UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

In re	:	Chapter 11
QUAD SYSTEMS CORPORATION	:	
Debtor	:	Bankruptcy No. 00-35667F

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MEMORANDUM

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By BRUCE FOX, Bankruptcy Judge:

Presently pending is the motion of Samsung Techwin Corporation, Ltd. (hereinafter "Samsung") for relief from the automatic stay pursuant to 11 U.S.C. § 362(d)(1). This motion is opposed by the debtor in possession, Quad Systems Corporation ("Quad"), as well as by its official committee of unsecured creditors (the "Committee").

An evidentiary hearing was held and the following relevant facts were proven.

I.

On September 22, 1997, Samsung (through its predecessor in interest Samsung Aerospace Ind. Ltd.) and Quad entered into the "QSA-60 Joint Development and Sales Agreement." Ex. S-1 (attachment B). The preamble to the agreement identifies Samsung as being in "the business of manufacturing and exporting

Chipmounters, also know as Assemblers;" Quad is identified as also being in "the business of manufacturing and exporting Assemblers." Id., at 1.

By this agreement, these two parties contracted, in part, to jointly develop a new chip assembler machine, given the model name "QSA-60." Id., at 1. The target date for completion of the development portion of the joint project was June 30, 1998. Id., at 3, ¶ 2.4. After development of this new chip assembler, Samsung had the right to mass produce the machine, Ex. S-1 (attachment B, at 6, ¶ 7.1). Quad had certain rights of sale in specified geographic locations. Id., at 7, ¶ 10.1.

Apparently, the parties contemplated the possibility that one or both of them might create certain software technology which would be of use in the assembler product. The joint development and sales agreement acknowledged that "solely developed technology" would remain the property of the party who developed it. Id., at 4, ¶ 5.1. The development agreement also recognized that Quad had already produced computer software which operated its assemblers and was identified by the parties as "Qsoft." Id., at 3, ¶ 1.8. The development agreement specified that Samsung would pay Quad for the license of "Qsoft technology" $2,500.00 for each assembler that Samsung sold or distributed under its name and which made use of this software. Id., at 4, ¶ 5.4.

Subject to certain exceptions, this development and sales agreement was to last three years, with an additional annual renewal unless one party gave the other

60 days prior notice. Id., at 11, ¶ 24.1.[1] In the event of any alleged breach of this joint development agreement, the matter was to be resolved by arbitration. Id., at 10, ¶ 18.1.

On the same day that they entered into the joint development and sales agreement, Samsung and Quad also entered into a "Software License Agreement," with Quad being the licensor and Samsung the licensee. Ex. S-1, attachment B. The preamble to this licensing agreement identifies its purpose as to permit Samsung "to incorporate the Qsoft software into the QSA-60...." Id., at 1. This licensing agreement was to last until the termination of the joint development and sales agreement. Id., at 2, ¶ 1(h).[2]

A dispute between the parties to these agreements later arose.

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[1]Samsung argues that this three year period commenced after the development of the new machine. Movant's Post-hearing Memorandum, at 5. I need not decide in the context of this dispute whether that is correct.

In general, a contested matter in a bankruptcy case, such as one under section 362(d)(1), is not considered the proper procedural vehicle for adjudicating the extent and validity of claims. Section 362(e) requires that lift stay motions be heard promptly. Thus, contested matters involve summary determinations of certain issues. See generally In re Orion Pictures Corp., 4 F.3d 1095, 1098-99 (2nd Cir. 1993) ("At heart, a motion to assume should be considered a summary proceeding, intended to efficiently review the trustee's or debtor's decision to adhere to or reject a particular contract in the course of the swift administration of the bankruptcy estate. It is not the time or place for prolonged discovery or a lengthy trial with disputed issues"), cert. dismissed sub nom. Orion Pictures Corp. v. Showtime Networks, Inc., 511 U.S. 1026 (1994).

Therefore, as will be discussed below, I shall only determine in this contested matter whether "cause" exists to terminate or modify the bankruptcy stay.

[2]Samsung takes the position that these two agreements were modified by a letter agreement in November, 1997. See Ex. S-1, attachment B. As it is not necessary for me to determine the parties contractual rights under these agreements in order to decide the instant lift stay motion, I need not detail these modifications.

On or about April 5, 2000, Samsung submitted its request for arbitration and its statement of claim. Ex. S-1, attachment A. It alleged that: Quad abandoned the joint development project prior to its completion; failed to provide Samsung with required technical assistance; did not complete the required performance tests; and wrongfully entered into an agreement with another company, Mirae Corporation, to develop a machine to compete with the QSA-60 assembler. Id., at 14-15.

Samsung sought damages for the alleged contractual breaches, including damages for lost profits, in an amount exceeding $25,000,000.00. It also sought "specific performance" by requiring that Quad provide Samsung with "upgrades to the Qsoft software ...." At the conclusion of the evidence presented to the arbitrator, Samsung also requested "interim relief."

That interim relief sought by this creditor was the "granting to Samsung [of] an irrevocable, non-transferable, non-exclusive, perpetual, paid-up license to use Quad's intellectual property embodied in the CP-60[3] currently under development by Samsung, as well as Quad's latest production release of QSOFT-2." Debtor's Objections and Answer to Motion of Samsung, Ex. A (letter of Samsung counsel to arbitrator dated December 18, 2000, at 1). This interim relief was sought so that Samsung could "market effectively the machine in North America in 2001...." Id., at 2.

On May 31, 2000, Samsung and Quad executed an "arbitration submission agreement" calling for an arbitrator to resolve "[a]ll disputes ... arising under or relating to the ... 'QSA-60 Agreement.'" Ex. S-1, attachment C. Under the

[3]This is what Samsung presently calls the QSA-60.

terms of this arbitration agreement, the decision of the arbitrator was final, and was to be accompanied by "findings of fact and a statement of reasons for the decision." Id., at 2.

