IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
Alexandria Division

IN RE: QIMONDA AG, Debtor in a foreign proceeding.	Case No. 09-14766-RGM (Chapter 15)

OBJECTION TO THE FOREIGN REPRESENTATIVE'S MOTION TO AMEND SUPPLEMENTAL ORDER AND CROSS-MOTION FOR RELIEF UNDER SECTIONS 365 AND 363 OF THE U.S. BANKRUPTCY CODE

Samsung Electronics Co., Ltd. ("Samsung"), Elpida Memory, Inc. ("Elpida"), and Infineon Technologies AG ("Infineon") (collectively, the "Licensees") hereby (a) object to the Foreign Representative's Motion to Amend Supplemental Order (the "Motion") and (b) request that this Court enter an Order compelling the Foreign Representative to comply with Sections 365 and 363 of the U.S. Bankruptcy Code in any sale of Qimonda AG's ("Qimonda") U.S. patents, patent applications, and other intellectual property (the "U.S. Qimonda Patents") as required by this Court's July 22, 2009, Supplemental Order (the "Supplemental Order") and Chapter 15.

INTRODUCTION

Prior to its insolvency, Qimonda operated a semiconductor business that produced memory products used in mobile phones, computers, and other consumer products worldwide. As an essential aspect of its business, Qimonda (and its predecessor companies) entered into a

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substantial number of worldwide, cross-license agreements enabling it to bring its products to the market without fear of infringement suits from numerous competitors who also hold thousands of semiconductor-related patents, and without incurring the massive costs associated with managing and policing its enormous patent portfolio. Similarly, Qimonda's many cross-license counterparties -- including Samsung, Elpida, and Infineon -- structured their business operations around the certainty and stability created by these worldwide, irrevocable cross-licenses, and consumers worldwide benefited from these arrangements as investments were made in innovation and development rather than patent lawsuits.

Now that Qimonda has opened insolvency proceedings in Germany, the Foreign Representative has purported to eliminate the cross-license rights of the Licensees -- including the rights to thousands of U.S. patents in the Qimonda portfolio that are subject to this Court's jurisdiction -- and has announced a plan to transfer the more than 11,000 Qimonda patents to a newly-created U.S. company that will "exploit" the patents here in the U.S. American law governing the disposition of U.S. property in an insolvency does not permit these steps without compliance with certain protections in the U.S. Bankruptcy Code. Specifically, ***first***, the Foreign Representative must honor the rights of licensees under Section 365(n) of the U.S. Bankruptcy Code, which is applicable to these Chapter 15 proceedings pursuant to the Supplemental Order and Sections 1520(a) and 363(l) of the U.S. Bankruptcy Code. In particular, because Section 365(n) applies to Qimonda's U.S. property covered by the cross-license agreements, regardless of the Supplemental Order, and because the Foreign Representative has not yet rejected them, ***he must continue to perform the cross-license agreements under Section 365(n)(4)***. ***Second***, the Foreign Representative may not sell the U.S. Qimonda Patents without complying with additional provisions of Section 363, which: (i) requires this Court's approval of the sale;

(ii) prohibits a sale free and clear of the licenses without meeting one of the exceptions in Section 363(f) -- none of which apply here; and (iii) requires this Court to provide adequate protection to the Licensees by compelling the Foreign Representative to comply with Section 365(n).

The Foreign Representative has ignored his obligations under the U.S. Bankruptcy Code and the Supplemental Order and plans to raise money by extracting new royalty arrangements, suing the very cross-licensees, like Samsung, Elpida, and Infineon, that have already provided fair consideration for their license rights, or selling the U.S. Qimonda Patents to third parties (so-called "patent trolls") that would then presumably sue the Licensees themselves to extract royalty payments.

After receiving notice from the Licensees that each elected to maintain its license rights under its respective cross-license agreement pursuant to Section 365(n), the Foreign Representative now invites this Court to condone his efforts to pick and choose which provisions of the U.S. Bankruptcy Code should apply to his efforts to dispose of Qimonda's U.S. property. Specifically, the Foreign Representative now asks the Court to remove the reference to Section 365 from its Supplemental Order, thereby apparently attempting to deny the Licensees the protections of that provision, ***even though Section 365 applies to these proceedings without regard to the Supplemental Order***. The Court should not oblige. The Licensees respectfully request that the Court deny the Foreign Representative's Motion because: (1) there is no basis for any amendment, but rather the Supplemental Order was a correct application of U.S. law to the U.S. assets at issue; (2) U.S. policies strongly favor the protection of licensees of U.S. intellectual property through the application of Section 365(n); and (3) there is no conflicting foreign order or rule and, thus, comity is not applicable here.

FACTUAL BACKGROUND

A. The Licensees' Rights Under the U.S. Qimonda Patents

1. Samsung

Samsung and Qimonda are parties to the Cross Patent License Agreement ("CPLA"), dated March 18, 1995.[1] Pursuant to the CPLA, Samsung has irrevocable, worldwide licenses with regard to Qimonda's patents and patent applications (i) "to make, to have made, to use, to sell (either directly or indirectly), to lease and to otherwise dispose of Semiconductor Devices and to make, have made, use, sell and/or lease materials, parts and/or components for the purpose of fabrication of Semiconductor Devices" and (ii) "to make, use and have made Manufacturing Apparatus and to practice any process or method involved in the use thereof."[2] According to Article 6.4 of the CPLA, these licenses exist for the lives of the licensed patents, even if the agreement itself expires:

> In the event of expiration of this Agreement pursuant to Article 6.2, the licenses granted hereunder ***shall continue*** after the expiration of this Agreement for the respective remaining lives of the licensed Patents, and the releases given to each other hereunder

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[1] The CPLA is attached as **Exhibit 1**. The CPLA was originally concluded between Samsung and Siemens AG ("Siemens"). In 1999, Siemens transformed its semiconductor group -- which included memory products -- into Infineon. A copy of the Contribution Agreement between Siemens and Infineon from March 31, 1999 detailing this transformation, which was filed as Exhibits 10.1 and 10.2 in Infineon's February 22, 2000 SEC F-1 filing, is attached as **Exhibit 2**. At that time, the licenses granted by Siemens were transferred to Infineon with respect to all Siemens patents and patent applications referenced in the CPLA, and Infineon joined the CPLA pursuant to Article 7.5 of the CPLA. A copy of the April 29, 1999 letter from Siemens/Infineon to Samsung providing written notice to that effect is attached as **Exhibit 3**. Thereafter, in 2006, Infineon spun off its memory business by transferring its memory assets to a new wholly-owned subsidiary called Qimonda. A copy of the Carve-out and Contribution Agreement between Infineon and Qimonda from April 25, 2006 detailing this conversion, which was filed as Exhibit 10(i)(A) in Qimonda's July 21, 2006 SEC F-1 filing, is attached as **Exhibit 4**. At that time, the licenses were transferred to Qimonda with respect to the patents and patent applications of Infineon's Memory Products Business, and Qimonda joined the CPLA pursuant to Article 7.5 of the CPLA. A copy of the October 4, 2006 letter from Infineon/Qimonda to Samsung providing written notice to that effect is attached as **Exhibit 5**. Qimonda is therefore bound by the terms and conditions of the CPLA. Through both restructuring events, Samsung held licenses and rights to related patents and patent applications, including the U.S. patents and patent applications.

