Cf.* 35 U.S.C. 271(a) ("[W]hoever *without authority* makes, uses, offers to sell, or sells any patented invention, within the United States . . . during the term of the patent therefor, infringes the patent." (emphasis added)). The federal district court presiding over the suit would then have to decide whether to give effect, as a matter of U.S. patent law, to the rejection of appellees' patent licenses in the German insolvency proceeding. The congressional policy judgment reflected in Section 365(n) might potentially be relevant to the disposition of that difficult and fact-dependent question. *See* Restatement (Third) of Foreign Relations Law of the United States § 482; *cf.*

Hilton v. *Guyot*, 159 U.S. 113, 202 (1895). Unlike the bankruptcy court's decision below, however, the district court's ruling on that question would concern only the operation of United States law, and would not purport to dictate the outcome of a foreign proceeding under foreign law.

It is also conceivable that appellees' ability to continue practicing Qimonda's U.S. patents may be resolved without need for a decision by a court in the United States. As already noted, *see supra* n.4, several of the appellees have disputed the Foreign Administrator's ability to reject the license agreements as a matter of German law, both in the courts of Germany and in arbitration proceedings. *See* 462 B.R. at 174. If the German courts were to rule that appellees' license rights are not subject to termination in insolvency (for example, on the ground that the license grants were not executory in nature), appellees' license rights would be secure. Alternatively, it is possible that appellees will negotiate new license agreements under Qimonda's worldwide patent portfolio, notwithstanding their contention that the Foreign Administrator's rejection of their licenses to Qimonda's U.S. patents was ineffective. As the

bankruptcy court recognized, the Foreign Administrator also rejected appellees' licenses as to Qimonda's substantial portfolio of non-U.S. patents, and "[n]one of the objecting parties limit their manufacturing and sales solely to the United States." 462 B.R. at 181. Thus, at some point, appellees will "still have to make their peace" with the Foreign Administrator if they intend "to continue manufacturing or selling their products outside the United States." *Ibid*.

In sum, future litigation between the parties concerning Qimonda's U.S. patents may arise in a variety of different contexts, or it may not arise at all. The Court need not, and should not, attempt to address in this appeal the issues that might divide the parties in the future. For present purposes, it is sufficient to recognize that Section 365(n) has no bearing on the operation of German insolvency law and that the bankruptcy court was without authority to order otherwise.

CONCLUSION

The decision of the bankruptcy court should be reversed on the ground that Section 365(n) of the Bankruptcy Code cannot constrain the operation of German law in a German insolvency proceeding.

Respectfully submitted,

STUART F. DELERY
Acting Assistant Attorney General

NEAL H. MACBRIDE
United States Attorney

ROBERT M. LOEB
(202) 514-4332

/s/ Mark R. Freeman
MARK R. FREEMAN
(202) 514-5714
Attorneys, Appellate Staff
Civil Division, Room 7228
U.S. Department of Justice
950 Pennsylvania Ave., N.W.
Washington, D.C. 20530

OCTOBER 2012

CERTIFICATE OF COMPLIANCE

I hereby certify that the certify that the foregoing amicus brief complies with the requirements of Fed. R. App. P. 32(a)(5) because it has been prepared in 14-point Palatino Linotype, a proportionally spaced font.

I further certify that this brief complies with the type-volume limitations of Fed. R. App. P. 32(a)(7)(B) and 29(d) because it contains **6,216 words**, excluding the parts of the brief exempted under Rule 32(a)(7)(B)(iii), according to the count of Microsoft Word.

/s/ Mark R. Freeman
MARK R. FREEMAN

CERTIFICATE OF SERVICE

I hereby certify that on October 10, 2012, I electronically filed the foregoing brief with the Clerk of the Court for the United States Court of Appeals for the Fourth Circuit by using the appellate CM/ECF system. I further certify that I will cause **8** paper copies of this brief to be filed with the Court within two business days.

The participants in the case are registered CM/ECF users and service will be accomplished by the appellate CM/ECF system.

/s/ Mark R. Freeman
MARK R. FREEMAN

UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT

APPEARANCE OF COUNSEL FORM

BAR ADMISSION & ECF REGISTRATION: If you have not been admitted to practice before the Fourth Circuit, you must complete and return an Application for Admission before filing this form. If you were admitted to practice under a different name than you are now using, you must include your former name when completing this form so that we can locate you on the attorney roll. Electronic filing by counsel is required in all Fourth Circuit cases. If you have not registered as a Fourth Circuit ECF Filer, please complete the required steps at www.ca4.uscourts.gov/cmecftop.htm.

THE CLERK WILL ENTER MY APPEARANCE IN APPEAL NO. 12-1802 as

☐ Retained ☐ Court-appointed(CJA) ☐ Court-assigned(non-CJA) ☐ Federal Defender ☐ Pro Bono ☑ Government

COUNSEL FOR: United States of America

_____ as the
(party name)

☐ appellant(s) ☐ appellee(s) ☐ petitioner(s) ☐ respondent(s) ☑ amicus curiae ☐ intervenor(s)

s/ Mark R. Freeman
(signature)

Mark R. Freeman
Name (printed or typed)

202-514-5714
Voice Phone

U.S. Department of Justice
Firm Name (if applicable)

202-514-9405
Fax Number

950 Pennsylvania Ave. N.W., Room 7228

Washington, D.C. 20530
Address

mark.freeman2@usdoj.gov (note the "2")
E-mail address (print or type)

CERTIFICATE OF SERVICE

I certify that on Sept. 28, 2012 the foregoing document was served on all parties or their counsel of record through the CM/ECF system if they are registered users or, if they are not, by serving a true and correct copy at the addresses listed below:

s/ Mark R. Freeman
Signature

9/28/2012
Date