

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF DELAWARE

KANEMATSU CORPORATION, :  
 :  
 Plaintiff, :  
 :  
 v. : Civil Action No. 01-190-JJF  
 :  
 ADVANCED MATERIALS LANXIDE, LLC, :  
 and LANXIDE TECHNOLOGY COMPANY, :  
 L.P., :  
 :  
 Defendants. :

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**MEMORANDUM OPINION**

September 30, 2002  
Wilmington, Delaware

**FARNAN, District Judge**

Presently before the Court is a Motion to Dismiss (D.I. 5) filed by Defendants Advanced Materials Lanxide, LLC, and Lanxide Technology Company, L.P. (collectively "Defendants" and individually "AML" and "LTC"). For the reasons discussed below, Defendants' Motion (D.I. 5) will be granted.

**BACKGROUND**

**I. Factual Background**

**A. Introduction**

The present action stems from a series of business arrangements entered into between Plaintiff Kanematsu Corporation ("Kanematsu"), a corporation organized and existing under the laws of Japan with its principal place of business in Tokyo, Japan, and Lanxide Corporation ("Lanxide"), a Delaware corporation engaged in the development, manufacture and licensing of various inorganic composites. (D.I. 1 at 1, 2). Through its activities, Lanxide allegedly acquired several hundred patents for its technology in over 40 countries, including the United States and Japan. (D.I. 1 at 3). In an effort to manage this global intellectual property portfolio, Lanxide established LTC, a Delaware limited partnership in which Lanxide was both the general partner and the sole stock holder of the limited partner, LTC Capital, Inc. (D.I. 1 at 3).

**B. The Relationship Between Kanematsu and Lanxide**

1. The Joint Venture Agreement

On April 24, 1992, Lanxide entered into a joint venture agreement with Kanematsu in order to commercialize Lanxide's technology in Japan ("Joint Venture Agreement"). (D.I. 1, Ex. A). This agreement established a Japanese corporation, Lanxide Kabushiki Kaisha ("Lanxide KK"), through which Lanxide's technology for the manufacture, use and sale of its products would be licensed in Japan. (D.I. 1 at 3). On May 28, 1992, Lanxide and LTC entered into a license agreement with Lanxide KK ("LKK License"), granting Lanxide KK technology rights in consideration for royalty payments to Lanxide. (D.I. 1, Ex. B).

2. Kanematsu's Loan to Lanxide

On April 24, 1994, Kanematsu loaned Lanxide ten million dollars, pursuant to a Loan and Security Agreement ("Loan Agreement"). (D.I. 7, Ex. D). The Loan Agreement provided that Lanxide would pledge its stock in Lanxide KK to Kanematsu and granted Kanematsu a security interest in Lanxide's personalty. (D.I. 1 at 4; D.I. 7, Ex.D).

3. The AKN Sublicense

In 1996, Kanematsu entered into a separate joint venture agreement with two other corporations to form AKN Corporation ("AKN"), a Japanese company. (D.I. 1 at 4). On November 11, 1996, Lanxide KK granted AKN a sublicense ("AKN Sublicense") to utilize Lanxide technology in the manufacturing of ceramic

reinforced brake components in Japan. In return, Lanxide received an initial fee of four million dollars and a four percent royalty ("AKN Royalty") based on AKN's quarterly net sales. (D.I. 1 at 4; D.I. 1, Ex. C).

4. The Second Amendment to the Joint Venture Agreement

On November 1, 1997, Kanematsu and Lanxide agreed to amend the Joint Venture Agreement ("Second Amendment"). (D.I. 1, Ex. A at 103-105). Specifically, the Second Amendment alters the LKK License royalty schedule set forth in Section 12.2(b) of the Joint Venture Agreement. (D.I. 1, Ex. A at 103). As amended, the section reads as follows:

[12.2(b)(i)] In consideration for Kanematsu entering into the Loan and Security Agreement with Lanxide dated April 24, 1994, Kanematsu shall receive from Lanxide an amount equal to 48% of the royalties paid to Lanxide pursuant to [the LKK License]....

[12.2(b)(ii)] Notwithstanding the provisions of [the above] hereto and in substitution therefor, beginning upon the Amendment Date and continuing until Kanematsu shall have received an aggregate amount of \$1,384,615, Kanematsu shall receive from Lanxide an amount equal to 100% of the royalties paid to Lanxide pursuant to [the LKK License]; thereafter the provisions of Section 12.2(b)(i) shall have full force and effect.

(D.I. 1, Ex. A at 103-104).