[2] **Ex. 1** at 6 (Article 3.1).

> shall be ***irrevocable*** and shall not be affected by the expiration of this agreement.[3]

The CPLA also requires that any transferee of the patents to which cross-licenses are granted agree to be bound by the CPLA.[4] According to public sources, Qimonda holds over 4,000 U.S. patents and has approximately 1,100 patent applications pending in the United States. All of the Qimonda patents and patent applications -- both U.S. and foreign -- are subject to the CPLA.

2. **Elpida**

Elpida and Qimonda are parties to a Patent Cross License Agreement ("PCLA"), dated June 1, 2008.[5] [redacted]

Elpida and Qimonda are also parties to a Joint Development Agreement ("JDA"), also dated June 1, 2008.[8] [redacted]

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3 *Id.* at 9 (Article 6.4) (emphasis added).

4 *Id.* at 11-12 (Article 7.5).

5 The PCLA is attached as **Exhibit 16**.

6 [redacted]

7 [redacted]

8 The JDA is attached as **Exhibit 17**.

[redacted]

3. **Infineon**

On May 1, 2006, Infineon spun off its memory business by transferring its memory assets to a new, wholly-owned subsidiary called Qimonda pursuant to a Carve-Out and Contribution Agreement dated April 25, 2006 (the "Contribution Agreement").[13] Pursuant to the

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9 [redacted]

10 [redacted] Elpida's September 8, 2009 letter is attached as **Exhibit 19**.

11 [redacted]

12 [redacted]

13 A copy of the Carve-out and Contribution Agreement between Infineon and Qimonda from April 25, 2006 detailing this conversion, which was filed as Exhibit 10(i)(A) in Qimonda's July 21, 2006 SEC F-1 filing, is attached as **Exhibit 4**.

Contribution Agreement, Infineon retained irrevocable rights and Qimonda granted irrevocable rights under licenses to Infineon to certain Qimonda patents, patent applications, and other intellectual property.[14] For example, Sections 4(1) and 4(13) of the Contribution Agreement provide that Infineon retains rights to the patents and patent applications transferred to Qimonda, and Infineon retains the right to license such patents and patent applications as part of cross-licenses between Infineon and other third parties. Further, Section 4(8) of the Contribution Agreement provides that Infineon has "irrevocable, non-exclusive, perpetual and worldwide" licenses to future patents owned by Qimonda. All of Qimonda's patents and patent applications -- including all of the U.S. patents and patent applications -- are subject to the Contribution Agreement.

B. The Foreign Representative's Actions

On January 23, 2009, Qimonda filed a petition to "open" insolvency proceedings in Germany, which were then opened on April 1, 2009.[15] On April 1, 2009, Dr. Michael Jaffé was appointed as the Administrator of Qimonda's estate in the German insolvency proceedings. On June 15, 2009, Dr. Jaffé filed a Chapter 15 petition in this Court seeking, among other things, recognition of the German insolvency proceedings as a foreign main proceeding to facilitate the

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[14] Infineon retains certain irrevocable property rights under German law to the Infineon patents transferred to Qimonda pursuant to the Contribution Agreement. *See, e.g.*, **Ex. 4** (Sections 4(1), 4(6), and 4(13)); *see also* Infineon's October 16, 2009 Letter to the Foreign Representative attached as **Exhibit 22**. In accordance with such rights, Infineon expressly retains the right to maintain existing, and enter into new, cross-licenses with third parties covering the patents and patent applications transferred to Qimonda. *See, e.g.*, **Ex. 4** (Sections 4(6) and 4(13)). The Contribution Agreement also provides for licenses regarding future patents obtained by Qimonda. *See, e.g.*, *id.* (Section 4(8)). To the extent the Contribution Agreement, including any licenses granted to Infineon or any other rights retained by Infineon in the Contribution Agreement, is deemed an executory contracts under U.S. law, it is subject to Section 365(n) as set forth in this Objection and Cross-Motion. Infineon's positions in this Objection and Cross-Motion are limited to U.S. law concerning the U.S. Qimonda Patents, and Infineon reserves any and all rights, including, without limitation, any patent and other intellectual property ownership and license rights under foreign law.

[15] Insolvency Court of the Local Court of Munich, Amtsgericht München - Insolvenzgericht, File Number 1542 IN 209/09.

liquidation of Qimonda's U.S. assets, and for authority to act on behalf of Qimonda's German estate as a foreign representative (the "Foreign Representative").[16] This Court entered an order granting the petition for recognition pursuant to Section 1517 of the U.S. Bankruptcy Code on July 22, 2009.[17]

At the request of the Foreign Representative, the Court also issued a Supplemental Order that same day (1) authorizing the Foreign Representative to be the sole and exclusive representative of Qimonda in the United States and to administer the assets of Qimonda within the territorial jurisdiction of the United States, and (2) directing, *inter alia*, that Section 365 "is applicable in this proceeding."[18] This direction was no mere happenstance. Rather, it was a carefully crafted order providing for the application of additional U.S. Bankruptcy Code provisions pursuant to the Court's authority under Section 1521(a) of the U.S. Bankruptcy Code.

Despite the clear meaning of the Supplemental Order, the Foreign Representative, having taken advantage of the benefits of Chapter 15, decided to ignore his obligations. Specifically, the Foreign Representative notified each of the Licensees that he intends to sell Qimonda's patents, including the U.S. Qimonda Patents, and, to that end, (1) he has chosen to elect non-performance of the cross-licenses and all related services thereunder and thereby purported to render the licenses unenforceable against Qimonda's German estate according to Section 103 of the German Insolvency Code, and (2) he will "terminate" the cross-licenses with

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16 The Foreign Representative's June 15, 2009 Petition for Recognition as a Foreign Main Proceeding (Docket # 1) is attached as **Exhibit 6**.

17 The Court's July 22, 2009 Order Recognizing Foreign Main Proceeding of Qimonda AG (Docket # 56) is attached as **Exhibit 7**.

18 The Court's July 22, 2009 Supplemental Order (Docket # 57) is attached as **Exhibit 8**.

legal effect on the next admissible date.[19] Although these actions appear essentially to be a rejection of the agreements in Germany, the Foreign Representative refuses to reject the agreements under U.S. law for purposes of Section 365 or even to acknowledge the applicability of Section 365 to the U.S. Qimonda Patents.

Thereafter, each of the Licensees notified the Foreign Representative of its rights with respect to the U.S. Qimonda Patents under Section 365 and requested that the Foreign Representative acknowledge those rights.[20] On September 18, 2009, the Foreign Representative notified Elpida that, despite this Court's Supplemental Order applying Section 365 to these Chapter 15 proceedings, he does not deem himself bound by Section 365.[21] On September 21, 2009, Samsung received a similar letter.[22] The Foreign Representative has not yet responded to Infineon's letter asserting its rights under Section 365.