On or about June 30, 2000, Quad submitted its statement of defense and counterclaim against Samsung. Quad asserted that it had properly performed under the development and licensing agreements until the joint project "was dramatically altered by [Samsung'] own failure to complete its most critical task, the development of an x-y gantry for the [QSA-60 assembler] which would produce the target throughput of 24,000 cph." Ex. S-1, attachment E, at 3. As a result, the debtor asserted the joint project was overdue and overbudget. Id., at 4.

Quad sought damages from Samsung in an amount in excess of $15,000,000.00, including loss profits, plus a direction for Samsung to provide Quad "with technical information including product specifications" involving the QSA-60. Id., at 5.

Thereafter an arbitrator was chosen, S. Elaine McChesney, Esquire, Ex. S-16, who conducted an evidentiary hearing lasting eleven days over a period of several weeks, and yielding more than 2,400 pages of transcript. Exs. S-17[4]; S-1, attachment G. The debtor expended more than $650,000.00 in attorneys fees and expenses to participate in the evidentiary portion of the arbitration proceedings. Ex. S-3.

[4]Samsung stated that the arbitrator ordered the evidentiary record sealed and the creditor requested similar relief in this court under 11 U.S.C. § 107(b). As the debtor did not dispute this protective request, I granted it.

After hearing closing arguments from counsel to both parties, on December 13, 2000, the arbitrator stated her preliminary views that "Quad had improperly abandoned [the joint development project]." Ex. S-17, at 2426. She requested memoranda from the parties discussing the interim relief requested by Samsung, and the effect of a possible Quad bankruptcy on any decision she should render. Id., at 2427-28. Before such submissions were due, Quad filed its chapter 11 bankruptcy petition on December 18, 2000.

II.

Recently, the Third Circuit Court of Appeals analyzed the effect of contractual arbitration provisions for statutory claims within the federal legal system:

> In general, nothing prevents contracting parties from including a provision in their agreements that refers statutory claims arising under the contract to arbitration.... Arbitration of statutory claims will not be precluded absent congressional direction. "Having made the bargain to arbitrate, the party should be held to it unless Congress itself has evinced an intention to preclude a waiver of judicial remedies for the statutory rights at issue." Mitsubishi Motors Corp. v. Soler Chrysler- Plymouth, Inc., 473 U.S. 614, 628 ... (1985). The burden of establishing that Congress meant to preclude arbitration for a statutory claim rests with the party who seeks to avoid arbitration. See Gilmer, 500 U.S. at 26. Such intention may be found in the text, legislative history, or in an "inherent conflict" between arbitration and the statute' s underlying purposes. Id. (citing Shearson/American Express, Inc. v. McMahon, 482 U.S. 220, 227 ... (1987)). "Throughout such an inquiry, it should be kept in mind that 'questions of arbitrability must be addressed with a healthy regard for the federal policy favoring arbitration.'" Id. (quoting Moses H. Cone Mem'l Hosp. v. Mercury Constr. Corp., 460 U.S. 1, 24 ... (1983)).

Johnson v. West Suburban Bank, 225 F.3d 366, 370-71 (3d Cir. 2000), cert. denied sub nom., Johnson v. Tele-Cash, Inc., ___ U.S. ___, 121 S.Ct. 1081 (2001). Moreover, "[u]nder the prevailing jurisprudence, when the right made available by a statute is capable of vindication in the arbitral forum, the public policy goals of that statute do not justify refusing to arbitrate." Id., at 374.

The enforceability of pre-bankruptcy, contractual arbitration agreements in bankruptcy cases has evolved as the relevant policies implicit within the Federal Arbitration Act and the Bankruptcy Code have become clearer.

Initially, the Third Circuit suggested that there may be an "inherent conflict" between the enforcement of contractual arbitration provisions and the then newly enacted Bankruptcy Reform Act of 1978 (sometime referred to as the "Bankruptcy Code"), given the congressional desire to bring all litigation involving the debtor into one forum. Zimmerman v. Continental Airlines, Inc., 712 F.2d 55, 58-59 (3d Cir. 1983), cert. denied, 464 U.S. 1038 (1984). However, after the Supreme Court identified "the strength of national policy favoring arbitration," see Hays and Co. v. Merrill Lynch, Pierce, Fenner & Smith, Inc., 885 F.2d 1149, 1155 (3d Cir. 1989), and after the 1984 amendments to the Bankruptcy Reform Act of 1978 - which recognized the constitutional limitations on bankruptcy court subject matter jurisdiction by providing that certain disputes may only be determined in bankruptcy court with the consent of all parties - the Third Circuit instructed that an arbitration provision could be enforced in a bankruptcy case to determine a non-core proceeding. Id., at 1159-61.

Thereafter, courts have retreated from an exclusive core/non-core dichotomy when considering the enforceability of a contractual arbitration provisions against a debtor in bankruptcy. For example, as the Fifth Circuit recognized:

> ACMC and the Trust urge us to adopt a position that categorically finds arbitration of core bankruptcy proceedings inherently irreconcilable with the Bankruptcy Code. Cognizant of the Supreme Court's admonition that, in the absence of an inherent conflict with the purpose of another federal statute, the Federal Arbitration Act mandates enforcement of contractual arbitration provisions, McMahon, 482 U.S. at 226-27 … we refuse to find such an inherent conflict based solely on the jurisdictional nature of a bankruptcy proceeding. Rather, as did the Third Circuit in Hays, we believe that nonenforcement of an otherwise applicable arbitration provision turns on the underlying nature of the proceeding, i.e., whether the proceeding derives exclusively from the provisions of the Bankruptcy Code and, if so, whether arbitration of the proceeding would conflict with the purposes of the Code.