5. LTC's Japanese Patents

On June 26, 1998, Lanxide, LTC, and Kanematsu entered into an agreement relating to LTC's Japanese Patents ("June 26 Agreement"). (D.I. 1, Ex. E). In relevant part, the June 26 Agreement provides:

1.1. In order to secure payment to [Kanematsu] by Lanxide of any remaining balance of the \$10 Million loan obligation outstanding (the "Balance") ... Lanxide hereby grants to [Kanematsu] a first and prior security interest in all of LTC's Japanese patents and patent applications filed....

1.2. Lanxide and LTC hereby represent and warrant to [Kanematsu] that they have all requisite authority to grant this security interest.

1.3. Lanxide hereby agrees to apply not less than 50% of the proceeds from any license fee that is payable to Lanxide or LTC pursuant to any licence granted by LTC in Japan following the Effective Date (the "Future Fees") to the Balance....

(D.I. 1, Ex. E).

#### 6. The July 10, 1998 Agreement

Lanxide and Kanematsu entered into a further agreement in July of 1998 ("July 10 Agreement"), which reaffirmed Lanxide's obligation under the Loan Agreement and established a repayment schedule. (D.I. 1, Ex. D). Section Nine of the July 10 Agreement, in relevant part, provides:

In addition to the repayment of the Principal [of the Loan Agreement], Lanxide hereby acknowledges and agrees that payment of the first US \$1,384,615 of royalties received from Lanxide KK in connection with [the AKN Royalty] in accordance with 12.2.(b)(ii) of the Second Amendment ... shall be paid to [Kanematsu]. This payment shall be made by Lanxide KK on behalf of Lanxide directly to [Kanematsu]....

(D.I. 1, Ex. D at 5).

#### **C. The Lanxide Bankruptcy**

On January 15, 1999, Lanxide filed a voluntary petition for relief under Chapter Seven of Title Eleven of the United States

Bankruptcy Code. (D.I. 1 at 6). Subsequently, the Chapter Seven trustee ("Trustee") negotiated an agreement ("Purchase and Sale Agreement") with Metek Metallverarbeitungsgesellschaft mbH ("Metek"), a German corporation, for the sale of substantially all of the assets of Lanxide. (D.I. 1 at 7; D.I. 7, Ex. A). On July 30, 1999, the United States Bankruptcy Court for the District of Delaware issued an order ("July 30 Order") allowing the Trustee to sell substantially all of Lanxide's assets to Metek. In re Lanxide Corporation, Case No. 99-91-PJW. (D.I. 7, Ex. B). The settlement authorized by the July 30 Order provided for the sale and purchase of Lanxide's assets "free and clear of all liens, claims, security interests, encumbrances or changes of any kind or nature." (D.I. 7, Ex. A at 2). Shortly thereafter, AML was formed pursuant to a joint venture between Metek and others, whereby Metek assigned its rights in the Lanxide bankruptcy estate to AML. (D.I. 1 at 7).

On August 19, 1999, the Bankruptcy Court issued an Order approving the Trustee's assumption and assignment of certain license agreements and other contracts ("Assumption Order"). (D.I. 7, Ex. C). Among the contracts assigned by the Trustee to AML in the Assumption Order were Lanxide's rights in the LKK License and the AKN Royalty. (D.I. 7, Ex. C at Ex. A).

#### **D. Kanematsu's Proof of Claim**

On February 22, 1999, Kanematsu filed a secured claim

against the Lanxide estate in the amount of \$8,604,838.52, reflecting the remaining balance arising out of the Loan Agreement and subsequent agreements between Kanematsu and Lanxide. (D.I. 1 at 8). Thereafter, the Trustee and Kanematsu agreed to settle Kanematsu's secured claim, and, on December 9, 1999, the Bankruptcy Court entered a Stipulation and Order Settling Secured Claim ("December 9 Order"). (D.I. 7, Ex. K). In pertinent part, the December 9 Order provides that the bankruptcy sale proceeds are to be allocated to Kanematsu as follows:

Fifty percent (50%) of the sales proceeds (\$975,000.00) shall be payable to Kanematsu as payment in full for its secured claim in the Kanematsu collateral, without prejudice to Kanematsu's right to assert an unsecured deficiency claim, for the remaining balance due under its proof of claim.

(D.I. 7, Ex. K at 3).

## **II. Procedural History**

Kanematsu commenced this action on March 23, 2001. (D.I. 1). In its Complaint, Kanematsu seeks declaratory relief against two separate Defendants.