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19 The Foreign Representative's election not to perform Qimonda's obligations with respect to Qimonda's non-U.S. patents violates German insolvency law, as well as U.S law. German law does not permit an insolvency administrator to elect non-performance of irrevocable or interminable licenses, such as those the Licensees hold to Qimonda's patents and other intellectual property. *See infra* Section I.C. On October 5, 2009, Samsung filed a Request for Arbitration with the International Chamber of Commerce to enforce its rights under German law over Qimonda's non-U.S. patents. The Foreign Representative's August 24, 2009 letter to Samsung is attached as **Exhibit 9(a)**. The Foreign Representative's August 19, 2009 letter to Infineon is attached as **Exhibit 9(b)**, with an English translation. The Foreign Representative's May 27, 2009 letter to Elpida regarding the PCLA is attached as **Exhibit 9(c)**. The Foreign Representative's June 3, 2009 letter to Elpida regarding the JDA is attached as **Exhibit 9(d)**. The Foreign Representative also sent Elpida a letter dated July 28, 2009 declaring that he was choosing to elect non-performance of and will "terminate" a Confidentiality and Non-Disclosure Agreement dated March 17-18, 2008 (the "March 2008 NDA") and a Non-Disclosure and Restricted Use Agreement dated May 15, 2008, both between Qimonda and Elpida (the non-disclosure agreements are referred to with the PCLA and JDA, unless otherwise noted). The Foreign Representative's July 28, 2009 letter is attached as **Exhibit 9(e)**.

20 Samsung's September 14, 2009 letter to the Foreign Representative is attached as **Exhibit 10(a).** Infineon's letter of October 13, 2009 is attached as **Exhibit 10(b)**. Elpida's letter dated September 9, 2009 is attached as **Exhibit 10(c).** Elpida also notified the Foreign Representative that the March 2008 NDA is supplementary to the JDA and the PCLA, and thus Elpida elected to retain its rights under Section 365(n) with respect to the March 2008 NDA as well. The March 2008 NDA is attached as **Exhibit 20**.

21 The Foreign Representative's September 18, 2009 letter to Elpida is attached as **Exhibit 13(a)**. An unofficial English translation of that letter is attached as **Exhibit 13(b)**. Elpida's reply letter dated September 28, 2009 to the Foreign Representative is attached as **Exhibit 21**.

22 The Foreign Representative's September 21, 2009 letter to Samsung is attached as **Exhibit 11(a)**. An unofficial English translation of that letter is attached as **Exhibit 11(b)**.

The Foreign Representative further notified the Licensees that he is in advanced negotiations concerning the sale of Qimonda's patents, and that it is likely that several patent packages will be sold to third-parties.[23] The Foreign Representative clearly expects these patents to fetch a higher price if they are unencumbered by the rights of Samsung, Elpida, and Infineon, among other entities. Moreover, according to recent news reports, he is establishing a U.S.-based company to liquidate Qimonda's patents or otherwise "exploit" them for value.[24] The Foreign Representative has not informed the Court as to how he intends to sell the U.S. Qimonda Patents in compliance with Section 363, if at all.

On October 8, 2009, apparently recognizing the applicability of Section 365 to these Chapter 15 proceedings (by statute and the Supplemental Order) and the restrictions it places on his ability to sell the U.S. Qimonda Patents, the Foreign Representative filed this Motion, effectively asking this Court to reverse the Supplemental Order by removing entirely its reference to Section 365 or, alternatively, including a "proviso" limiting the application of Section 365(n) only to a Section 365 rejection of the cross-license agreements (and, it appears, the Foreign Representative has no intention of rejecting the cross-license agreements pursuant to Section 365). (Mot. at ¶¶ 8, 16.) The Court should deny this Motion.

ARGUMENT

This Court should deny this Motion and instead require the Foreign Representative to comply with Sections 365 and 363 of the U.S. Bankruptcy Code, as well as with this Court's Supplemental Order, with respect to each of the cross-license agreements and the U.S. Qimonda Patents. In particular, the Licensees respectfully request that the Court deny

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23 *See* **Exs. 11 & 13**.

24 Qimonda's October 12, 2009 press release discussing the establishment of this U.S.-based licensing group is attached as **Exhibit 12**; "Qimonda to Sell its Patents," Oct. 13, 2009, at http://www.dvhardware.net/article38424.html is attached as **Exhibit 18**.

the Motion because: (1) the Foreign Representative has shown no grounds for any amendment, but, rather, the Supplemental Order was a correct application of U.S. law to the U.S. Qimonda Patents; (2) U.S. policies strongly favor the protection of licensees of U.S. intellectual property through the application of Section 365(n); and (3) comity does not apply here because German law does not conflict with U.S. law on this issue. Further, the Foreign Representative must comply with Sections 365 and 363 as to Qimonda's U.S. assets pursuant to the Supplemental Order and the U.S. Bankruptcy Code.

I. THERE IS NO BASIS FOR AMENDING THIS COURT'S SUPPLEMENTAL ORDER.

A. The Foreign Representative Has No Grounds for Relief Because the Court Correctly Applied U.S. Law.

While titled "Motion to Amend," the Motion effectively asks this Court to reverse its Supplemental Order by making Section 365 inapplicable to these proceedings even though it was one of the very provisions that the Court explicitly made applicable here. But the Foreign Representative's simple desire to sell the U.S. Qimonda Patents without the licenses comes nowhere near satisfying the applicable standard for amendment of the Supplemental Order.

Although the Foreign Representative declines to set forth the applicable standard, the Court should look to Rule 9024 of the Federal Rules of Bankruptcy Procedure, which applies Rule 60 of the Federal Rules of Civil Procedure to these proceedings. None of the grounds for relief enumerated in Rule 9024 -- mistake, newly discovered evidence, fraud, void judgment, or satisfied judgment -- applies here. *See* Fed. R. Bankr. P. 9024 (applying Fed. R. Civ. P. 60(b)). Nor does the Foreign Representative assert that any such grounds exist under Rule 9024.

Moreover, the Supplemental Order should not be modified because this Court was correct to incorporate Section 365, which applies to these proceedings ***even absent entry of the Supplemental Order***, by operation of two provisions of the U.S. Bankruptcy Code -- Sections

1520(a)(1) and 363(l). Specifically, upon recognition of a foreign proceeding under Chapter 15, Section 1520(a)(1) provides that Section 363 "appl[ies] to a transfer of an interest of the debtor in property that is within the territorial jurisdiction of the United States to the same extent that the Section[] would apply to property of an estate." 11 U.S.C. § 1520(a); *see also In re Grand Prix Assocs. Inc.*, No. 09-16545, 2009 WL 1850966, at *3 (Bankr. D.N.J. June 26, 2009) ("Section 1520 provides the relief granted to the foreign representative upon the Court's entry of an order recognizing the foreign proceeding . . . [and,] [s]pecifically, Section 1520(a)(2) applies Section 363 to transfers of the debtor's interests in property that is within the territorial jurisdiction of the United States.") (citing 11 U.S.C. § 1520(a)(2) and 8-1520 *Collier on Bankruptcy* ¶ 1520.01 (15th ed, rev. 2008)); *In re Atlas Shipping A/S*, 404 B.R. 726, 739 (Bankr. S.D.N.Y. 2009) ("Once [the mandatory relief of] § 1520(a) applies, §[] 363 . . . also appl[ies] to any transfer of a debtor's interest in property within the United States.") (citing 11 U.S.C. § 1520(a)(2)); *In re Tri-Cont'l Exch., Ltd.*, 349 B.R. 627, 639 (Bankr. E.D. Cal. 2006) ("An automatic consequence of recognition of a foreign main proceeding is that § 363 applies.") (citing 11 U.S.C. § 1520(a)(2)). Section 1502 confirms that "within the territorial jurisdiction of the United States" means "tangible property located within the territory of the United States and intangible property deemed under applicable non-bankruptcy law to be located within that territory." 11 U.S.C. § 1502(8).

