

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:) Chapter 11
)
AKORN, INC. *et al.*,¹) Case No. 20-11177 (KBO)
)
Debtors.) (Jointly Administered)
) **Related Docket No. 181**

**OBJECTION OF MITSUBISHI TANABE PHARMA CORPORATION
NOTICE TO CONTRACT PARTIES TO POTENTIALLY ASSUMED
EXECUTORY CONTRACTS AND UNEXPIRED LEASES**

Mitsubishi Tanabe Pharma Corporation, (“MTPC”), by and through its undersigned attorneys, hereby submits this objection (this “Objection”) to the *Notice to Contract Parties to Potentially Assumed Executory Contracts and Unexpired Leases* [D.I. 181] (the “Cure Notice”).²

In support of this Objection, MTPC respectfully submits as follows:

PRELIMINARY STATEMENT

1. MTPC is party to an agreement (the “License Agreement”) with Debtors Akorn, Inc. and Akorn Ophthalmics, Inc. (the “Debtor Licensees”) pursuant to which MTPC licenses certain patents and other intellectual property to the Debtor Licensees. The License Agreement contains a variety of obligations for the Debtor Licensees and require the Debtors to indemnify MTPC against third party claims in certain circumstances.

¹ The debtors (the “Debtors”) in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, if any, are: Akorn, Inc. (7400); 10 Edison Street LLC (7890); 13 Edison Street LLC; Advanced Vision Research, Inc. (9046); Akorn (New Jersey), Inc. (1474); Akorn Animal Health, Inc. (6645); Akorn Ophthalmics, Inc. (6266); Akorn Sales, Inc. (7866); Clover Pharmaceuticals Corp. (3735); Covenant Pharma, Inc. (0115); Hi-Tech Pharmcal Co., Inc. (8720); Inspire Pharmaceuticals, Inc. (9022); Oak Pharmaceuticals, Inc. (6647); Oita Pharmaceuticals Corp. (3621); VersaPharm Incorporated (6739); VPI Holdings Corp. (6716); and VPI Holdings Sub, LLC. The location of the Debtors’ service address is: 1925 W. Field Court, Suite 300, Lake Forest, Illinois 60045.

² By agreement of the Debtors, the deadline for MTPC to respond to the Cure Notice was extended to August 28, 2020.



2. The Debtors contemplate the assumption of the License Agreement and have asserted a cure amount of \$0.00. While MTPC agrees that the liquidated amount presently due to MTPC under the License Agreement is \$0.00, MTPC may have certain other claims against the Debtor Licensees arising from their non-royalty obligations under the License Agreement, including obligations in respect of the Debtor Licensees' indemnity obligations. As of the date hereof, MTPC has no visibility as to what those claims might be. Only the Debtors have the ability to know whether the Debtor Licensees have acted in a manner that violates their obligations under the License Agreement, and even the Debtors may not yet know whether anything has occurred that would give rise to indemnification obligations in favor of MTPC. In any event, the obligation to pay out on these claims likely will not arise until after the assumption and assignment of the License Agreement. Yet, the Debtors would provide no compensation for these claims and in fact would wipe them out. Unless the Sale Order is modified to provide that these non-royalty claims will be satisfied by the Purchaser when and to the extent payment becomes due on them, the License Agreement cannot be assumed or assigned.

3. The License Agreement contains intellectual property licenses that are not assignable under applicable bankruptcy and non-bankruptcy law absent consent of MTPC. Absent resolution of the issues raised herein, MTPC does not consent to the assumption or assignment of the License Agreement.

4. Finally, the Debtors have provided no adequate assurance information to MTPC regarding the proposed Purchaser or any other Purchaser. As a result, the requirement that MTPC be adequately assured that the Purchaser has the wherewithal to perform under the License Agreement in the future has not been satisfied.

5. MTPC has raised these issues with the Debtors and expects to engage with the Debtors in good faith in an effort to resolve the aforementioned concerns. However, unless and until such a resolution occurs, MTPC objects to assumption and/or assignment of the License Agreement.

BACKGROUND

A. License Agreement

6. The License Agreement is, more specifically, that certain *Confidential Settlement and License Agreement* dated as of September 8, 2015 by and among, on the one hand, Bausch & Lomb Pharma Holdings Corp., Bausch & Lomb Incorporated, MTPC, Ube Industries, Ltd. and Senju Pharmaceutical Co., Ltd., and on the other hand, the Debtor Licensees. Pursuant to the License Agreement, among other things, MTPC granted to the Debtor Licensees a non-exclusive, royalty-free, non-transferrable, non-sublicensable, limited license under certain patents on the terms more fully set forth in the License Agreement.³

7. The Debtor Licensees have numerous obligations to MTPC under the License Agreement (the “Non-Royalty Obligations”). It is not known to MTPC whether any of the Non-Royalty Obligations have been breached as of the date hereof. Whether those Non-Royalty Obligations have been breached generally is known only to the Debtor Licensees, which would have much better information about whether it has complied with the License Agreement.