In Count One, Kanematsu alleges it received an assignment of royalty rights from Lanxide before Lanxide went into bankruptcy. AML, the purchaser of Lanxide's assets, disputes Kanematsu's royalty rights under the LKK License, and Kanematsu seeks declaratory relief against AML.

In Count Two, Kanematsu alleges that LTC granted Kanematsu

security rights in certain patents to secure a debt owed by Lanxide. LTC denies any obligation under the contract based on Lanxide's bankruptcy, and Kanematsu seeks declaratory relief against LTC.

Defendants filed the instant Motion to Dismiss (D.I. 5) pursuant to Federal Rule of Civil Procedure 12(b)(1) and 12(b)(6).

## **DISCUSSION**

### **I. Standard of Review**

A motion to dismiss under Rule 12(b)(1) is a challenge to the subject matter jurisdiction of the presiding court. Fed. R. Civ. P. 12(b)(1). Before determining the merits of the case, a district court must determine whether it has subject matter jurisdiction. Steel Co. v. Citizens for a Better Environment, 523 U.S. 83, 94-95 (1998). Where challenged, the party asserting subject matter jurisdiction has the burden of proving its existence. Mortenson v. First Federal Sav. and Loan Ass'n, 549 F.2d 884 (3d Cir. 1977). When analyzing a facial attack to subject matter jurisdiction, the court will construe a plaintiff's allegations as true, and will not look beyond the face of the complaint to determine jurisdiction. Mortenson, 549 F.2d at 891.

When a court analyzes a motion to dismiss brought under Rule of 12(b)(6) of the Federal Rules of Civil Procedure, the factual



allegations of the complaint must also be accepted as true. Langford v. City of Atlantic City, 235 F.3d 845, 847 (3d Cir. 2000). The Court must draw all reasonable inferences in favor of the non-moving party. Id. In sum, a complaint must be dismissed under Rule 12(b)(6) if it is clear that "no relief could be granted under any set of facts that could be proved consistent with the allegations." Hishon v. King & Spalding, 467 U.S. 69, 73 (1984).

## **II. Kanematsu's Objections to Defendants' Evidence**

Defendants attached various contracts relating to the Lanxide bankruptcy and the Loan Agreement to their Motion. Kanematsu contends the attached documents are outside the scope of the pleadings and thus the instant Motion to Dismiss must be treated as a motion for summary judgment. (D.I. 7).

Where matters outside the scope of the pleadings are presented in support of a motion to dismiss, the motion "shall be treated as one for summary judgment and disposed of as provided in Rule 56." Fed. R. Civ. P. 12(b). However, when the documents attached to a defendant's motion have been relied upon by the plaintiff in its complaint, the motion to dismiss need not be treated as a motion for summary judgment. In re Rockefeller Center Properties Securities Litigation, 184 F.3d 280, 287 (3d Cir. 1999). Where the plaintiff has relied on the documents at issue, the plaintiff cannot complain he or she lacked notice, and

the prejudice the rule is intended to prevent is not present.  
Id. at 287.

After reviewing the parties' contentions and the applicable law on this issue, the Court concludes that Kanematsu's objection to the introduction of materials relating to the Lanxide bankruptcy is without merit. In its Complaint, Kanematsu has relied upon the Bankruptcy Court's Orders in formulating its cause of action. Thus, the Bankruptcy Court's Orders fall within the Rockefeller exception.<sup>1</sup>

Kanematsu further contends that several of the supporting documents submitted by Defendants are irrelevant and therefore inadmissible. (D.I. 13 at 2). Specifically, Kanematsu objects to the introduction of various agreements (D.I. 7, Exs. E-G) between Kanematsu and Lanxide relating to Kanematsu's security interests in Lanxide's tangible property, contending that they neither challenge nor contradict any allegations contained in the complaint. (D.I. 13 at 2).

Under the Federal Rules of Evidence, irrelevant evidence is inadmissible. Fed. R. Evid. 402. Relevant evidence is that which has a tendency to make the existence of any fact that is of consequence to the determination of the action more probable than

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<sup>1</sup> Consequently, the documents relating to the Lanxide bankruptcy are also relevant, as their relation to Kanematsu's contractual interests make their examination necessary to properly adjudicate Kanematsu's allegation that its rights are not affected by Lanxide's insolvency.

it would be without the evidence. Fed. R. Evid. 401.

After review of the parties' contentions and applicable law on this issue, the Court concludes that the documents relating to Kanematsu's security interest in Lanxide's personalty will be excluded from the Court's consideration. The Defendants failed to show both that Kanematsu relied on these documents in their Complaint and that the documents are relevant to the question before the Court.