Matter of National Gypsum Co., 118 F.3d 1056, 1067 (5th Cir. 1997) (citation omitted); accord, e.g., In re United States Lines, Inc., 197 F.3d 631, 640-41 (2nd Cir. 1999), cert denied sub nom, American S.S. Owners Mut. Protection and Indemn. Ass'n, Inc. v. U.S. Lines, Inc., 529 U.S. 1038 (2000):

> Core proceedings implicate more pressing bankruptcy concerns, but even a determination that a proceeding is core will not automatically give the bankruptcy court discretion to stay arbitration. "Certainly not all core bankruptcy proceedings are premised on provisions of the Code that 'inherently conflict' with the Federal Arbitration Act; nor would arbitration of such proceedings necessarily jeopardize the objectives of the Bankruptcy Code." Insurance Co. of N. Am. v. NGC Settlement Trust & Asbestos Claims Management Corp. (In re Nat'l Gypsum Co.), 118 F.3d 1056, 1067 (5th Cir.1997). However, there are circumstances in which a bankruptcy court may stay arbitration, and in this case the bankruptcy court was correct that it had discretion to do so.

> In exercising its discretion over whether, in core proceedings, arbitration provisions ought to be denied effect, the bankruptcy court must still "carefully determine whether any underlying purpose of the Bankruptcy Code would be adversely affected by enforcing an arbitration clause." Hays & Co., 885 F.2d at 1161. The Arbitration Act as interpreted by the Supreme Court dictates that an arbitration clause should be enforced "unless [doing so] would seriously jeopardize the objectives of the Code." Id.... Where the bankruptcy court has properly considered the conflicting policies in accordance with law, we acknowledge its exercise of discretion and show due deference to its determination that arbitration will seriously jeopardize a particular core bankruptcy proceeding.

Accordingly, in deciding whether to grant Samsung relief from the automatic stay to continue with its arbitration proceedings against the debtor, I am not compelled to deny relief either by an inherent conflict with federal bankruptcy law nor by the jurisdictional classification of the claims this creditor has raised against the debtor. Instead, it is appropriate to allow the arbitration process between the debtor and Samsung to conclude unless to do so would conflict with certain rights or policies established by federal bankruptcy law. See, e.g., In re Weinstock, 1999 WL 342764, *8 (Bankr. E.D.Pa. 1999) (Sigmund, B.J.).

Before I address that issue, the general framework for determining lift stay motions should be articulated.

III.

Section 362(a)(1) stays, inter alia, the commencement or continuation of all prepetition litigation against the debtor. The scope of this provision encompasses arbitration hearings. See, e.g., In re Aldan Industries, Inc., 2000 WL 357719, *3

(Bankr. E.D.Pa. 2000). Clearly, the outcome of an arbitration hearing, such as the one pending involving this debtor, could fix any claims held by Samsung against the bankruptcy estate and thus was automatically stayed by the debtor's bankruptcy filing.

Section 362(d) provides three distinct bases for granting relief from the stay. Obviously, the provisions of sections 362(d)(2) and (d)(3) are inapplicable in this instance. The lift stay motion filed by Samsung asserts only that "cause" exists for relief from the automatic stay. Motion, ¶ 5. Subsection 362(d)(1) states:

> (d) On request of a party in interest and after notice and a hearing, the court shall grant relief from the stay provided under subsection (a) of this section, such as by terminating, annulling, modifying, or conditioning such stay--
>
> > (1) for cause, including the lack of adequate protection of an interest in property of such party in interest;....

In general, this subsection calls for relief from the bankruptcy stay when the movant demonstrates "cause" for relief, see generally In re Ward, 837 F.2d 124, 128 (3d Cir. 1988); In re Skipworth, 69 B.R. 526 (Bankr. E.D.Pa. 1987), and the debtor does not demonstrate that the interests of the movant are "adequately protected." 11 U.S.C. § 362(g)(2). See, e.g., In re Skipworth; In re Liona Corp., N.V., 68 B.R. 761 (Bankr. E.D.Pa. 1987).

As a general principle, whether to terminate, modify, condition, or annul the bankruptcy stay under section 362(d)(1) is committed to bankruptcy court discretion, see Matter of Holtkamp, 669 F.2d 505 (7th Cir. 1982); In re Shariyf, 68 B.R. 604 (E.D.Pa. 1986), and is to be determined by examining the totality of the circumstances. Accord Matter of Baptist Medical Center of New York, Inc., 52 B.R. 417, 425 (E.D.N.Y. 1985), aff'd, 781 F.2d 973 (2nd Cir. 1986).

Usually, an unsecured creditor (and Samsung acknowledges that it is an unsecured creditor in Quad's bankruptcy case) will not be granted relief from the automatic stay to litigate its claim in a non-bankruptcy forum. See, e.g., In re Stranahan Gear Co., Inc., 67 B.R. 834, 838 (Bankr. E.D.Pa. 1986) ("Several factors militate strongly against the allowance of any relief in this case--or in any but the most extraordinary set of circumstances--where the moving party is an unsecured creditor"). There are a number of reasons why an unsecured creditor is typically so restrained.

One intended purpose of the automatic stay is to afford the debtor a respite from the time and expense of litigating with creditors. Accord, e.g., Association of St. Croix Condominium Owners v. St. Croix Hotel Corp., 682 F.2d 446, 448 (3d Cir. 1982) ("The automatic stay is one of the fundamental debtor protections provided by the bankruptcy laws. It gives the debtor a breathing spell from his creditors. It stops all collection efforts, all harassment, and all foreclosure actions. It permits the debtor to attempt a repayment or reorganization plan or simply to be relieved of the financial pressures that drove him into bankruptcy") (quoting H.R.Rep.No. 95-595, 95th Cong., 1st Sess. 340 (1977)).

If the creditor holds an unsecured claim, and if there is a dispute over the amount or validity of the claim, that dispute generally can be resolved through the bankruptcy court proof of claims process. There is often no valid reason to have the claim determined in another forum. See, e.g., In re Stranahan Gear Co., Inc., 67 B.R. at 838. Moreover, if the unsecured claim will be discharged in bankruptcy, there may be no reason to fix the amount of the claim unless the trustee will be making distribution to creditors. See generally, e.g., In re Myers, 1994 WL 362269 (Bankr.

