

Act. no. 597691/2023

UPC CFI no. 513/2023

App. no. 11431/2024 - no. 11444/2024 - no. 11835/2024



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ORDER
OF THE COURT OF FIRST INSTANCE OF THE UNIFIED PATENT COURT
LOCAL DIVISION IN MUNICH

issued on 23 April 2024

concerning the requests for security for legal costs
no. 11431/2024, no. 11444/2024 and no. 11835/2024

KEYWORDS: request for security for legal costs, Art. 69.4 UPCA and rule 158 RoP.

APPLICANTS

VOLKSWAGEN AG

Berliner Ring 2, 38440 Wolfsburg, Germany - represented by Jan Patrick Bösing

AUDI AG

Auto-Union-Straße 1, 85057 Ingolstadt, Germany - represented by Jan Patrick Bösing

TEXAS INSTRUMENTS INCORPORATED

12500 TI Blvd, Dallas, Texas 75243, United States of America - represented by Klaus Haft

TEXAS INSTRUMENTS DEUTSCHLAND GMBH

Haggertystraße 1, 85356 Freising, Germany - represented by Klaus Haft

RESPONDENT

NETWORK SYSTEM TECHNOLOGIES LLC

533 Congress Street, Portland, ME 04101, Unites States of America - represented by Thomas Gniadek

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PATENT AT ISSUE

EP 1 552 669 B1 (*integrated circuit and method for establishing transactions*)

DIVISION

Local Division in Munich

DECIDING JUDGES

This order has been issued by the Court sitting in the following panel:

- Matthias ZIGANN presiding judge and judge-rapporteur
- Tobias PICHLMAIER legally qualified judge
- Pierluigi PERROTTI legally qualified judge

LANGUAGE OF PROCEEDINGS

English

SUMMARY OF FACTS AND PROCEDURE

On 1.3.2024 Volkswagen AG and Audi AG filed two separate and identical applications (App. 11431/2024 and App. 11444/2024) requesting that, pursuant to Art. 69.4 UPCA:

- the Court orders the Plaintiff to provide security for the Defendants' anticipated legal costs in the amount of EUR 200.000 each, alternatively in an amount to be determined by the Court, within a period to be set by the Court, before Defendants are required to file their statement of defense in the present case (deadline 3.5.2024);
- stay the proceedings until the provision of security or, alternatively, grant an extension of the deadline to respond to the claim.

Security should be determined in the amount of EUR 200.000, taking into due consideration the broad infringement allegations made by the Plaintiff, the complexity of the present proceeding and the value in dispute of EUR 2 million.

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On 4.3.2024 also Texas Instruments Incorporated and Texas Instruments Deutschland GmbH filed an application under Art. 69.4 UPCA and rule 158.1 RoP (App. 11835/2024), requesting the Court to provide security for legal and other costs to be incurred.

The Applicants based their requests on these grounds.

Network System Technologies LLC (hereafter NST) is a US company with registered office in 533 Congress street, Portland, United States of America, with its actual administrative domicile and seat outside EU.

The enforcement of a judgement on legal costs would be not possible for the defendants or only with considerable difficulty, also with high legal costs.

In the USA the recognition and declaration of enforceability of foreign civil judgments falls within the competence of the individual States. Under the law of the individual States, a court *exequatur* is regularly required. In addition, the procedure can be lengthy and expensive, as American lawyers and courts are often not very familiar with the recognition and declaration of enforceability of foreign civil judgments.

The financial position of the Plaintiff gives rise to a legitimate and real concern that a possible cost order might not be recoverable. In this situation, the enforcement of a cost reimbursement order may be procedurally possible but may fail materially, since the Plaintiff does not have adequate financial means to cover the legal expenses that it may be liable for.

NST is a small company, with only two employees and an annual turnover of below EUR 10 million. Plaintiff does not have any physical assets, such as production facilities or means of production.

Consequently, there are likely no assets that could be used to satisfy a claim for reimbursement of costs. In particular, the absence of company assets in the form of machinery or the like also makes alternative enforcement against such assets impossible if enforcement against liquid funds fails.

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The address of NST is a coworking space (Exhibit BP 1), which shows that 533 Congress street, in Portland, is the address of a coworking space called *Think Tank Coworking* (Exhibit BP 2). This fact is evidence that the Plaintiff is lacking any physical assets and has very limited liquid funds.