Here, the Foreign Representative has admitted that the U.S. Qimonda Patents are assets located within the United States.[25] Indeed, he must so admit because U.S. patents are

[25] According to the Declaration of Thomas Seifert in Support of Verified Petition for Recognition of a Foreign Main Proceeding and Motion for Permanent Injunction and Related Relief Pursuant to 11 U.S.C. §§ 1504, 1515, 1517, 1520, and 1521 (Docket # 12), attached as **Exhibit 14**, "QAG's only known assets ***in the United States*** are . . . (b) active ***patents and patent applications*** filed with the United States Patent and Trademark Office …." (*Id.* at ¶ 6 (emphasis added)).

intangible property deemed under applicable intellectual property law to be located within the territory of the United States. *See Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454-55 (2007) ("The presumption that United States law governs [patents] domestically . . . is embedded in the Patent Act itself, which provides that a patent confers exclusive rights in an invention within the United States."); *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972) (the principle of territoriality governs patents granted under title 35 of the U.S. Code). The U.S. Qimonda Patents therefore come within Section 1520's invocation of Section 363. Section 363(l), in turn, allows a trustee to use, sell, or lease property of the debtor only "***[s]ubject to the provisions of section 365***." *See* 11 U.S.C. § 363(l) (emphasis added). As a result, the Foreign Representative must, by statute, comply with Section 365 in connection with any sale of U.S. assets.

As stated above, the Foreign Representative is apparently in advanced negotiations to sell the U.S. Qimonda Patents or transfer them to a new U.S. entity for exploitation, although he failed to disclose either of these facts in his Motion. Thus, the Court was correct in providing in the Supplemental Order that, with recognition of the German proceeding as a foreign main proceeding, the Foreign Representative must comply with Section 365 (and Section 363) in any such transfer or sale involving Qimonda's U.S. assets. As a result, there is no reason to modify the Supplemental Order.

Further, the Court should not permit the Foreign Representative to exempt himself from certain provisions of U.S. law simply because he does not like their effects. It is well-settled that when foreign parties invoke the benefits of U.S. laws with respect to their U.S. assets, they must also bear any associated burdens of those laws. *See Sarandi v. Breu*, No. 08-2118, 2009 WL 2871049, at *8 (N.D. Cal. Sept. 2, 2009) (suggesting that the public policy against allowing a "foreign corporation to avail itself [of] the benefits of 'American capital and the protection of American laws' without bearing the burden of having to litigate in an American court" would have merit in a direct action against a foreign corporation based on violations of American law); *Vendetti v. Fiat Auto S.p.A.*, 802 F. Supp. 886, 890 (W.D.N.Y. 1992) (citing *Frummer v. Hilton Hotels Int'l*, 19 N.Y.2d 533 (N.Y. 1967), for the proposition that "where a foreign corporation receives considerable benefits from within the forum state, it may not be heard to complain about the burdens placed on it by the forum state"); *Murphy v. Reifenhauser KG Maschinenfabrik*, 101 F.R.D. 360, 362 (D.C. Vt. 1984) (citing *Volkswagenwerk Aktiengesellschaft v. Super. Ct.*, 123 Cal. App. 3d 840 (1981), for the proposition that "having chosen to take advantage of California commerce so as to submit to California jurisdiction, it was hardly unjust that the foreign corporation be required to conform to the state's discovery procedures").

Here, the Foreign Representative seeks the protections of U.S. bankruptcy law to facilitate the administration of Qimonda's estate (in particular by according him the benefits of the automatic stay). He must, therefore, comply with all the applicable provisions of those laws. It is inconceivable that, by adopting Chapter 15, the U.S. Congress intended for foreign debtors to be able to pick and choose the provisions of the U.S. Bankruptcy Code to which they will be subject. Allowing the Foreign Representative to do so here will only encourage other foreign debtors to do the same and, thus, will undermine the stability and certainty for industry and investment that Congress sought to protect through the U.S. Bankruptcy Code.

B. Important U.S. Policies Support the Rights of Licensees of U.S. Intellectual Property.

To require the Foreign Representative to comply with Section 365 with respect to the Licensees' cross licenses and to comply with Section 363 in disposing of the U.S. Qimonda

Patents and the licenses thereto is not only mandated by the U.S. Bankruptcy Code but also is consistent with the fundamental U.S. Congressional policy of promoting and protecting certainty for trade and investment around the world in two ways. First, Congress clearly recognized the significance of cross-licensing arrangements to the technology industry when it enacted Section 365(n) with the purpose of avoiding a chilling effect that would have discouraged innovation and development of intellectual property and destabilized industry. *See In re Quad Sys. Corp.*, No. 00-35667F, 2001 WL 1843379, at *11 (E.D. Pa. Mar. 20, 2001) (citing H.R. Rep. No. 1012, 100th Cong., 2d Sess. (1988) and 8 *Norton Bankruptcy Law and Practice 2d* 366 (1999)). Congress put Section 365(n) in place through the Intellectual Property Bankruptcy Protection Act of 1988 (the "IPBPA"). *See* P.L. 100-506 (S. 1626), Section 1(b) -- Amendments to Title 11 of the United States Code, Executory Contracts Licensing Rights to Intellectual Property (Oct. 18, 1988). In IPBPA, Congress intended to provide certainty and protection for business interests and, specifically, the technology industry. As it noted, "[t]he adoption of this bill will immediately remove … [the] threat to the development of American Technology." S. Rep. No. 505, 100th Cong., 2d Session, at 3200 (Sept. 20, 1988) (hereinafter "S. Rep. No. 505"); *see also Quad Sys.*, 2001 WL 1843379, at *11.