D.Md. 1994); In re Jongquist, 125 B.R. 558 (Bankr. D.Minn. 1991). Therefore, there is often no valid purpose served in requiring the chapter 7 trustee or the chapter 11 debtor to expend time and money in litigating the merits of a dischargeable, unsecured claim in a non-bankruptcy forum. As one commentator has explained:

> Unsecured creditors have no property interests to protect so that relief from the stay under (d)(2) is never possible. Their other concerns are usually unimportant against the stay because the bankruptcy will discharge the debts owed to them. Essentially, these creditors' reasons for wanting relief from the stay contradict the fundamental purposes of the bankruptcy. Typically, therefore, they lack "cause" for relief under [section 362](d)(1).

Epstein, et al., Bankruptcy, § 3-25, at 267 (1992).

There are, however, important exceptions to the general principle that unsecured creditors cannot demonstrate "cause" for relief from the automatic stay. "About the only halfway common reason to lift the stay for an unsecured creditor is to permit liquidation of the claim in a forum that is substantially more appropriate than the bankruptcy court, or because the debtor filed bankruptcy in bad faith." Id., at 267.

For example, if there is a need to fix the amount of the allowed unsecured claim - because the administration of the bankruptcy case requires it - and if the claim would normally be determined by a specialized forum, it may be appropriate to allow that forum to fix the amount of the claim. See generally In re Murdock Mach. and Engineering Co. of Utah, 990 F.2d 567, 571 (10th Cir. 1993) ("Thus, when jurisdiction over disputed claims is placed by law in a specialized tribunal, we expect that the litigation over the trustee's claims to recovery will be conducted in that forum"); In re Lahman Mfg Co., Inc., 31 B.R. 195, 199 (Bankr. D.S.D. 1983).

Similarly, the stay may be lifted when there is an administrative need in

the bankruptcy case to fix the amount of the claim and the claim dispute has been pending for considerable time in a non-bankruptcy forum. Issues of comity and economy may dictate that the non-bankruptcy forum conclude the resolution of that dispute. See e.g., S.Rep. No. 989, 95th Cong.2d Sess. 50 (1978) ("[I]t will often be more appropriate to permit proceedings to continue in their place of origin, when no great prejudice to the bankruptcy estate would result, in order to leave the parties to their chosen forum and to relieve the bankruptcy court from many duties that may be handled elsewhere"); Matter of Holtkamp, 669 F.2d 505 (7th Cir. 1982); In re Castlerock Properties, 781 F.2d 159 (9th Cir. 1986); In re Olmstead, 608 F.2d 1365 (10th Cir. 1979); In re Marvin Johnson's Auto Service, Inc., 192 B.R. 1008 (Bankr. N.D.Ala. 1996); In re Hoffman, 33 B.R. 937 (Bankr. W.D.Ok. 1983); In re Philadelphia Athletic Club, 9 B.R. 280 (Bankr. E.D.Pa. 1981).

According to the legislative history surrounding the enactment of section 362(d)(1):

> The lack of adequate protection of an interest in property of the party requesting relief from the stay is one cause for relief, but is not the only cause. As noted above, a desire to permit an action to proceed to completion in another tribunal may provide another cause.... The facts of each request will determine whether relief is appropriate under the circumstances.

H.R.Rep. No. 95-595, 95th Cong., 1st Sess. 343-44 (1977); see generally In re Curtis, 40 B.R. 795, 799-800 (Bankr. D.Utah 1984).

I shall apply this framework, applicable to section 362(d)(1) lift stay disputes, to the evidence developed in this contested matter, giving due regard for the

need to balance policies inherent in the Federal Arbitration Act and the Bankruptcy Code.

IV.

In light of the evidentiary record in this dispute, I need not reach the broad question whether the federal policies encouraging enforcement of private arbitration agreements always provide "cause" to terminate the automatic stay. Samsung does not advocate such a sweeping position.[5] I do conclude, however, that some relief under section 362(d)(1) is warranted under these circumstances because Samsung's pre-bankruptcy claim needs to be fixed or liquidated, and because it makes eminent sense for the arbitrator - who has heard weeks of testimony and who has a background in evaluating these types of disputes - to do so. See generally In re Weinstock, 1999 WL 342764, at 9 (staying litigation in bankruptcy court so that the same issue could be determined by contractually agreed arbitration).

Samsung's voting rights under any proposed chapter 11 plan, as well as the ability of the unsecured creditor class to approve or reject any proposed plan, will be determined in part by the amount of its claim. See 11 U.S.C. § 1126(c). Its distribution rights will be affected by the size of its claim. Thus, negotiations over the terms of the plan may be affected by the amount, if any, which the debtor owes to Samsung. Similarly, a resolution of the debtor's counterclaims against Samsung may

[5]The absence of any provision in section 362(b) to exclude arbitration hearings from the scope of the automatic stay may suggest that Congress did not intend to enforce all arbitration provisions in bankruptcy cases.

have a significant impact on the bankruptcy estate, and thus the debtor's ability to make distributions to creditors.

Since this creditor's claim and the debtor's counterclaim should be fixed in order to administer this bankruptcy case, since the issues involved in the determining their respective claims requires interpretation of various contracts in the information technology field and not bankruptcy law (with certain exceptions to be discussed below), and since the debtor has spent over $650,000.00 to date in litigating these very issues (the amount Samsung has paid its counsel was not disclosed but it is likely to be of the same order of magnitude), it is clear to me that the arbitrator should be permitted the opportunity to conclude the proceeding.[6] Accord In re Jotan, Inc., 232 B.R. 503, 507 (Bankr. M.D.Fla. 1999):

> Falling back to the strong federal policy favoring the enforcement of arbitration clauses, the Court finds no reason not to enforce the arbitration clause at issue in this case. The issues to be resolved, even if hinging on core matters, will not affect the purpose behind bankruptcy law. Rather, the Court finds that arbitration in this case will be helpful in the resolution of creditor claims and defining Movants' place in the bankruptcy case. The claims in Arbitration are based on the Agreement between Debtors and Movants that arose pre-petition. The bankruptcy filing does not alter how these claims arose. The claims clearly could have existed outside of bankruptcy and are not based on any right created by the federal bankruptcy law.