There are multiple patent infringement actions pending in the US and before the UPC, brought by the Plaintiff also against other companies, such as Qualcomm, Samsung and Lenovo. These proceedings are very expensive and likely bind a large portion of the limited liquid funds of the Plaintiff. The parallel proceedings also further increase the risk that the Plaintiff cannot fulfill potential cost reimbursement claims of the Defendants in case the present complaint is dismissed.

NST submitted its comments on these applications on 5.4.2024.

First, the Plaintiff observed that protecting the rights of the Defendant should fore be balanced against the right of the Claimant to enforce its patent rights. An order to provide security can, depending on the circumstances, limit the Claimant's access to justice. The *cautio* cannot be an unjustified interference with the claimant's right to an effective remedy and to a fair hearing.

There was no risk that enforcement of a decision on costs would be impossible or difficult. The Applicants' defense on this point was purely abstract and theoretical, since there were no indications that, in the event of a possibly necessary enforcement of a claim for compensation against NST in the USA, difficulties are to be expected in connection with the enforcement which require the provision of security. As a general rule, the enforcement of a decision on costs of this Court in the US is not impossible and does not face difficulties. No different concrete facts have been submitted by the Applicants.

Art. 69.4 UPCA and Rule 158.1 RoP did not differentiate between parties domiciled within or outside EU. The seat of a party could not be considered - neither directly nor indirectly - by reference to unspecified assumptions about possible difficulties in enforcing a decision on costs.

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The Plaintiff is a small and medium-sized entity (SME) and could be significantly limited in its ability to enforce its patent rights against the Defendants, at least not in parallel with other patent litigation against further major tech companies, if this Court required the provision of a high security for costs.

NST also recalled the UPC case law (The Hague LD): *“As a rule, the court finds that a cautio based solely on (expected) material unenforceability should be awarded in exceptional circumstances only. Access to justice is, as mentioned above, an important right throughout the EU (and elsewhere). Especially for SMEs, enforcement of their patents through the UPC may be severely hampered if they not only have to bear substantial costs for their own counsel but are in addition ordered to provide security for the defendant. Requiring a cautio from claimants can thus also conflict with the high level of protection for IP rights holders envisaged by the Enforcement Directive.*

The Plaintiff actually has an annual turnover of below EUR 10 million and qualifies itself as a SME. The arguments raised by the Defendants were pure speculation, devoid of factual basis. Like many small technology companies, NSC has office spaces that are appropriate and sufficient for its business.

It was also true that the Plaintiff maintained expensive litigation in the US and before this Court against other companies as well and in parallel.

The Defendants did not show that NST does not have sufficient financial resources and it was not on the Plaintiff to show Defendants its assets and funds.

NST purchased its patent portfolio from Philips and paid a very significant price, consistent with the market price of such a high-quality patent portfolio, stemming from a European leader in high-tech innovation. The European patent portfolio itself shall be considered as a high valuable asset, which could be seized by the Defendants.

The Plaintiff has the financial resources to pay the legal fees and expenses for this costly patent litigation month after month, always on time and without hesitation.

In the strict alternative, should the Court decide to grant the application, NST objected to the amount of the security as determined by the Defendants.

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GROUNDS FOR THE ORDER

There have already been several UPC decisions on the specific subject of security claims. The interpretative principles defined by the Court case law are recalled and reaffirmed here (*inter alia*, Munich LD, UPC CFI 15/2023 - 29.9.2023; Helsinki - UPC CFI 214/2023 - 20.10.2023, Munich CD - UPC CFI 252/2023, 30.10.2023; Paris CD - UPC CFI 255/2023, 13.11.2023; The Hague - UPC CFI n. 239/2023, 13.2.2024)

Pursuant to Art. 69.4 UPCA, the Court may, on application by the defendant, order the applicant to provide adequate security for the legal costs and other expenses incurred by the defendant which the applicant may be liable to bear, in particular in the cases referred to in Articles 59 to 62 UPCA.

The phrase “*in particular*” means that the cases referred to in Articles 59 to 62 are not limiting examples, so that security may also be ordered in other cases, such as in the main infringement proceedings.

Further confirming this consideration, rule 158.1 RoP states that the Court may order adequate security “*at any time during proceedings*”, using a general expression - “*proceedings*” - which certainly includes proceedings on the merits to ascertain patent infringement.

The Court has the discretion to order a security for legal and other costs incurred and/or to be incurred on the basis of Art. 69.4 UPCA and rule 158.1 RoP (“*...the Court may order...*” in both provisions).