The "threat" that Congress perceived arose because, prior to the IPBPA, some courts held that a licensor/debtor could reject a license agreement, leaving the licensee/non-debtor with no license rights and only a general unsecured damages claim against the bankruptcy estate. *See* S. Rep. No. 505, at 3201 (citing *Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985) as one of these decisions); *Quad Sys.*, 2001 WL 1843379 at *10 (same). "'Because many businesses rely on intellectual property rights as a vital resource for survival, many businesses were faced with financial ruin due to the precedent which the *Lubrizol* case established.'" *Quad Sys.*, 2001 WL 1843379 at *11 (quoting David M. Jenkins, *Licenses, Trademarks, and Bankruptcy, Oh My: Trademark Licensing and the Perils of Licensor Bankruptcy*, 25 *J. Marshall L. Rev.* 143, 151-54 (Fall, 1991)). Congress found that to be a dangerous result:

> Congress feared that the rejection of intellectual property agreements by debtor/licensors might have a 'chilling effect' upon the development of technology in this country. Licensees would be fearful that their business ventures could be seriously undermined by a bankruptcy filing of their licensors and would thus demand agreements which would provide them with ownership interests in the software. Such transfers of ownership could reduce incentive for further software development. Thus, Congress amended section 365 in 1988 to include present section 365(n).

Id. at *11 (citations omitted); *see also In re Szombathy*, Nos. 94-15536, 95-01035, 1996 WL 417121, at *9 (Bankr. N.D. Ill. July 9, 1996), *rev'd on other grounds, Szombathy v. Controlled Shredders, Inc.*, Nos. 94-15536, 95-1035, 1997 WL 189314 (N.D.Ill. Apr. 14, 1997) ("Section 365(n)(1) attempts to evenly balance the interests of the debtor with the rights of the licensee. 'The [debtor] cannot terminate and strip the licensee of rights the licensee had bargained for.'") (quoting *Prize Frize*, 32 F.3d at 428).

In Congress's own words, the passage of Section 365(n) was its attempt to eliminate the "threat to the creative process that has nurtured innovation in the United States" and, accordingly, to protect "the system of licensing of intellectual property that has evolved over many years to the mutual benefit of both the licensor and the licensee and to the country's indirect benefits." S. Rep. No. 505 at 3202. Congress believes licensing is essential because it

> plays a substantial role in the process of technological development and innovation . . . . Licensing provides the mechanism by which the original innovator can retain sufficient ownership of his innovation so that he shares in the ultimate economic reward, while sharing that reward as remuneration to those who would provide the financing and refinement necessary

> to achieve economic success. Licensing also provides a mechanism whereby the innovator who has identified more than one domain in which his invention may have application can seek partners for each field of use without risking the probability that one developer's narrow focus will deny him the rewards of development in another area . . . . If the legal environment forces reliance on sale rather than licensing, the number of parties who can participate in new technological development is sharply curtailed . . . . [and] obvious disincentives to the full development of intellectual property [are created].

Id. at 3202-03. Protection of intellectual property licensees, which in turn protects the technology industry, is thus a paramount concern of the U.S. Congress.

Cross-license agreements such as those involved here serve a crucial function in such high-technology areas as the semiconductor industry. Under cross-license agreements, two or more parties grant licenses to each other for the potential exploitation of the subject matter claimed in one or more of the patents each owns (in this case, there are thousands of patents owned by each of the parties). The subject matter of the patents that each party owns may relate to the design, operation, use, and/or manufacture of various commercial products and therefore can be very important to the ongoing business of the licensees. By cross-licensing, multiple competitors are able to maintain their freedom to bring innovative and important commercial products to market without the costly monitoring of enormous patent portfolios. The very substantial benefit to innovation and consumers resulting from such arrangements is obvious. Given the importance to the semiconductor industry of licenses such as those involved here, and the importance of the semiconductor industry to U.S. business and investment, the Congressional policy to protect licensees must surely be invoked here.[26] Businesses such as those of the

[26] The United States is not alone in recognizing the importance of protecting patent licensees when licensors commence insolvency proceedings. Notably, the insolvency laws of other leading jurisdictions, including Japan and Canada, take an approach similar to that of the United States in their treatment of intellectual property licensees. Japanese insolvency laws do not permit a trustee or debtor-in-possession to terminate executory contracts for licensing of certain types of intellectual property, including patents, if the agreement has been perfected through registration of the license. *See* Collier's International Business Insolvency Guide, Vol. 3,

Licensees will be harmed and destabilized if the Foreign Representative is allowed to cancel unilaterally the cross-license arrangements for thousands of U.S. patents and other intellectual property, and then utilize the courts of this country to unleash litigation on Samsung, Elpida, Infineon, and other licensees.[27]

Second, by enacting Chapter 15 to facilitate cross-border cooperation in insolvency matters, Congress intended to encourage, promote, and protect legal certainty for trade and investment around the world. 11 U.S.C. § 1520(a). Congress enacted Chapter 15 of the U.S. Bankruptcy Code as part of the Bankruptcy Abuse Prevention and Consumer Protection Act (the "BAPCPA") in 2005. *See* P.L. 109-8 (S. 256), Title VIII -- Ancillary and Other Cross Border Cases, Section 801 -- Amendment to add Chapter 15 to title 11, U.S.C. (Apr. 20, 2005). As made clear in the statute, the purpose of Chapter 15 "is to incorporate the Model Law on Cross-Border Insolvency so as to provide effective mechanisms for dealing with cases of cross-border insolvency" with certain objectives including "greater legal certainty for trade and investment." 11 U.S.C. § 1501(a)(2). Given the fact that companies such as Qimonda and the Licensees rely upon ***global*** cross-license agreements to structure their entire business models, the certainty of licenses takes on paramount importance for the industries in which they operate --

¶ 29.05[8]; Anderson Mōri & Tomotsune, *Japan IP Enforcement & Transactions Newsletter*, Oct. 2008, at 1 ("Once registration of [patent] license is made, the registered license is valid against (i) a person to whom the licensor has subsequently assigned the patent or rights thereof, and (ii) a bankruptcy trustee appointed for or by the licensor."). Similarly, under a recently enacted provision of Canada's Companies' Creditors Arrangement Act ("CCAA"), the choice of an insolvent company to "disclaim" or "resiliate" an intellectual property license agreement does not affect the licensee's right to use the intellectual property during the term of the agreement, as long as the licensee still performs its own obligations under the agreement. *See* CCAA § 32(6). Given Chapter 15's goal of harmonizing cross-border insolvencies, these similar international policies support giving effect to the substance of Section 365(n) in these proceedings.

27 That the Licensees are not U.S. companies does not change the import of these policies here. Rather, the Licensees have substantial connections to the U.S., both as licensees to U.S. intellectual property and as owners of U.S. patents themselves.

particularly when a global licensor of intellectual property is forced to commence insolvency proceedings.

There is, however, a limit to Chapter 15's recognition of foreign proceedings. Chapter 15 allows this Court to refuse to take an action that would contravene such strong U.S. policy in favor of protecting licensees and industry:

> Nothing 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. If this Court were to modify its Supplemental Order as the Foreign Representative has requested, and thereby purport to leave the Licensees with no rights under Section 365(n), not only would this violate Chapter 15's application of Section 365 to these proceedings, but it would also be contrary to U.S. public policy. Accordingly, the Court should refuse, pursuant to Section 1506, to accept the Foreign Representative's invitation to ignore such vital policies. *See, e.g.*, *In re Gold & Honey, Ltd.*, 410 B.R. 357, 371-72 (Bankr. E.D.N.Y. 2009) (invoking Section 1506 to deny petition for recognition of a foreign main proceeding "[b]ecause of the serious ramifications that would ensue in derogation of fundamental United States policies" where recognition would "reward and legitimize" a party's violation of both an automatic stay and the Court's Orders regarding the stay).