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[6]The debtor complains that it has insufficient funds on hand to retain special counsel to conclude the arbitration hearing. The debtor also complains that it does not have sufficient funds to pay the arbitrator. If this is so, the debtor does not explain how it can afford to litigate with Samsung in this court were the bankruptcy stay not lifted. From the evidence presented, it is apparent that the cost of completing the arbitration must be less than the cost of relitigating Samsung's claim and the debtor's counterclaim in this forum.

Moreover, the arbitrator should be permitted to do so presently, while the evidence and legal arguments are fresh in her mind, rather than await the outcome of this reorganization process. See, e.g., In re Weinstein, 234 B.R. 862, 866 (Bankr. E.D.N.Y., 1999) (lifts bankruptcy stay for arbitration proceeding to continue); In re Montague Pipeline Technologies Corp., 209 B.R. 295, 306 (Bankr. E.D.N.Y. 1997):

> Modification of the automatic stay to allow Grace to continue the state court action would clearly result in a complete resolution of the arbitration. If relief from the stay is granted and the confirmation action is allowed to continue, the amount of Grace's claim will be fixed. This will result in the withdrawal or denial of the Debtor's objection to the claim Grace filed in this Court and will facilitate the Debtor's Chapter 11 by allowing the Debtor to propose a realistic plan of reorganization. Thus once the state court has fully decided the issue of the Debtor's liability, the bankruptcy court can rely on the state court's decision to aid in the determination of the allowability of Grace's claim.... Therefore, granting Grace's motion for relief from the automatic stay in order to allow the confirmation action to continue in state court will result in complete relief regarding the arbitration between Grace and the Debtor because it will finalize the arbitration award and provide a fixed sum for Grace's claim.

(citation omitted); In re Edgerton, 98 B.R. 392 (Bankr. N.D.Ill. 1989); see also In re Weinstock, 1999 WL 342764, *9.

I appreciate the Committee's argument that it may be affected by the arbitration decision and has had no opportunity to participate in those hearings. But there is no suggestion that the debtor has not vigorously and capably litigated its opposition to Samsung's claim. It has hired highly qualified counsel; indeed, one whose representation was complemented by the arbitrator. See Ex. S-17, at 2425. The debtor, both during the course of the arbitration and even now, has a commonality of interest with other creditors to minimize or eliminate the claim asserted by Samsung

and to maximize the debtor's counterclaim. Thus, I see no valid basis to require Samsung and the debtor to relitigate the matter in this court as part of the claims allowance procedure.[7] Cf. Fed.R.Bankr. 7024 (limiting intervention to circumstances where the interests of the intervenor are not adequately addressed).[8]

V.

A.

My conclusion to grant Samsung some relief under section 362(d)(1) does not completely resolve the instant dispute. The debtor and the Committee requested at the hearing that the arbitrator be limited to fixing the amount of Samsung's prepetition

[7]If the Committee seeks to participate in the arbitration proceeding - not to reopen the evidentiary record, but to make written closing argument - it would be up to the arbitrator to decide whether to accept such a submission.

[8]In general, inadequate representation under Rule 7024 (which incorporates Fed.R.Civ.P. 24) may be present if it is shown that the interests of the existing party are adverse to, or different from, those of the applicant for intervention, e.g., Thurman v. F.D.I.C., 889 F.2d 1441 (5th Cir. 1989), or if it is shown that there is collusion between the existing representative party and an opposing party, Hoots v. Pennsylvania, 672 F.2d 1133 (3d Cir. 1982), or by the existing representative party's nonfeasance in the duty of representation. Coquillette, 6 Moore's Federal Practice, ¶ 24.03[4] (3d ed. 1999). None of these circumstances are present in the arbitration. The debtor has vigorously asserted its position that it acted properly under the contracts with Samsung.

claim, if any, and no more.[9] Samsung requests that the arbitrator also determine its software licensing rights as of the date of Quad's bankruptcy filing.

Samsung presently intends to complete the development of the QSA-60 chip assembler machine but needs software from Quad to do so. It may find it prohibitively expensive to develop its own software. The debtor and the Committee argue that the current version of Qsoft contains features not covered by Quad's contracts with Samsung, including proprietary computer code developed by or for Mirae Corporation, a competitor of Samsung's. This software is a valuable component of the assets which Quad seeks to sell in this bankruptcy case. The debtor believes the value of its assets would be significantly reduced if it were compelled to provide Samsung with a license for its latest software. Moreover, it does not agree that it is contractually required to provide the latest software version to this creditor. Therefore, Quad recently offered Samsung in this bankruptcy case a version of its Qsoft software which Quad maintains existed in June, 1998 - the date which the debtor asserts is the operative date under the Samsung agreements.

Samsung conceded at the hearing and in its post-hearing submission that the interim relief it sought from the arbitrator may conflict with certain bankruptcy law provisions. That interim relief - which included the granting of a perpetual, royalty-free software license in Qsoft and any later versions, including Qsoft2 - was intended by Samsung to allow it to mitigate its damages suffered by Quad's alleged breach of

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[9]In their post-hearing submissions, both the Committee and the debtor acknowledged that if the bankruptcy stay is lifted, it may be appropriate to also have the arbitrator also fix the extent of Samsung's prepetition license rights in Quad's Qsoft software. That issue will be addressed below.

contract. See Debtor's Objection and Answer to Motion, Ex. A (letter of December 18, 2000 by Samsung counsel), at 4 ("Quad may, of course, present arguments in its post-hearing submissions that a royalty-free license may reduce the amount of Samsung's damages in the final award"). Thus, in this contested matter, Samsung now asks that the stay be lifted to permit the arbitrator to fix the amount of its prepetition claim and to determine the extent of its software license with the debtor, without actually directing the debtor to provide the software and without modifying the parties' contractual licensing rights.