Factors to be taken into account when issuing an order for security include the financial position of the other party which may give rise to a legitimate and real concern that a possible order for costs may not be recoverable and/or the likelihood that a possible order for costs by the UPC may not, or in an unduly burdensome way, be enforceable. Whether and to what extent such factors are present will have to be determined in the light of the facts and arguments put forward by the parties.

The imposition of a security for legal costs serves to protect the position and (potential) rights of the defendant, who has not chosen to commence the main proceedings.

The protection of the defendant must be balanced against the burden on the claimant caused by an order to provide security. There should be no unjustified interference with the claimant’s

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right to an effective remedy and to a fair hearing (Preamble of the UPCA, enshrined in Article 47 of the Charter of Fundamental Rights of the European Union). The provision of a security has the potential to stand in the way of a substantive trial (e.g. rule 158.5 RoP) and as such constitutes a restriction of the right to an effective remedy before a court.

The Court of Justice of the European Union ('CJEU') has held in its judgement of 15.9.2016 in Joined Cases C-439/14 and C-488/14, para. 49, that: "*a limitation on the right to an effective remedy before a tribunal within the meaning of Article 47 of the Charter which, in accordance with Article 52(1) of the Charter can [...] be justified only if it is provided for by law, if it respects the essence of that right and, subject to the principle of proportionality, if it is necessary and genuinely meets objectives of general interest recognised by the EU or the need to protect the rights and freedoms of others* (see judgment of 4.5.2016, Pillbox 38, C-477/14, paragraph 160)".

In exercising its discretion under Art. 69.4 UPCA and rule 158.1 RoP, the Court must therefore weigh the relevant facts and circumstances.

Against this background, it is for the party requesting a security order to provide facts and arguments as to why such an order is appropriate in a particular case. Accordingly, the requesting party must make a "*reasoned request*", with the burden of proof generally being on the party relying on those facts (Art. 54 UPCA). On the other hand, once the facts and reasons in support of a security request have been presented in a credible manner, it is up to the responding party to challenge these facts and reasons in a substantiated manner, especially since that party will normally have knowledge and evidence of its financial situation.

Similarly, it is for the respondent to argue that and why a security order would unduly interfere with its right to an effective remedy.

The defendants have not provided any concrete evidence of the alleged difficulties in the future enforcement against NST of an order to reimbursement of legal costs.

The fact that the Plaintiff has its registered office in a non-EU country, i.e. in the United States, cannot be relevant, as this would be a form of *a priori* discrimination, based precisely on the nationality of its registered office/domicile, which is not provided for in any source of law.

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No precise evidence has been provided as to the difficulty of enforcing UPC decisions on US territory.

As this Local Division has already made clear in a previous decision, this Court only commenced its activities on 1.6.2023, so there is naturally no experience with the recognition and enforcement of the Court's decisions abroad. In the United States of America, judgments of foreign courts and associated cost decisions can generally be recognized and enforced. It has not been submitted or is otherwise apparent that this could be different with decisions and orders of this court or is seriously to be expected.

At the same time, the prerequisite for a successful application would be a demonstration that the financial circumstances of the other party give rise to fears that any claim for reimbursement of costs cannot be satisfied or that, despite sufficient financial resources, enforcement of a decision on costs appears to be impossible or fraught with particular difficulties.

On this point, too, the defendants confined themselves to general allegations without providing any precise evidence of an actual risk of insolvency.

NST's light organization is consistent with its business, which is primarily focused on managing litigation relating to the infringement of the patents comprised in the portfolio acquired from Philips.

The Plaintiff's assets, on the other hand, include precisely those intangibles, which could be seized at the Defendants' initiative if the remaining part of NST's assets were to become insufficient.

In the present case, there is no evidence that Plaintiff is or will be insolvent at the time a cost decision will be rendered. The balance of interests is therefore in favour of the Plaintiff.

ORDER

On these grounds, having heard the parties on all relevant issues, the Court orders that:

- the applications are dismissed;
- the costs of the applications will be addressed with the costs in the main proceeding.

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INFORMATION ABOUT APPEAL

Leave to appeal is granted.

The present order may be appealed within 15 days of service of this Order which shall be regarded as the Court's decision to that effect (Art. 73.2(b)(ii) UPCA, rules 220.2 and 224.1(b) RoP).

Munich, 23 April 2024.

Matthias Zigann
presiding judge and judge-rapporteur

Tobias Günther Pichlmaier
legally qualified judge

Pierluigi Perrotti
legally qualified judge