C. The Foreign Representative's Request for Comity Should Be Denied.

The Foreign Representative suggests that this Court should "grant comity" to his disputed interpretation of German Insolvency Law and, thus, condone his non-performance of the licenses in violation of Section 365(n)(4), thereby ignoring U.S. law and policy protecting licensees. (Mot. at ¶¶ 10-13, 15.) Notably, however, he does not provide any law to back up this assertion, and, indeed, grounds for comity do not exist here.

For a U.S. court even to consider whether comity should be granted to a foreign law or ruling, there must be a "true conflict" between the domestic and foreign law. *See Hartford Fire Ins. Co. v. California*, 509 U.S. 764, 798 (1993) (there must be a "true conflict between domestic and foreign law" for comity to be an issue); *Maxwell Commc'ns Group v. Societe Generale*, 93 F.3d 1036, 1049 (2d Cir. 1996) ("International comity comes into play only when there is a true conflict between American law and that of a foreign jurisdiction."); *In re United Pan-Europe Commc'ns N.V.*, Nos. 03-1060 and 02-16020, 2004 WL 48873, at *3 (S.D.N.Y. Jan. 9, 2004) (holding that the doctrine of international comity does not apply where there is no true conflict between American and Dutch law regarding the rejection of an executory license agreement). In his Motion, the Foreign Representative inaccurately describes the state of German law to imply that a conflict exists between German and U.S. law where it does not. Rather, German law regarding the fate of irrevocable or interminable intellectual property licenses when the licensor is in insolvency is not in conflict with U.S. law. (*See generally* Decl. of Bernd Meyer-Löwy in Support of the Licensees' Objection to the Foreign Representative's Motion to Amend Supplemental Order and Cross-Motion for Relief Under Sections 365 and 363 of the U.S. Bankruptcy Code ("Meyer-Löwy Decl.").)

Germany's insolvency laws in fact protect licensees of intellectual property from an insolvent debtor when the licenses are ***irrevocable or interminable***, as are the licenses here. While German law permits an insolvency administrator to reject some contractual obligations, including some non-exclusive licenses, it does not allow an administrator to reject irrevocable, interminable, non-exclusive licenses, which it considers rights *in rem*. Thus, under recent German law, irrevocable or interminable licenses, as rights *in rem*, are not to be affected by the opening of insolvency proceedings over the estate of the licensor and an administrator's purported election of non-performance.[28] Here, the Licensees hold irrevocable or interminable licenses to the U.S. Qimonda Patents, and thus recent German law protects their licenses just as would U.S. law. Thus, there is no true conflict between the jurisdictions, and comity is irrelevant.

Further, emerging German statutory insolvency law is trending in the same direction as Section 365.[29] In February 2008, the Ministry of Justice introduced a draft bill to Parliament, supported by all of Germany's political parties, to protect the rights of a patent licensee when the licensor commences insolvency proceedings. The draft bill, if enacted, will become Section 108(a) of the German Insolvency Code. As presently drafted, it states:

> ***A license agreement concerning an intellectual property right which has been concluded by the debtor as a licensor continues to have legal effect with respect to the insolvent's estate.*** This applies to contractual collateral duties only in so far as their performance is required in order to enable the licensee to exploit the protected right. If the consideration under the license agreement and fair market royalties are obviously disproportionate, the insolvency administrator may request an adjustment of the consideration; in such a case the licensee may terminate the agreement without prior notice.[30]

Parliament has asked, *inter alia*, that its law committee further review the bill. Since February 2008, no further official actions have been taken. According to a person in charge of insolvency law at the German Ministry of Justice, the provision has been linked with highly disputed provisions, and it has not been pursued further because of the upcoming 2009 elections and because the priority has been on other bills with respect to the financial crisis.[31]

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28 **Meyer-Löwy Decl.** at ¶ 2-4.

29 *Id.* at ¶¶ 5-6.

30 The block text reflects an unofficial translation of this draft bill with added emphasis. The German language version is attached as **Exhibit I** to the **Meyer-Löwy Decl.**

31 **Meyer-Löwy Decl.** at ¶ 5.

The new government, most probably a liberal-conservative coalition, is expected to push these provisions through quickly. The prevailing opinion in German legal literature strongly supports this approach by emphasizing the need for protection of the licensee in the event of insolvency of the licensor, regardless of whether the licenses at issue are exclusive or non-exclusive.[32]

Accordingly, it is clear that any argument based on "comity" is misguided. Rather, it is a red herring used to distract this Court from the fact that the patents, patent applications, and other intellectual property at issue are U.S. property involved in a pending U.S. proceeding, so U.S. law -- in particular, Section 365 -- should apply to them.

Even if the Court determines that German law does conflict with U.S. law on this issue -- which it does not -- the Court still should refuse to grant comity to German law for the strong U.S. policy reasons discussed in Section I.B., *supra*. As stated above, this Court has the power to refuse to take an action, such as granting comity, when it is contrary to U.S. public policy. *See* 11 U.S.C. § 1506.

In sum, Section 365 properly applies to these Chapter 15 proceedings. And Section 365(n) grants powerful rights to a licensee with respect to executory intellectual property license agreements. *See* 11 U.S.C. § 365(n). Until a debtor rejects an agreement to license intellectual property to a licensee, the debtor must continue to perform it and honor the license. 11 U.S.C. § 365(n)(4). If a debtor/licensor rejects a license agreement, then Section 365(n) permits the licensee to opt to retain its license rights granted prior to the filing of the bankruptcy petition. *See* 11 U.S.C. § 365(n); *see also In re Prize Frize, Inc.*, 150 B.R. 456, 459 (B.A.P. 9th Cir. 1993) ("If the trustee or debtor in possession rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee may elect to retain its rights

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32 *Id.* at ¶ 7.

under the contract."). If the licensee elects to retain its license rights, then "the trustee shall allow the licensee to exercise such rights" and the trustee "shall . . . not interfere with the rights of the licensee" as provided in the executory contract at issue. 11 U.S.C. §§ 365(n)(2)(A), (n)(3)(B). Here, the Licensees' rights to the U.S. Qimonda Patents under their respective cross-license agreements fall squarely within this provision, and the Foreign Representative cannot evade the requirements of U.S. law.

II. THE LICENSEES' CROSS-MOTION TO COMPEL THE FOREIGN REPRESENTATIVE TO COMPLY WITH SECTION 365(n).

As discussed above, there can be no doubt that Section 365(n) applies to the Licensees' licenses to the U.S. Qimonda Patents. The Foreign Representative, however, expressly informed at least two of the Licensees (Samsung and Elpida) that he does not deem himself bound by Section 365(n) -- even before filing the present motion to amend the Supplemental Order. The Court should not countenance this disregard for the U.S. law governing the disposition of U.S. property in a Chapter 15 proceeding. Accordingly, the Court should compel the Foreign Representative to comply with Section 365(n) with respect to the Licensees' rights to the U.S. Qimonda Patents.