Samsung's recognition that the interim relief it sought may be in tension with federal bankruptcy law underscores the differences between a chapter 11 bankruptcy case and a two-party arbitration dispute. While an arbitrator may have the equitable power to fashion a remedy designed to limit the harm to one party caused by another's contractual breach, the bankruptcy implications of such relief may be complicated.

Unsecured creditors must be treated equally. See generally 11 U.S.C. § 1123(a)(4). To allow one unsecured creditor's use of estate property, so as to reduce that creditor's damages, may be perfectly appropriate in a non-bankruptcy context, but may result in preferential treatment vis-a-vis other unsecured creditors and so be prohibited in bankruptcy.

The parties' present dispute over the permissible scope of the arbitration decision is also made complicated in this instance by 11 U.S.C. § 365(n). Samsung's instant motion sought only relief from the bankruptcy stay and did not request relief under section 365(n). Thus, the debtor and the Committee contend that the arbitrator

should be confined to liquidating Samsung's prepetition claim, with the parties then returning to this court to adjudicate any disputes under section 365. See generally Garland Coal & Mining Co. v. United Mine Workers, 778 F.2d 1297, 1304 (8th Cir. 1985) ("Once the arbitrator has decided the liability issue, the case should be returned to the bankruptcy court to decide the questions of allowability and priority of claims"); cf. In re Wilson, 85 B.R. 722 (Bankr. E.D.Pa. 1988) (the automatic stay is lifted for state court to determine equitable distribution but the parties are to return to bankruptcy court for implementation of that decision in accordance with federal bankruptcy law).

Samsung counters that while section 365(n) is a federal statutory provision, it does no more than allow enforcement of a software licensee's pre-bankruptcy contractual rights. Thus, Samsung considers it as appropriate for the arbitrator to also establish its licensee rights, which can then be enforced in this court.

Actually, section 365(n) may also affect the amount of Samsung's prepetition claim. Thus, in order for the arbitration award to be consistent with federal bankruptcy law, the provisions and purpose of this subsection should be reviewed.

B.

In general, a non-debtor party to an executory contract with the debtor will hold only an unsecured claim upon rejection of that contract by a bankruptcy

trustee (or by a chapter 11 debtor in possession[10]). 11 U.S.C. § 365(g); see, e.g., N.L.R.B. v. Bildisco and Bildisco, 465 U.S. 513, 531 (1984). Although not every court treated the rejection of software licenses in this precise manner, some courts did hold that a licensor/debtor could reject a software license agreement, leaving the non-debtor licensee without any license rights to the software and holding only a general unsecured damage claim against the bankruptcy estate. See Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc., 756 F2d 1043 (4th Cir. 1985), cert. denied, 475 U.S. 1057 (1986); see generally H.R.Rep. No. 1012, 100th Cong., 2d Sess. (1988) to Pub.L. 100-506 (1988) (reprinted in 8 Norton Bankruptcy Law and Practice 2d, at 364-372 (1999).

Congress feared that the effects of rejection of intellectual property agreements by debtor/licensors might have a "chilling effect" upon the development of technology in this country. H.R.Rep. No. 1012, 100th Cong., 2d Sess. (1988) (8 Norton Bankruptcy Law and Practice 2d, at 366). 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).

As commentators have observed:

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[10]Although various bankruptcy law provisions - such as those found in section 365 - refer to the powers of a bankruptcy trustee, by virtue of 11 U.S.C. § 1107(a), a chapter 11 debtor in possession - such as Quad - has the powers of a trustee. Accord, e.g., In re Cybergenics Corp., 226 F.3d 237, 243 (3d Cir. 2000) ("When no trustee is appointed, the Bankruptcy Code gives a debtor in possession the powers and duties of a trustee").

Prior to its amendment in 1988, Section 365 created an inequitable situation when an intellectual property licensee faced a debtor-licensor's rejection of its license agreement. The problem first became apparent in Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc. [756 F2d 1043 (4th Cir. 1985), cert. denied, 475 U.S. 1057 (1986)]. In Lubrizol, the United States Court of Appeals for the Fourth Circuit held that a technology licensor could unilaterally reject its license agreement under Section 365, consequently discharging the right of the licensee to use the intellectual property. 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.

The IPBPA [Intellectual Property Bankruptcy Protection Act of 1988, Pub.L. No. 100-506, 102 Stat. 2538 (codified as amended at 11 U.S.C. §§ 101(52)-(53), 365(n) (1988)] was Congress' solution to the unjust results that the Lubrizol case presented. Congress was concerned about the damaging effect that it anticipated the Lubrizol decision would have on technological development. Not only did Section 365 relieve the debtor of its ongoing affirmative performance obligations under the executory license agreement, but it also relieved the debtor of its passive obligation to permit the licensee to use the intellectual property. Under this view, rejection of the license resulted in valuable rights reverting to the bankruptcy estate. Once these rights revert to the bankruptcy estate, a licensee can no longer benefit from use of the intellectual property. The United States Senate stated that the instability that Section 365 created for intellectual property licensing relations would force parties, who would have formerly accepted licenses, to demand assignments. This demand for outright transfers of ownership of the intellectual property is wasteful and chilling to business innovators who would otherwise benefit from keeping their ownership rights.

Thus, to countermand these negative results, Congress passed the IPBPA. The IPBPA provides that, in the event a bankruptcy debtor rejects an intellectual property license, the licensee has two options: either (1) treating the license as terminated; or (2) retaining the rights granted prior to the filing of the bankruptcy petition, with the exception of the right to compel specific performance. This provision allows a business relying on a license agreement to continue its use

> of the intellectual property while still relieving the debtor of its obligations under the license agreement. . . .