8. Of particular concern are the Debtor Licensees’ indemnity obligations under the License Agreement. Under the indemnity provisions, the Debtor Licensees are required to indemnify and hold harmless MTPC and its affiliates, officers, directors, employees and agents

³ The License Agreement contains confidential, sensitive commercial information of both MTPC and the Debtors and is thus not attached hereto or summarized herein with any level of specificity.

from and against any loss, damage, liability or expense in connection with certain actions, suits, claims, demands or prosecutions that may be brought or instituted against any MTPC or its affiliates by third parties (the “Indemnity”). While MTPC reserves all of its rights in respect of the Indemnity, MTPC does not know whether anything has occurred that would give rise to an obligation under the Indemnity.

B. The Sale

9. Just approximately one week ago, on or about August 20, 2020, the Debtors served the Cure Notice. The Cure Notice provides for a cure payment of \$0.00.

10. While that number is accurate in respect of liquidated unpaid amounts, the proposed form of order attached to the Sale Motion [Docket No. 18] (the “Proposed Order”) would eliminate Non-Royalty Obligations, including under the Indemnity, to the extent they relate to any act or omission occurring prior to the assumption and assignment of the License Agreement, even for acts and omissions of the Debtor Licensees that are unknown to MTPC and for which liability will not ripen until in the future. The result is that those obligations simply would be extinguished, and there would be no possible way for MTPC to receive compensation.

11. For example, paragraph 20 of the Proposed Order provides that upon assumption, “no default shall exist under any Assigned Contract, and no counterparty to any Assigned Contract shall be permitted (a) to declare a default by Purchaser under such Assigned Contract or (b) otherwise take action against Purchaser as a result of Debtors’ . . . failure to perform any of their obligations under the relevant Assigned Contract.” Paragraph 20 also provides, among other things, that “each non-Debtor party to an Assigned Contract is hereby also forever barred, estopped, and permanently enjoined from (i) asserting against the Debtors or Purchaser, or the property of any of them, any default or claim arising out of any indemnity obligation or

warranties for acts or occurrences arising prior to or existing as of the Closing, including those constituting Excluded Liabilities or, against Purchaser, any counterclaim, defense, setoff, recoupment, or any other Claim asserted or assertable against the Debtors.”

12. MTPC has no knowledge of whether any acts, omission or occurrences have taken place (or will take place) prior to the assumption and assignment of the License Agreement that would give rise to any Non-Royalty Obligations, including obligations under the Indemnity. Between the Debtors and MTPC, the Debtors are the parties with access to this information. In any event, MTPC hereby asserts a claim for any amounts due or that may become due in respect of all breaches of or rights relating to the Non-Royalty Obligations, including obligations under the Indemnity, arising from any fact, occurrence, act or otherwise prior to the assumption and assignment of the License Agreement, whether such claims are known, unknown, liquidated, unliquidated, contingent, uncontingent, disputed, undisputed or otherwise (the “Non-Royalty Claims”). Such Non-Royalty Claims need to be satisfied in order for the License Agreement to be assumed.

OBJECTION

A. The Cure Amount provided for in the Cure Notice is deficient.

13. Section 365(a) of the Bankruptcy Code authorizes the Debtors to assume contracts, subject to court approval. It is undisputed that before an executory contract can be assumed, all defaults must be cured, or adequate assurance must be provided that they will be cured. 11 U.S.C. § 365(b) (in order to assume any executory contract, the Debtors must “cure[], or provide adequate assurance that the [Debtors] will promptly cure” any default.); *In re Thane Inter'l, Inc. v. 9472541 Canada Inc.*, 586 B.R. 540, 549 (Bankr. D. Del. 2018) (“Cure is a critical component of assumption.”).

14. As noted above, the Debtors propose to pay \$0.00 in respect of their cure obligations. Yet that amount would ascribe zero value to the potentially significant Non-Royalty Claims. On the contrary, Proposed Order would expressly and fully extinguish the Non-Royalty Claims without any consideration of any kind. Accordingly, the Debtors have not satisfied the conditions to assumption of the License Agreement under Section 365(b) of the Bankruptcy Code.

15. In order to fix this infirmity, any order confirming the Plan should provide that all Non-Royalty Claims shall be satisfied promptly as and when they come due in the ordinary course of business and that MTPC is not barred in any way from asserting such claims to the extent not paid. Only through such a modification can MTPC be provided “adequate assurance” of the payment of those claims, as required by Section 503(b)(1).

B. Eliminating the Non-Royalty Claims would permit the Debtors to cherry-pick just the benefits of the MPTA Agreements in violation of well-settled law.

