
**Preliminary decision regarding the amount of security for enforcement –
Higher Regional Court of Karlsruhe, partial judgment dated
October 10, 2018, docket no. 6 U 82/18**
Reported by Sebastian Horlemann

In a preliminary decision, the Higher Regional Court of Karlsruhe deals with the question which facts are to be taken into consideration in the determination of the amount of security for enforcement in patent infringement proceedings.

The Court finds as follows in two head notes:

1. In case of an imminent damage from enforcement, the profit of the company against which the enforcement is directed is relevant for the determination of the amount of security for enforcement. A profit transfer agreement concluded with the parent company does not change this.
2. The defendant's estimation of the company value by financial investors generally does not – just as little as the plaintiff's pricing ideas for "purchasing" the patent family (patent families) which the patent-in-suit is part of – allow for reliable conclusions regarding the revenues or profits to be expected specifically in Germany during the imminent period of enforcement.

Facts and circumstances

On August 3, 2018, the Regional Court of Mannheim issued an order against the defendants, due to patent infringement, for injunctive relief, recall/removal, destruction as well as provision of information and rendering of accounts. It declared the judgment provisionally enforceable against a provision of security in the amount of EUR 1,020,000.00 and determined a uniform partial security for enforcement in the amount of EUR 1,000,000.00 for the claims for injunctive relief, recall/removal and destruction and a partial security for enforcement in the amount of EUR 20,000.00 for the claims for information/rendering of accounts. As regards the partial security for enforcement in the amount of EUR 1,000,000.00, the Regional Court indicated that in due consideration of the value in dispute set to EUR 500,000.00 and in view of the revenue and profit forecasts communicated by the defendants, the imminent damage from enforcement is to be estimated to EUR 1,000,000.00.

The defendants lodged an appeal against the first-instance judgment and *inter alia* concurrently requested that the amount of the partial security for enforcement for the claims for injunctive relief, recall/removal and destruction be set to at least EUR 6,150,000.00 in a preliminary decision pursuant to Sec. 718 (1) German Code of Civil Procedure. The defendants adduced



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three arguments in this regard: Firstly, they presented an updated affidavit by the CFO on predicted revenue and profit figures of the parent company, from which a damage from enforcement in this amount is said to result for the period from the middle of 2018 to the end of 2019. Secondly, the defendants referred to the fact that the plaintiff had offered the defendants a settlement in the amount of EUR 15,000,000.00 for the purchase of the three patent families including the patent-in-suit. Thirdly, they state that it has to be taken into consideration in the calculation that the overall value of the parent company of the defendant 1) was estimated to amount to 1 billion US dollars by independent investors in the last financing round in summer 2018.

The decision by the Higher Regional Court of Karlsruhe

In its decision, the Higher Regional Court of Karlsruhe rejects the request for an increase of the security for enforcement pursuant to Sec. 718 (1) German Code of Civil Procedure and gives the following reasons:

The defendants missed out on substantiating facts based on which the Court could have estimated a higher imminent damage from enforcement. In particular, the defendants did not present any concrete connecting facts that would have enabled the Court to arrive at a forecast regarding an expected profit going beyond the business development and the operating results of the past years. According to the Court, no comprehensible information on the profit can be gathered from the presented affidavit. On the one hand, the predicted, almost yearly doubling of revenues is said to have been neither plausibly explained by more detailed submission nor supported by comprehensible market

data. On the other hand, it is said that reference is merely made to the “gross margin” which generally does not take into consideration fixed costs. Moreover, according to the Higher Regional Court of Karlsruhe, the defendant merely sweepingly refers to “previous trends including current data and assessments of further market conditions” not disclosed or explained in more detail. This is said not to be sufficient.

Furthermore, the Higher Regional Court of Karlsruhe found that solely the profit of the defendants against whom the enforcement is directed is relevant to the imminent damage from enforcement (Sec. 717 (2) German Code of Civil Procedure). The fact that the profit is subsequently upstreamed to the parent company in accordance with a profit transfer agreement is said not to change anything about this. However, the Senate pointed to the fact that this might require different assessment in cases where the profit is entirely or partially skimmed already in advance of the actual skimming of excess profit, which could for example be effected with a markup on purchase prices. This was, however, not established by the defendants.

It is stated by the Court that lastly, it is not to be taken into consideration for the determination of the amount of security or enforcement that the total value of the parent company had been estimated to 1 billion US dollars by independent investors. An estimation considering all global activities of the parent company is said to not allow for any reliable conclusions regarding the relevant accumulating profits of the defendant in Germany. This is said to correspondingly apply to the offered settlement in the amount of EUR 15,000,000.00 as it relates to the global patent family.

Comments

If the plaintiff is successful with its complaint at first instance and if the defendant appeals the judgment, the plaintiff is confronted with the question of whether and to what extent it enforces the first-instance judgment. For the plaintiff, such a provisional enforcement has the advantage that it can hence significantly increase leverage on the defendant to thus for example “compel” a favorable settlement. However, the disadvantage of such a provisional enforcement is, firstly, that the plaintiff is liable for any damage suffered by the defendant as a result of the provisional enforcement. Secondly, it must provide security in an amount that is to be determined by the court – in the form of a bank guarantee or by depositing the amount – prior to the commencement of the enforcement. The amount of the security for enforcement is determined in accordance with the estimated damage – for example lost profit – the defendant will suffer due to the provisional enforcement in the time period between pronouncement of the first-instance judgment and its reversal by the court of appeal. In this respect, the defendant usually tries to predict the highest possibly potential damage in order to set the barriers for enforcement as high as possible.

If the defendant does not agree with the provision of security determined at first instance, it has the option, as in the present case, to have this determined security for enforcement amended by the court of appeal upon request in proceedings seeking

a so-called preliminary decision pursuant to Sec. 718 (1) German Code of Civil Procedure. However, in this context, an examination by the court of appeal is merely admissible with regard to potential errors of discretion.

In this very case, the Higher Regional Court of Karlsruhe considered the defendants’ statement of fact regarding the profit that was allegedly at risk of being lost due to the enforcement as not sufficiently substantiated. In particular, the Senate clarified – going beyond this specific individual case – that principally, the only aspect that matters in this respect is the potential damage suffered by the defendant, and not by its parent company, and in this context emphasized the general principle of the legal independence of companies, which also applies to the calculation of the damage from enforcement. As the defendant will, for calculating its potential damage from enforcement, usually refer to the future lost profit for the time period until the first-instance judgment is reversed, which can only be determined by way of estimation, the defendant is obliged to submit and to substantiate all facts on which it bases its estimation as detailed, plausibly and realistically as possible, such that the court is in particular convinced of the fact that no unrealistic calculation is made. In this respect, all submission should already be made at first instance, as otherwise, there is a risk that subsequent statement of fact might not be considered by the court of appeal.