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) (citations omitted).

The balance of interests - among the licensor/debtor, the licensee, and the creditors of the debtor - chosen by Congress is complex. The statutory provision, subsection 365(n) states:

> (1) If the trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee under such contract may elect–
>
> (A) to treat such contract as terminated by such rejection if such rejection by the trustee amounts to such a breach as would entitle the licensee to treat such contract as terminated by virtue of its own terms, applicable nonbankruptcy law, or an agreement made by the licensee with another entity; or
>
> (B) to retain its rights (including a right to enforce any exclusivity provision of such contract, but excluding any other right under applicable nonbankruptcy law to specific performance of such contract) under such contract and under any agreement supplementary to such contract, to such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law), as such rights existed immediately before the case commenced, for--
>
> (i) the duration of such contract; and
>
> (ii) any period for which such contract may be extended by the licensee as of right under applicable nonbankruptcy law.
>
> (2) If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, under such contract--
>
> (A) the trustee shall allow the licensee to exercise such rights;

(B) the licensee shall make all royalty payments due under such contract for the duration of such contract and for any period described in paragraph (1)(B) of this subsection for which the licensee extends such contract; and

(C) the licensee shall be deemed to waive--

(i) any right of setoff it may have with respect to such contract under this title or applicable nonbankruptcy law; and

(ii) any claim allowable under section 503(b) of this title arising from the performance of such contract.

(3) If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, then 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, provide to the licensee any intellectual property (including such embodiment) 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 (including such embodiment) including any right to obtain such intellectual property (or such embodiment) from another entity.

(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 (including such embodiment), including any right to obtain such intellectual property (or such embodiment) from another entity.

The congressional legislative report accompanying section 365(n) helps to explain the balance of interests intended by this statutory provision:

> …. Under new subsection 365(n), the trustee [or chapter 11 debtor in possession] will still be able to reject an executory intellectual property license, but the licensee will retain the right to continue to use the technology after rejection for the duration of the agreement's period (and for any renewal period provided by the agreement). Under the legislation, any right in the license agreement giving the licensee an exclusive license will still be enforceable by the licensee, but other rights of the licensee cannot be specifically enforced….
>
> The debtor/trustee will essentially have no obligation to the licensee after rejection other than to turn over existing technology and permit the licensee to use the technology. Obligations such as that to provide the licensee with continued training in the use of the technology or with updates of the technology will be terminated by rejection.
>
> The licensee that elects to retain its rights after rejection will be required to continue making all royalty payments due under the contract, to the trustee, for the duration of the contract (including any renewal period for which the contract may be extended by the licensee as a matter of right under nonbankruptcy law), but the licensee will lose the right to set off these payments against any monies it claims the debtor owes it.
>
> …. A licensee that retains its rights under a rejected contract remains bound by the other obligations or duties required under a rejected contract, except for those so directly related to the obligations or duties that the licensor has been freed from by rejection as to make it inequitable to bind the licensee to them.

H.R.Rep. No. 1012, 100th Cong., 2d Sess. (1988) (8 Norton Bankruptcy Law and Practice 2d, at 369).

Furthermore, Congress anticipated that a licensee who elects under section 365(n)(1)(B) to retain its license rights "will still retain a general claim for damages from rejection, as a breach of contract under section 365(g) of the Bankruptcy Code – though actual damages may be less if the licensee elects to proceed under (n)(1)(B) rather than under (n)(1)(A), since the licensee still retains its rights to the intellectual property under (n)(1)(B)." H.R.Rep. No. 1012, 100th Cong., 2d Sess. (1988) (8 Norton Bankruptcy Law and Practice 2d, at 371); accord Chertok, "Structuring License Agreements with Companies in Financial Difficulty Section 365 (n) -- Divining Rod or Obstacle Course?", 65 St. John's L. Rev. 1045, 1057-58, 1064 (Autumn, 1991):

> Section 365(n)(1) provides that if the trustee or debtor rejects an executory license agreement covering intellectual property, the licensee may elect either one of the following courses of conduct:
>
> (A) to treat [the] contract as terminated . . .; or (B) to retain its rights (including a right to enforce any exclusivity provision of such contract, but excluding any other right under applicable nonbankruptcy law to specific performance of such contract) under such contract and under any agreement supplementary to such contract . . . as such rights existed immediately before the case commenced, for--(i) the duration of such contract; and (ii) any period for which such contract may be extended by the licensee as of right under applicable nonbankruptcy law.
>
> According to the legislative history of section 365(n)(1), in the event that the license agreement is rejected, the licens[ee] may retain the following rights under the terms of the agreement:

(a) Protection of trade secrets, copyrights, patents and confidential information against all persons including creditors;

(b) Continued exclusive use and distribution of the intellectual property for the length of the license as well as any extensions provided under the license or applicable law; and

(c) Enforcement of non-compete clauses against the debtor and any successor entity.

The drafters recognized that the term of license agreements is often contingent upon the occurrence of certain triggering events, such as the approval of a patent application. Accordingly, the scope of section 365(n)(1) is not limited to contracts that have commenced as of the filing date. Rather, "[t]he benefits of the bill are intended to extend to such license agreements [that commence upon a 'triggering event'], consistent with the limitation that the licensee's rights are only in the underlying intellectual property as it existed at the time of the filing."

Section 365(n)(1) does not, however, protect the licensee's right to property that is not fully developed, nor does it provide for reduction of royalty payments for use of such partially developed property. Therefore, although section 365(n)(1) provides a degree of prospective relief generally unavailable to parties to executory contracts, it ignores the economic reality that the licensor may file a bankruptcy petition before it completes development of the intellectual property. In that event, the contractual expectations of the licensee will be frustrated because the licensee will have the right to use the technology only in the form that existed as of the filing date, despite the fact that the parties contemplated that the licensee would benefit from the licensor's development of the technology into a more sophisticated form.