In sum, the Court concludes that Exhibits A, B, C, D, J, and K of the Certification of Arthur G. Connolly (D.I. 7) are within the scope of the pleadings and relevant. However, exhibits E, F, G, H, and I will be excluded as irrelevant.

### **III. Defendants' Rule 12(b)(1) Motion**

Defendants contend that since the July 30 Order provides that the Bankruptcy Court "shall retain jurisdiction over the parties for the purpose of enforcing this Order and the [Purchase and Sale] Agreement," this Court lacks subject matter jurisdiction and should, therefore, dismiss Kanematsu's action. (D.I. 6 at 12). Kanematsu responds that it has properly alleged the elements of diversity jurisdiction, which the Defendants have not challenged. (D.I. 14 at 25). Moreover, Kanematsu asserts that this action involves parties and assets that were never subject to the Bankruptcy Court's jurisdiction, and, therefore, the Bankruptcy Court could not have retained jurisdiction. Id.

In the alternative, Kanematsu contends that this Court and the Bankruptcy Court have concurrent jurisdiction. Id.

The District Courts of the United States have "original jurisdiction of all civil actions where the matter in controversy exceeds the sum or value of \$75,000, exclusive of interest and costs, and is between ... citizens of a State and citizens or subjects of a foreign state...." 28 U.S.C. § 1332(a). Kanematsu alleges that there is an amount in controversy of at least \$100,000 (D.I. 1, ¶ 4) and that the parties are diverse. (D.I. 1, ¶ 1-2). Kanematsu also alleges that its claims have not been previously adjudicated in another proceeding. (D.I. 1, ¶ 8).

Construing the Plaintiff's allegations as true, the Court concludes that this action is within its subject matter jurisdiction. The Plaintiff has alleged facts sufficient to satisfy the diversity jurisdiction requirements and has alleged that the claims at issue have not been adjudicated in another proceeding. Thus, Defendants' argument that the Bankruptcy Court has retained jurisdiction over this case is without merit.

#### **IV. Defendants' Rule 12(b)(6) Motion**

##### **A. The AKN Royalty**

Defendants contend that Kanematsu has failed to state a claim upon which relief may be granted because Kanematsu's alleged rights to the AKN Royalties were extinguished by the Assumption Order of August 19, 1999. Kanematsu counters that

Lanxide absolutely assigned the AKN Royalties to Kanematsu prior to seeking bankruptcy protection, and thus, the AKN Royalties were not included in the bankruptcy estate. Consequently, Kanematsu asserts that the Bankruptcy Court's Assumption Order could not have extinguished its right to the AKN Royalties.

The issue presented is whether Lanxide assigned the AKN Royalties to Kanematsu prior to seeking bankruptcy protection. In determining whether a transaction should be considered an assignment, courts look to whether the "obligee manifests an intention to transfer present ownership of the right." Western United Life Assur. Co. v. Hayden, 64 F.3d 833, 838 (3d Cir. 1995). Here, the documents relevant to the AKN Royalty transaction are the Second Amendment to the Joint Venture Agreement and the July 10 Agreement. (D.I. 1, Ex. A & D).

The Second Amendment states that "[i]n consideration for Kanematsu entering into the Loan ... Agreement ... Kanematsu shall receive from Lanxide **an amount equal to** 48% of the royalties paid to Lanxide pursuant to ... the [L]KK License." (D.I. 1, Ex. A at 103) (emphasis added). Rather than assigning the AKN Royalty to Kanematsu, this clause simply sets the loan repayment schedule according to Lanxide's profit receipts from future AKN Royalties. Therefore, the Court concludes that the Second Amendment does not express any intent on the part of Lanxide to transfer ownership of the AKN Royalties.

The July 10 Agreement provides that "Lanxide ... agrees that payment of the first US \$1,384,615 of [AKN] royalties received from Lanxide KK ... shall be paid to [Kanematsu]. This payment shall be made by Lanxide KK on behalf of Lanxide directly to [Kanematsu]...." (D.I. 1, Ex. D at 5). This clause pledges future AKN Royalties to Kanematsu to further secure Lanxide's debt to Kanematsu. The language indicates that Lanxide KK will pay Kanematsu directly, but also clearly states that such payments are "on behalf of Lanxide." No assignment, divestiture of title, or transfer of ownership is indicated. Consequently, the Court concludes that Lanxide did not express any intent to transfer ownership in the July 10 Agreement