16. If the Debtors wish to assume the License Agreement, they must do so *cum onere* and without modification of any of their terms or the rights of MTPC thereunder. *See, e.g., NLRB v. Bildisco & Bildisco*, 465 U.S. 513, 531 (1984) (“Should the debtor-in-possession elect to assume the executory contract, however, it assumes the contract *cum onere*.”); *In re MF Global Holdings Ltd.*, 466 B.R. 239, 241 (Bankr. S.D.N.Y. 2012) (“The trustee must either assume the entire contract, *cum onere*, or reject the entire contract, shedding obligations as well as benefits.”). Permitting assumption of the License Agreement, while leaving behind Non-Royalty Claim obligations would violate this well-settled rule.

17. While the facts giving rise to Non-Royalty Claims may have occurred (or may yet occur) prior to the assumption and assignment of the License Agreement, those claims will likely

not ripen to the point where the Debtor Licensees would be obligated to pay money to (or otherwise indemnify) MTPC, if ever, until after the assumption and assignment of the License Agreement. For example, facts that may give rise to a Debtor Licensees obligation under the Indemnity may currently exist, but MTPC may not learn of the existence of any indemnifiable claim until such claim is asserted, potentially months or even years from now, by an allegedly injured party. The obligation to satisfy that obligation will therefore arise potentially well into the future. At the moment, the Debtor Licensees are not yet in payment default on such obligations. Yet the Plan would eliminate the Debtor Licensees' and the Purchaser's obligations under the Indemnity now, in advance, without consideration, in a manner that would allow the Debtor Licensees to cherry pick the obligations and benefits it wishes to assume and assign under the License Agreement. Such an outcome should be rejected.

C. The License Agreement cannot be assumed absent MTPC's consent.

18. The License Agreement contain provisions granting non-exclusive and expressly non-transferrable licenses to use, for certain identified purposes, certain MTPC patents. As a result of these intellectual property licenses, the law is clear in the Third Circuit that, absent consent by MTPC, Section 365(c)(1) of the Bankruptcy Code bars the assumption by the Debtors of the License Agreement.

19. Section 365(c)(1) prevents debtors from assuming or assigning contract where "applicable law excuses a party, other than the debtor . . . from accepting performance from or rendering performance to an entity other than the debtor" absent consent of the nondebtor counterparty). The "applicable law" at issue here is Federal patent law, which "would require the consent of [MTPC]" under Section 365(c)(1) "even if the License is exclusive." *In re Hernandez*, 285 B.R. 435, 440 (Bankr. D. Ariz. 2002) (assuming of exclusive patent licenses

impermissible under non-bankruptcy law absent consent of licensor); *see also In re West Elecs., Inc.*, 852 F.2d 79, 83 (3d Cir. 1988) (adopting “hypothetical rule”: “if non-bankruptcy law provides that the government would have to consent to an assignment . . . then West, as the debtor in possession, cannot assume that contract. This provision limiting assumption of contracts is applicable to any contract subject to a legal prohibition against assignment.”). Absent resolution of the issues discussed herein, MTPC does not consent, at present, to the assumption of the License Agreement.

D. MTPC has not been provided any adequate assurance information.

20. Section 365 of the Bankruptcy Code requires adequate assurance of future performance to ameliorate the harm to the non-debtor counterparty of being compelled into a contractual relationship with a stranger. 11 U.S.C. §§ 365(b)(1)(C), (b)(3)(A)-(D) and 365(f)(2)(B); *In re Ionosphere Clubs, Inc.*, 85 F.3d 992, 999 (2d Cir. 1996). To date, MTPC has not been provided with any information to enable it to determine whether the proposed Purchaser or any alternative Purchaser is capable of providing MTPC with adequate assurance of such party’s future performance under the License Agreement. Because MTPC has not been provided any financial and related information concerning the proposed Purchaser or any alternative Purchaser, MTPC is not in a position to determine whether additional adequate assurances will be required. MTPC reserves its right to seek additional adequate assurance once it has been provided with the necessary information to enable it to make such a determination.

E. Joinder

21. To the extent not inconsistent herewith, MTPC hereby joins in and incorporates by reference any obligations filed by other contract counterparties to the assumption and assignment of contracts.

RESERVATION OF RIGHTS

22. MTPC reserves its right to amend and/or supplement this Objection and to raise any additional objections to the assumption and/or assignment of the License Agreement. To the extent not inconsistent .

WHEREFORE, MTPC respectfully requests that the Court sustain this Objection and grant such other and further relief as the Court deems just and proper

Dated: August 28, 2020

ELLIOTT GREENLEAF, P.C.

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**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:

AKORN, INC.,

Debtors.

Chapter 11

Case No. 20-11177 (KBO)

(Jointly Administered)

CERTIFICATE OF SERVICE

I, Rafael X. Zahralddin-Aravena, hereby certify that on August 28, 2020, a true and correct copy of the foregoing **OBJECTION OF MITSUBISHI TANABE PHARMA CORPORATION TO NOTICE TO CONTRACT PARTIES TO POTENTIALLY ASSUMED EXECUTORY CONTRACTS AND UNEXPIRED LEASES** was served upon the following parties via electronic mail:

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