

M E M O R A N D U M

To: Executive Committee of the National Bankruptcy Conference

From: Drafting Committee

Re: Proposed Amendments to Chapter 15
Section 6(d) of Innovation Act, H.R. 3309

Date: November 11, 2013

The Innovation Act (H.R. 3309), which focuses primarily on patent litigation reform, would amend the Bankruptcy Code so that section 365(n) would be applicable in all chapter 15 cases upon recognition of a foreign main proceeding. Section 365(n) protects the licensee's right to continue to use intellectual property if the licensor rejects the license agreement as an executory contract. Specifically, section 6(d) would amend section 1520(a) of the Bankruptcy Code so that it would provide: "Upon recognition of a foreign proceeding that is a foreign main proceeding ... (5) section 365(n) applies to intellectual property of which the debtor is a licensor or which the debtor has transferred." Section 6(d) also has an effective date provision: "The amendments made by this subsection shall take effect on the date of the enactment of this Act and shall apply to any action for which a complaint is pending on, or filed on or after, such date of enactment."

The International Aspects Committee has reviewed section 6(d) from a policy standpoint and has submitted a report to the Executive Committee in which it recommends against its enactment. The Drafting Committee has reviewed section 6(d) as well, but only from a drafting or technical standpoint. In reviewing the bill, we have assumed that Congress will reject the recommendation of the International Aspects Committee and will proceed to enact the substance of section 6(d) of H.R. 3309 in some form.

The Drafting Committee believes that section 6(d) of H.R. 3309 should be substantially revised for the following reasons:

- (1) Section 6(d) would amend section 1520, which governs only foreign main proceedings. This appears misplaced. What would happen if there is only a foreign nonmain proceeding (with no insolvency proceeding pending where the debtor has its center of main interest), and the law where the foreign insolvency case is pending allows for the rejection of IP licenses and termination of the licensee's right to use the IP? Should the result be the same in the chapter 15 ancillary case (i.e., protecting or not protecting IP licensees), regardless of whether it is a foreign main or a foreign nonmain proceeding? We see no reason to distinguish between foreign main and foreign nonmain proceedings with respect to whether IP licensees should be protected from the loss of the right to use the licensed IP. We believe that the provision should be placed in section 1522, which deals with the protection of certain interested parties in all chapter 15 cases.
- (2) Merely saying that 365(n) applies could cause unanticipated technical glitches. For example, 365(n) says "if the trustee rejects..." Trustee means the case trustee and, in a chapter 11 case in which there is no trustee, the debtor in possession ("DIP"). What would happen if the foreign insolvency case has no "trustee" or "DIP", but has someone called a "receiver" or "administrator" or some other official who does the rejecting? Note that section 1502 provides that "trustee," for purposes of chapter 15, means a trustee, DIP in a case under any chapter under the Code, or a debtor in a chapter 9 case. Thus, "trustee" would not include the foreign representative or the debtor in a foreign proceeding.
- (3) We do not know what is meant by the following underlined language that would be added to section 1520(a): "(5) section 365(n) applies to intellectual property of which the debtor is a licensor or which the debtor has transferred." Section 365(n) only applies to protect IP licensees when the licensor rejects the license agreement in bankruptcy. We suggest that the underlined language be deleted.
- (4) Although this may be more substantive than mere drafting, we do not believe that a U.S. court could or should impose section 365(n) protection to licensees unless the IP is within the territorial jurisdiction of the United States (as that phrase is defined in section

1502(8)) and, given this limitation, it is unclear how courts would interpret or apply the language set forth in section 6(d) of the bill (which does not include any jurisdictional limitation on the scope of the provision). In any event, silence on the scope of the provision creates uncertainty and is likely to cause litigation regarding its scope. For example, if a French company that owns a patent registered in France files a main proceeding in France, where it has its center of main interests, and French law allows the debtor as licensor to terminate an Italian licensee's right to use such IP after rejection of the license, and a chapter 15 case is then commenced because the foreign representative wants the U.S. court to order turnover of certain bank accounts (unrelated to the licensed IP), it is highly doubtful that U.S. law could impose the protections of section 365(n) to protect the Italian licensee (or that any court outside the U.S. would enforce the section 365(n) protections under those circumstances). We believe that the bill should be revised to provide certainty and to limit the scope to situations in which the IP is within the territorial jurisdiction of the U.S.

- (5) We have been informed that some countries have agreements on intellectual property with other countries. It is possible that the U.S. and other countries may enter into such agreements relating to the treatment of intellectual property in insolvency cases. In the event that there is such an agreement between the U.S. and the jurisdiction where the foreign proceeding is pending, the application of section 365(n) protections should not be inconsistent with such agreement.

For these reasons, the Drafting Committee recommends that the proposed amendment to section 1520(a), as set forth in section 6(d) of the bill, be deleted and replaced by the following amendment to section 1522 (adding a new subsection (e)):

Section 1522. Protection of Creditors and Other Interested Persons.

(e) If the foreign representative rejects or repudiates an executory contract under which the debtor is a licensor of intellectual property, the licensee under such contract shall be

entitled to make the election and exercise the rights described in section 365(n) with respect to intellectual property located within the territorial jurisdiction of the United States, provided, however, that this subsection shall not apply to the extent that it is inconsistent with an agreement on the treatment of intellectual property in insolvency cases between the United States and the jurisdiction of the foreign proceeding.

As for the effective date, we believe that section 6(d)(2) of H.R. 3309, which makes the amendments applicable “to any action for which a complaint is pending on, or filed on or after, such date of enactment” is too ambiguous. Which “action” and which “complaint” is the section referring to? Does it mean the “action” and “complaint” to reject the license in the foreign proceeding? Or does it refer to the “action” and “complaint” in the chapter 15 case seeking the application of section 365(n)? Does “complaint” include a motion or application to reject the IP license? Does “action” include the chapter 15 case or does it mean a proceeding in the chapter 15 case? For these reasons, while attempting to capture the intent of section 6(d)(2), we recommend that section 6(d)(2) be revised to read as follows:

(2) EFFECTIVE DATE - The amendments made by this subsection shall apply to cases commenced under chapter 15 of title 11 of the United States Code on or after the date of enactment, provided, however, that this subsection also shall apply to cases pending under chapter 15 on the effective date of this Act if the right of the licensee to continue to use intellectual property after the rejection or repudiation of an executory contract under which the debtor is the licensor of such intellectual property has not been finally resolved in the chapter 15 case.

You will note that the phrase “rejects or repudiates” is used in the above recommended drafts. Several members of the Drafting Committee prefer using “rejects” instead of “rejects or repudiates” because “rejects or repudiates” expands beyond the reach of “rejection,” and adding “or repudiates” could cause uncertainty as to its meaning. Nonetheless, “rejects or repudiates” is used because of a concern raised by members of the International Aspects Committee that not all countries use “rejects,” and some even allow the debtor or foreign representative to merely

decline to perform without a formal rejection process. To cover such situations, we have used “reject or repudiates.” Black’s Law Dictionary defines “repudiate” to mean “To reject or renounce (a duty or obligation); esp. to indicate an intention not to perform (a contract).” That should capture rejection or any analogous process in a foreign proceeding. Although “rejects or repudiates” is acceptable to all members of the Drafting Committee, some still express a preference for using only “rejects.”