After reviewing the parties' contentions, the relevant facts, and the applicable law on this issue, the Court concludes that no assignment of the AKN Royalty took place in either the Second Amendment or the July 10 Agreement because neither contained an expression of intent to transfer ownership. Given the relationship between Lanxide and Kanematsu, *i.e.*, debtor and creditor, these contracts reflect Kanematsu's attempts to protect itself in the event of a default by Lanxide. Therefore, the Court concludes that the AKN Royalty was not assigned to Kanematsu prior to Lanxide's bankruptcy and thus it passed free and clear to AML pursuant to the Assumption Order. Accordingly, as to the AKN Royalty, Kanematsu has failed to state a claim upon

which relief may be granted.<sup>2</sup>

### **B. LTC's Contractual Obligations**

The June 26 Agreement sets forth the rights and obligations of the parties in the LTC Japanese Patents. (D.I. 1, Ex. E). In the June 26 Agreement, Lanxide granted Kanematsu a "security interest in all of LTC's Japanese patents" to secure payment of the Kanematsu loan to Lanxide. (D.I. 1, Ex. E, ¶1.1).

Defendants contend that Kanematsu has no surviving right to the LTC Japanese Patents. (D.I. 6 at 19). In support of this proposition, Defendants contend that the June 26 Agreement conveyed a security interest that was extinguished by the discharge of Lanxide's debt to Kanematsu (D.I. 18 at 12; D.I. 26 at 8), that Lanxide was the sole grantor of the security interest in the June 26 Agreement (D.I. 18 at 13; D.I. 26 at 8), and that the December 9 Order bars Plaintiff's action because it settled Kanematsu's proof of claim as to Lanxide's debt to Kanematsu (D.I. 18 at 5).

Kanematsu counters that LTC's contractual obligations are unaffected by the Lanxide bankruptcy since LTC was a party to the June 26 Agreement. (D.I. 14 at 23; D.I. 25 at 9). Kanematsu also contends that although AML received an equity interest in

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<sup>2</sup> Because the Court concludes that the AKN Royalty was not assigned, the Court need not reach Defendants' contentions regarding an alleged lack of consideration in the Second Amendment.

LTC when it purchased Lanxide's assets, the purchase did not convey any of LTC's actual assets.<sup>3</sup> (D.I. 14 at 23). Thus, Kanematsu argues that the Assumption Order conveying Lanxide's assets to AML free and clear of any liens does not preclude Kanematsu's claim directly against LTC's assets, *i.e.*, the LTC Patents. Id.

A security interest is defined by the Uniform Commercial Code as "an interest in personal property which secures payment or performance of an obligation." 6 Del. C. § 1-201(37). The United States Bankruptcy Code defines a security interest as a lien created by an agreement. 11 U.S.C. § 101(51). Additionally, where the underlying debt is extinguished, the security interest supporting that debt is also extinguished. In re Spiniak, 221 B.R. 732, 735 (W.D. Mich. 1998); In re Doty, 104 B.R. 133, 137 (Bank. S.D. Iowa 1989) ("...a claim may exist without a lien, but a lien cannot exist without a claim").

The plain language of the June 26 Agreement indicates that it created a security interest in the LTC Patents to secure Lanxide's underlying debt to Kanematsu. Upon accepting the settlement of its secured claim in the December 9 Order, Kanematsu expressly recognized that this debt had been extinguished. Accordingly, Kanematsu's security interest

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<sup>3</sup> As previously mentioned, Lanxide was general partner and sole owner of LTC.



supporting the debt was also extinguished.

The Court therefore concludes that because Lanxide's debt to Kanematsu was extinguished by the December 9 Order, the attendant security interest granted by Lanxide to Kanematsu embodied in the June 26 Agreement was also terminated. As a result, Kanematsu cannot as a matter of law claim rights in LTC's Japanese patents, and therefore has failed to state a claim upon which relief may be granted.

### **III. Conclusion**

For the reasons discussed above, Defendants' Motion to Dismiss (D.I. 5) will be granted.

An appropriate Order will be entered.

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF DELAWARE

KANEMATSU CORPORATION, :  
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 Plaintiff, :  
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 v. : Civil Action No. 01-190-JJF  
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 ADVANCED MATERIALS LANXIDE, LLC, :  
 and LANXIDE TECHNOLOGY COMPANY, :  
 L.P., :  
 :  
 Defendants. :

**ORDER**

At Wilmington this 30th day of September, 2002, for  
the reasons set forth in the Memorandum Opinion issued this date;

IT IS HEREBY ORDERED that Defendants' Motion to Dismiss  
(D.I. 5) is **GRANTED**.

JOSEPH J. FARNAN, JR.  
UNITED STATES DISTRICT JUDGE