In the first instance, as discussed above, by operation of the U.S. Bankruptcy Code upon recognition of the foreign main proceeding, the Foreign Representative became subject to Section 365. *See supra* Section I. More importantly, the Court's Supplemental Order, unless and until amended on motion of the Foreign Representative, clearly states that Section 365 applies to these proceedings:

> 4. Additional Provisions Applicable in this Case. Pursuant to 11 U.S.C. §1521(a) and in addition to those sections made applicable pursuant to §1520, ***the following sections of title 11 of the United***

States Code are also applicable in this proceeding: §§305-307, 342, 345, 349, 350, ***364-366***, 503, 504, 546, 551, 558.[33]

To invoke the protections of Section 365(n), certain statutory requirements must be met: (1) the agreement at issue must be an "executory contract"; (2) the debtor must be "a licensor of a right to intellectual property" under the agreement; and (3) the property at issue must fall under the statutory definition of "intellectual property." 11 U.S.C. § 365(n)(1). Each of these requirements is satisfied here.

First, Section 365 governs executory contracts, and the cross-license agreements are clearly executory contracts. *See In re Sunterra Corp.*, 361 F.3d 257, 264 (4th Cir. 2004) (applying Countryman's definition of "executory contract" and holding that software license agreement is executory because each party owed at least one continuing material duty, an ongoing confidentiality obligation, to the other under the agreement); *In re Kmart Corp.*, 290 B.R. 614, 618 (Bankr. N.D. Ill. 2003) ("'Generally speaking, a license agreement is an executory contract as such is contemplated in the Bankruptcy Code.'") (citing *In re Novon Int'l, Inc.*, Nos. 98-0677 and 96-15463B, 2000 WL 432848, at *4 (W.D.N.Y. Mar. 31, 2000)); *In re Buildnet, Inc.*, Nos. 01-82293, 01-82294, 01-82295, 01-82296, 01-82297, 01-82298, 01-82299, 2002 WL 31103235, at *3 & n.1 (Bankr. M.D.N.C. Sept. 20, 2002) (explaining that "[a]s a general rule, most patent, trademark, technology and other intellectual property licenses are executory contracts," and finding that the software license agreements are executory contracts under Section 365).[34] Second, Qimonda granted irrevocable or interminable licenses to each of the

[33] **Ex. 8** at ¶ 4 (emphasis added)

[34] Under this standard, the cross-license agreements are executory contracts for the purposes of Section 365, because they include continuing unperformed obligations. With respect to the CPLA, the parties granted perpetually worldwide, irrevocable licenses (**Ex. 1** at 6 (Articles 3.1 & 3.2)) that continue after the expiration or termination of the CPLA for the respective remaining lives of the licensed patents (*id.* at 9-10 (Articles 6.4 & 6.5)), to provide advance notice of termination (*id.* at 9 (Article 6.2)), and to provide notice to the other party if the CPLA is to be assigned or transferred (*id.* at 11-12 (Article 7.5)). Failure to perform any of these ongoing

Licensees.[35] Qimonda is thus a licensor of a right to intellectual property. Third, the property at issue, the U.S. Qimonda Patents, is "intellectual property." The U.S. Bankruptcy Code defines "intellectual property" to include, *inter alia*, a "trade secret," an "invention, process, design, or plant protected under title 35," *i.e.*, patents,[36] and "patent applications." 11 U.S.C. § 101(35A). Thus, this is clearly a situation where Section 365(n) applies. Indeed, the Foreign Representative effectively admitted as much by requesting that Section 365 be eliminated from the Supplemental Order.

At present, the Foreign Representative has neither assumed nor rejected the cross-license agreements under Section 365 in this Court. Because Section 365 covers the U.S. Qimonda Patents, the Foreign Representative must continue to perform the cross-license agreements under Section 365(n)(4):

> Unless and until the trustee rejects such contract, on the written request of the licensee the trustee shall --
>
> (A) to the extent provided in such contract or any agreement supplementary to such contract -- (i) ***perform such contract***; or (ii) provide to the licensee such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law) held by the trustee; and
>
> (B) not interfere with the rights of the licensee as provided in such contract, or any agreement supplementary to such contract, to such intellectual property….

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obligations under the CPLA would constitute a material breach. By virtue of these continuing duties, the CPLA is an executory contract for purposes of Section 365. *See, e.g.*, *Kmart Corp.*, 290 B.R. at 618. The PCLA and the JDA are likewise executory contracts for the purposes of Section 365. [redacted] Under this standard, the Infineon Contribution Agreement is also an executory contract as analyzed under U.S. law for purposes of Section 365. *See supra* note 14; *see, e.g.*, **Ex. 4** at 8 (Section 4(8)) & 9 (Section 4(9)).

35 *See* **Ex. 1** at 6 (Article 3.1); [redacted] **Ex. 4** at 8 (Section 4(8)).

36 Title 35 of the United States Code contains the statutory rules and regulations governing patents.

11 U.S.C. § 365(n)(4) (emphasis added). Further, in the event that the Foreign Representative chooses to go beyond his election of non-performance by rejecting the cross-license agreements under Section 365(a), the Licensees hereby elect to retain their rights under Section 365(n), as they already informed the Foreign Representative by letter.

III. THE LICENSEES' CROSS-MOTION FOR ADEQUATE PROTECTION UNDER SECTION 363 AND TO OTHERWISE COMPEL COMPLIANCE WITH SECTION 363.

The Foreign Representative is apparently planning an auction of Qimonda's patents and other intellectual property, including the U.S. Qimonda Patents, as part of the German insolvency proceedings; alternatively, he intends to transfer the patents, patent applications, and other intellectual property to the new U.S. entity to be liquidated. Under Section 1520(a)(2), however, the Foreign Representative may sell these U.S. assets only in compliance with Section 363, upon notice and hearing in this Court. As Chapter 15 states, Section 363 "appl[ies] to a transfer of an interest of the debtor in property that is within the territorial jurisdiction of the United States to the same extent that the section[] would apply to property of an estate."[37] *See* 11 U.S.C. § 1520(a); *see also Grand Prix*, 2009 WL 1850966 at *3 (citing 11 U.S.C. § 1520(a)(2) and 8-1520 *Collier on Bankruptcy* ¶ 1520.01 (15th ed, rev. 2008)); *Atlas Shipping*, 404 B.R. at 739; *Tri-Cont'l Exch.*, 349 B.R. at 639. Because the Foreign Representative plans to sell property of the debtor (Qimonda) that is within the territorial jurisdiction of the United States (the U.S. patents, patent applications, and other intellectual

[37] Indeed, the Foreign Representative acknowledged this provision himself. Specifically, in his petition for recognition of the German insolvency as a foreign main proceeding, the Foreign Representative stated that, "[u]pon recognition of the German Proceedings as a foreign main proceeding, the Petitioner is automatically entitled to certain relief under section 1520(a)," including that Section 363 applies to a transfer of an interest of the debtor in property that is within the territorial jurisdiction of the United States. The Foreign Representative's June 15, 2009 Memorandum of Law in Support of Petition for Recognition of a Foreign Main Proceeding and Motion for Permanent Injunction and Related Relief Pursuant to 11 U.S.C. §§ 1504, 1515, 1517, 1519, 1520, and 1521 (Docket # 8) is attached as **Exhibit 15**. *See id.* at 7.

property), Section 363 applies. Accordingly, any sale of this U.S. property must be conducted pursuant to Section 363 so that the Licensees can assert their rights under Sections 363 and 365.

