

Bankruptcy, Restructuring & Commercial Law Advisory

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How Does Bankruptcy Affect Rights Under an Agreement Not to Sue on Patents?

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When a debtor rejects an executory contract, Section 365(n) of the Bankruptcy Code allows a licensee of intellectual property to retain certain rights under the rejected contract. An important question arises, therefore, whether a particular agreement indeed involves a license. In a recent decision, the Third Circuit Court of Appeals has reaffirmed the definition of a license as “a mere waiver of the right to sue by the patentee.” *In re Spansion, Inc.*, 2012 U.S. App. LEXIS 26131, *7 (3d Cir. Dec. 21, 2012) (citing *De Forest Radio Tel. & Tel. Co. v. United States*, 273 U.S. 236, 242, 47 S. Ct. 366, 71 L. Ed. 625, 63 Ct. Cl. 677 (1927)).

Prior to commencing its bankruptcy case, Spansion, Inc. filed a patent infringement action against Samsung and Apple. Thereafter, by letter agreement, Spansion agreed to dismiss the infringement action against Apple and agreed to refrain from suing Apple again with respect to the patents at issue in the lawsuit. Apple agreed, in return, to retain Spansion as a supplier and to consider Spansion for future business.

During its bankruptcy case, Spansion rejected the letter agreement. The bankruptcy court approved the rejection but denied Apple’s Section 365(n) rights. The district court reversed the ruling of the bankruptcy court that Apple did not have Section 365(n) rights. In affirming the district court, the Third Circuit held that a license “need not be a formal grant,” therefore a mere letter agreement, in which the debtor promised to dismiss a patent infringement action and not to re-file it, was a promise not to sue sufficient to constitute a license and confer Section 365(n) rights upon the licensee. The Third Circuit also found that the rationale cited by the bankruptcy court to deny Apple its Section 365(n) rights — that Spansion and Apple had ceased doing business together — was irrelevant to the analysis whether Apple could invoke Section 365(n) to retain rights under the letter agreement.

Parties settling a patent dispute must consider whether it is appropriate to draft their agreements with bankruptcy implications in mind, especially if they suspect the counterparty may be experiencing financial distress. A well-crafted agreement not to sue could save future aggravation and expenses by making it clear that the beneficiary of the agreement is afforded Section 365(n) rights in any subsequent bankruptcy.

If you have any questions about this decision or its implications, please call your principal Mintz Levin attorney or one of the attorneys noted on this advisory.

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