***

Section 365(n)(2) attempts, with limited success, to balance the benefits given to licensees under section 365(n)(1). This subsection virtually has eliminated the debtor's obligations to the licensee and has provided the estate with an unconditional income flow.

The debtor's obligations under section 365(n)(2) are passive. Section 365(n)(2) merely requires a licensor to "allow" the licensee to exercise its rights under a prepetition license and

> any supplemental agreement. In addition, section 365(n)(2) does not provide a licensee with any means of enforcing its rights under the license or supplementary agreement. Thus, if the licensor refuses to comply with the terms of the license agreement, the licensee must commence an action in the bankruptcy court to litigate its rights.

(footnotes omitted).

C.

Obviously, the arbitration agreement between Quad and Samsung was not designed to include a resolution of the licensee's rights under 11 U.S.C. § 365(n)(1). See generally Hays and Co. v. Merrill Lynch, Pierce, Fenner & Smith, Inc., 885 F.2d at 1153 (claim under 11 U.S.C. § 544(b) was outside the scope of arbitration). That does not mean, however, that this statutory provision is irrelevant to the instant lift stay motion or to the arbitration itself. Indeed, I view its terms as germane in three ways.

First, Samsung will be granted relief from the bankruptcy stay to fix the amount of its prepetition claim, if any, against Quad, by concluding its arbitration hearing to a final determination. The bankruptcy stay does not apply to the debtor's counterclaims. See Maritime Elec. Co., Inc. v. United Jersey Bank, 959 F.2d 1194, 1205 (3d Cir. 1991). Accordingly, the debtor may also proceed to liquidate its counterclaims against Samsung.

To the extent the arbitrator is able to do so based upon the evidentiary record made before her, Samsung shall request that she liquidate its claim under two different scenerios: that the debtor rejects the licensing agreement and Samsung does not elect to retain its licensing rights (11 U.S. C. § 365(n)(1)(A); and, that the debtor

rejects the licensing agreement and Samsung does elect to enforce its licensing rights in the Qsoft software (11 U.S.C. § 365(n)(1)(B)). The latter damage claim, which is the most likely and so the most significant, shall not be reduced by any setoff rights which Samsung may otherwise have under non-bankruptcy law.

Second, to the extent the arbitrator can do so, Samsung shall request that the arbitrator determine that amount of royalties due Quad if Samsung elects to preserve its licensing rights under 11 U.S.C. § 365(n)(1)(B). Again, no deduction for setoff would be appropriate.

Third, since it is likely that the debtor will seek to reject the Samsung agreements, see Debtor's Reply Brief at 2 ("it is highly unlikely that these contracts will be assumed"), Samsung may request of the arbitrator that she determine its licensing rights to the Qsoft software as of the December 18, 2000, the date that the debtor filed its bankruptcy petition. The parties differ as to the appropriate version of the Qsoft software to be delivered to Samsung. They also differ as to the licensee's right to obtain the source code and the source save data files. Moreover, there appears to be a dispute over the extent that Samsung's rights are affected, if at all, by the inclusion of third-party proprietary code in the present version of the Qsoft software.

Although it appears from its post-hearing submission that Samsung now agrees, in light of the concerns raised both by Quad and by the Committee, one other point should be made clear.

The licensee rights which Samsung possesses are to be determined by the terms of the parties' agreements. These rights cannot be increased so as to mitigate

Samsung's damage claim; to do so could adversely affect the value of the debtor's estate and thus the rights of its other creditors. Thus, Samsung may hold a perpetual license, or a prepaid license, only if its agreements with Quad so provide. If they do not, then section 365(n) does not alter such a result.

The arbitrator may or may not be able to address the scope of the license rights issue based upon the record already made before her. But if she can do so, it is appropriate to take advantage of her expertise and to save the bankruptcy estate and Samsung the necessity to relitigate that issue in this court. See generally In re Weinstock, 1999 WL 342764, *9 ("arbitration of the remaining claims is beneficial to the bankruptcy case as it will likely result in a simpler and more efficient resolution of the parties' disputes" in the bankruptcy case).

After the arbitration has been concluded, it shall remain with this bankruptcy court to apply section 365(n), when its issues arise upon a proper pleading and with notice to all interested parties.

An appropriate order shall be entered.

UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

In re	:	Chapter 11
QUAD SYSTEMS CORPORATION	:	
Debtor	:	Bankruptcy No. 00-35667F

.....

ORDER

.....

AND NOW, this 20th day of March, 2001, for the reasons stated in the accompanying memorandum, it is hereby ordered that the motion of Samsung Techwin Corporation, Ltd. is granted in part and the automatic stay is modified pursuant to 11 U.S.C. § 362(d)(1).

Samsung may prosecute its arbitration claim against the debtor, Quad Systems Corporation, in order to fix the amount of its prepetition claim, if any, against the debtor. If the arbitrator has sufficient evidence to do so, this claim shall be determined in two parts: an amount due Samsung if the debtor rejects the license agreement and Samsung does not elect to retain its rights as a licensee under 11 U.S.C. § 365(n); and an amount if the debtor rejects the license agreement and Samsung does elect to retain its rights as a licensee under 11 U.S.C. § 365(n).

The debtor, Quad, may also request that the arbitrator fix the amount due from Samsung, if any, on the debtor's counterclaim. The debtor may also request the arbitrator to determine the royalties due to the debtor from Samsung, under section 365(n), if Samsung elects to retain its license rights to Quad's software.

Finally, in addition to determining the amount, if any, owed by Quad to Samsung as of December 18, 2000, Samsung may also request the arbitrator to determine the scope of its license rights in software owned by Quad as of December 18, 2000.

_____

BRUCE FOX
Chief Bankruptcy Judge

IN RE: Chapter 11
QUAD SYSTEMS CORPORATION Bankruptcy No. 00-35667F

Copies of the Bankruptcy Judge's Memorandum and Order dated March 20, 2001, were mailed on said date to the following:

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