Further, under Section 363(f), the Foreign Representative may not sell the U.S. Qimonda Patents "free and clear" of the Licensees' interests, *i.e.*, the cross-licensing agreements, because none of the enumerated exceptions applies. *See* 11 U.S.C. § 363(f). The licenses to the U.S. Qimonda Patents constitute an "interest" for the purposes of Section 363(f). *See FutureSource LLC v. Reuters Ltd.*, 312 F.3d 281, 285 (7th Cir. 2002) (finding that a license to intellectual property is an "interest" for purposes of Section 363(f)). Yet none of the exceptions enumerated in Section 363(f) apply here.

In particular, Section 363(f)(1) does not apply because applicable nonbankruptcy law, *i.e.*, U.S. intellectual property law, requires that, upon a sale of a patent, any licenses to that patent follow it. *See Novon Int'l, Inc.*, 2000 WL 432848 at *5 ("[T]he assignee of a patent . . . [takes] 'subject to the licenses previously granted by assignor.'") (citing Walker on Patents § 19:22); *Jac USA, Inc. v. Precision Coated Prods., Inc.*, No. 00-3780, 2003 WL 1627043, at *12 (N.D. Ill. Mar. 25, 2003) ("'[T]he purchaser of a patent takes subject to outstanding licenses.'") (citing *Sanofi, S.A. v. Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 939 (D.N.J. 1983)); Burnsvold & O'Reilly, *Drafting Patent License Agreements*, at § 12.00 ("In the case of the licensor, the duty of continuing with the license subject to compliance by the licensee with the conditions of the agreement is, in effect, a servitude running with ownership in the patent and will be binding on an assignee of the patent . . . . Thus, a licensor may assign a licensed patent, but the purchaser acquires the patent subject to the preexisting license."). Nor does Section 363(f)(5) apply because a severed license agreement constitutes irreparable harm that would not be compensable by monetary damages. *See In re Dynamic Tooling Sys., Inc.*, 349

B.R. 847, 855-56 (Bankr. D. Kans. 2006) (license interest in intellectual property cannot be "quantified" similarly to lessee's possessory interest in real property, and thus sale of intellectual property cannot be "free and clear of a licensee's rights" under Section 363(f)) (citing *In re Haskell L.P.*, 321 B.R. 1 (Bankr. D. Mass. 2005) for its analogous consideration of the effect of a Section 363(f) sale on a lessee's rights under an unexpired lease of real estate); *c.f. In re Dewey Ranch Hockey, LLC*, No. 09-09488, 2009 WL 3170452, at *13 (Bankr. D. Ariz. Sept. 30, 2009) (explaining that certain property interests are "not monetary / economic rights such that impounding funds would be adequate protection"); *Haskell*, 321 B.R. at 9 ("[Lessee of real property's] claim cannot be quantified . . . . [and lessee] cannot be compelled to accept money for its rejected lease under § 363(f)(5) in view of the provisions of § 365(h).").[38] Therefore, any sale of the U.S. Qimonda Patents may not occur "free and clear" of the Licensees' licenses thereto; rather, the purchaser must assume Qimonda's obligations to honor those licenses.

Finally, Section 363(e) requires the Court, on request of the Licensees, at any time, without a hearing, to condition the sale of the U.S. Qimonda Patents as is necessary to provide "adequate protection" to the Licensees:

> Notwithstanding any other provision of this section, at any time, on request of an entity that has an interest in property used, sold, or leased, or proposed to be used, sold, or leased, by the trustee, the court, with or without a hearing, shall prohibit or condition such use, sale, or lease as is necessary to provide adequate protection of such interest.

[38] The legislative history of Section 365(n) indicates that Section 365(n) provides parallel treatment to intellectual property licensees as Section 365(h) provides to real estate lessees. *See* S. Rep. No. 505 at 3203.

11 U.S.C. § 363(e).[39] Here, the licenses to the U.S. Qimonda Patents to be sold are an "interest in property" for the purposes of Section 363(e). *See Dynamic Tooling,* 349 B.R. at 856 (applying Section 363(e) to license interests in intellectual property).

Accordingly, the Licensees hereby request that the Court order that any sale of Qimonda's U.S. assets, including the U.S. Qimonda Patents -- either by auction or through the new U.S. entity -- comply with Section 363 and provide adequate protection to the Licensees. In this instance, adequate protection would be provided by ordering the Foreign Representative to comply with Section 365(n) and honor the Licensees' rights in any sale of the U.S. Qimonda Patents. Thus, even if one of the grounds in Section 363(f) applies to allow a "free and clear" sale -- and none does -- the Court should provide adequate protection to the Licensees by requiring that any buyer of Qimonda's patents, patent applications, and other intellectual property assume the licenses. *See* 11 U.S.C. § 361(3); *see also, e.g.*, *Dynamic Tooling,* 349 B.R. at 856 (using powers under Section 363(e) to protect party's intellectual property license interests by ordering that, to extent intellectual property is included in asset transfer, property is subject to party's license rights under applicable agreement). A sale under any other circumstances would cause the Licensees irreparable harm by destroying their ability to conduct their businesses with certainty and thus should not proceed. *See Dewey Ranch Hockey*, 2009 WL 3170452 at *14 (stating that Section 363(e) requires the court to prohibit any sale "free and

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[39] Although the legislative history of Section 361 -- which sets forth how adequate protection may be provided under Section 363(e) -- focuses generally on protecting the rights of secured creditors, case law provides that adequate protection may be afforded to holders of interests ***other*** than security interests or liens, such as a licensee to intellectual property, like the Licensees. *See Dynamic Tooling Sys., Inc.*, 349 B.R. at 856 (holding that, to the extent that intellectual property is included in a sale of the debtor's property, harm to a licensee of that intellectual property can be avoided by selling the property subject to the licensee's rights via Section 363(e)); *cf. Dewey Ranch Hockey*, 2009 WL 3170452, at *13 (discussing adequate protection of holder of non-economic interests); *In re Ernst Home Ctr., Inc. & EDC, Inc.*, 209 B.R. 955, 965 (Bankr. W.D. Wash. 1997) (suggesting that courts will consider requests for adequate protection from parties other than secured creditors).

clear" of interests sought to be removed, when the interested party cannot be adequately protected).

CONCLUSION

For the foregoing reasons, the Licensees respectfully request that the Court deny the Foreign Representative's Motion and compel the Foreign Representative to comply with the Supplemental Order and Sections 363, 365, and 1520 of the U.S. Bankruptcy Code.

Date: October ___, 2009

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