

Licenses Withstand German Insolvency Proceedings

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With its decision of July 25, 2013 (6.U 541/12), the Higher Regional Court Munich confirmed the first-instance decision finding that licenses under the patents of an insolvent company remain valid and enforceable. This case relates to the spinning-off of the stand-alone memory business unit from Infineon AG to the newly established Quimonda AG, and the later insolvency of Quimonda. With the spin-off, Infineon transferred to Quimonda inter alia a patent portfolio that had originated in part from Siemens AG. The patents being transferred were partially subject to license or cross-license agreements entered into by Siemens or Infineon.

The contribution agreement effecting the spin-off to Quimonda stipulated that: (i) Infineon was to retain irrevocable, non-exclusive use rights to the transferred patents for any uses in technical fields outside the field of stand-alone memories, (ii) the licenses granted before the spin-off by Infineon or its predecessor Siemens under the transferred patents were to remain unaffected, and (iii) irrevocable and non-exclusive use rights for Infineon and its existing licensees were also granted under any patents subsequently filed by Quimonda, but only within a certain period.

Sec. 103 German Insolvency Act provides that the insolvency administrator has a right to elect whether to perform a contract imposing mutual obligations, unless at the date when the insolvency proceedings were opened at least one of the parties had already completely performed its obligations. If the administrator elects performance, he can receive performance from the other contracting party and the contractual obligations of the insolvent company will become obligations incumbent on the assets of the insolvent estate and will have to be fulfilled using the assets of the estate. If the administrator elects non-performance, the other party will only have a claim for non-performance which it can assert as any insolvency creditor.

In this case, Quimonda's insolvency administrator elected non-performance with the intention not to have to fulfil Quimonda's obligations under the contribution agreement. In the insolvency administrator's view, this freed the patents of any licenses to Infineon and its licensees, making them more valuable for a subsequent sale.

However, the HRC Munich declared in its judgement that the use rights of Infineon and its licensees are not affected by the insolvency administrator's election of non-performance, following largely the reasoning of the first instance court. The HRC held that its decision does not hinge on the controversial question of whether a non-exclusive license constitutes an in rem right. With regard to the use rights retained by Infineon in the spin-off (see (i) above), the Court argued that Quimonda had never acquired the full rights, but only rights subject to the use rights. Hence, these use rights never became part of the estate in the first place and therefore cannot be affected by the administrator's right to refuse further performance of the contract. With regard to licenses encumbering the patents before their transfer in the spin-off (see (ii) above), the Court cited as a basis for its arguments Sec. 15(3) German Patent Act which provides that licenses remain unaffected by subsequent transfers (principle of succession protection). Also regarding the use rights granted on patent applications filed by Quimonda after the spin-off (see (iii) above), the Court regards Sec. 103 German Insolvency Act to be not applicable. In the Court's view, since these licenses are irrevocable and unlimited as to time and territory, Quimonda with the grant of these licenses had already completely performed its obligations.

Although, in this author's view, the grounds of the decision are not in all respects fully persuasive, the decision itself is to be welcomed. Having licenses at risk should the licensor go into insolvency constitutes a severe commercial risk for licensees who often invest large sums in the development of products covered by the license. Two attempts to resolve this issue by inserting a new Sec 108a into the German Insolvency Act have failed. It is therefore to be hoped and expected that the Federal Court of Justice will finally resolve this legal question. Appeals against this decision of the HRC Munich are already pending (Docket No.: X ZR 94/13).

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