



Central Division (Section Munich)

UPC_CFI_252/2023 Order of the Court of First Instance of the Unified Patent Court delivered on 30/10/2023

HEADNOTES:

The Court has the discretion to order a security for legal costs and other expenses. Factors to be considered when ordering a security order include the financial position of the other party that may give rise to a legitimate and real concern that a possible cost order might not be recoverable and/or the likelihood that a possible cost order by the UPC may not, or in an unduly burdensome way, be enforceable.

Imposing a security for legal costs serves to protect the position and (potential) rights of the Defendant. This has to be balanced against the burden for the Claimant caused by an order to provide security. There should not be an unjustified interference with the right to an effective remedy and to a fair hearing. The Court must weigh the relevant facts and circumstances.

It is for the party requesting a security order to bring forward facts and arguments why such an order is appropriate in a specific case. Once facts and reasons in support of a security request have been brought forward in a credible way, it is up to the responding party to contest such facts and reasons in a substantiated way, especially since that party will normally have knowledge of and will be in the possession of evidence in relation to its financial position and (the location of) its assets.

KEYWORDS:

Security for legal costs and other expenses according to Art. 69(4) UPCA, Rule 9.1, 158, 355 RoP (yes). Discretion. Financial position. Enforcement in UK. Right to an effective remedy and to a fair hearing. Proportionality. Article 47 Charter.

REFERENCE CODE ECLI: Not provided

APPLICANT/S

- 1) **President and Fellows of Harvard College** Represented by Axel
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RESPONDENT/S

- 1) **NanoString Technologies Europe Limited** Represented by Daniela Kinkeldey
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PATENT AT ISSUE

Patent no.

Proprietor/s

EP2794928

President and Fellows of Harvard College

PANEL/DIVISION

Panel 1 of the Central Division (Section Munich).

DECIDING JUDGE

This is an Order of the Judge-rapporteur András Kupecz.

LANGUAGE OF PROCEEDINGS

English.

SUBJECT-MATTER OF THE PROCEEDINGS

Revocation action. Request for security for legal costs and other expenses according to Art. 69(4) of the Agreement on a Unified Patent Court ('UPCA'), Rule 9.1, 158, 355 Rules of Procedure of the Unified Patent Court ('RoP').

STATEMENT OF THE FORMS OF ORDER SOUGHT BY THE PARTIES

The Requesting party, Defendant in the main proceedings (herein referred to as 'Defendant'), is requesting that:

1. The claimant be ordered to provide adequate security for the legal costs and other expenses incurred by the defendant which the claimant may be liable to bear.
2. A decision by default be given against claimant if claimant fails to provide adequate security within the time limit set by the Court.

The Respondent, Claimant in the main proceedings (herein referred to as 'Claimant'), is requesting that:

1. The request to provide a security for the legal costs and other expenses incurred by the defendant which the claimant may be liable to bear be rejected.

BACKGROUND AND SUMMARY OF THE FACTS

- Claimant in the revocation action with number ACT_551180/2023 UPC_CFI_252/2023 has brought a revocation action against European patent EP 2 794 928 B1 ('the Patent') in the Central Division (Section Munich) of the Unified Patent Court (hereinafter referred to as 'CD Munich', 'UPC', and 'main proceedings', respectively).
- The requests under 1 and 2 above ('the Security Request') were made by the Defendant at the same time and in the same submission as a Preliminary Objection lodged by the Defendant (Rule 48, 19 RoP, 'PO') on 28 August 2023. In the PO, the Defendant has challenged the jurisdiction and competence of the Court to decide on the validity of the German part of the Patent.
- The Claimant replied to the Security Request on 11 September 2023 together with its response to the PO.
- The Court noted by way of Preliminary Order in the Preliminary Objection proceedings dated 15 September 2023 that, even though Rule 158.1 RoP states that the Court may order such a security to be provided "at any time" upon a reasoned request by a party, this issue should not be dealt with in the context of a Preliminary Objection (Rule 19 RoP).
- The Court indicated that it would issue a Rule 9 RoP order opening a workflow for further comments by the parties in relation to the Security Request.

- A preliminary RoP 9 order was issued on 20 September 2023 setting deadlines for further written submissions pursuant to Rule 158.2 in connection with Rule 264 RoP before deciding on the Security Request.
- By submission of 4 October 2023, the Defendant provided further comments in response to the Claimant's reply to the Security Request.
- By submission of 16 October 2023, the Claimant responded to the Defendant's submission of 4 October 2023 in relation to the Security Request.
- On 4 October 2023, the Court informed the parties that the PO was to be dealt with in the main proceedings (Order no. 573299 in ACT_551180/2023, published on the Court's website under "Decisions and Orders").
- Between the parent company of the Claimant, Nanostring Technologies, Inc. (and two group companies) multiple proceedings are pending at the UPC. By judgment from the local division Munich of the UPC in case 2/2023 dated 19 September 2023, the Court issued, inter alia, a preliminary injunction. Appeal is pending at the UPC Court of Appeal.

POINTS AT ISSUE

The Defendant in its submission dated 28 August 2023 argued that it has tangible reason to believe that they will not be able to enforce a cost reimbursement against the claimant which is registered in the UK. Firstly, there is no international treaty in place with the UK that would allow defendant to enforce cost reimbursement. Secondly, the Defendant argues that based on the business records of the claimant's group of companies and statements made by the group of companies in the context of UPC proceedings 2/2023 and 17/2023, there are considerable doubts whether the claimant will still be in a position to bear the legal costs and other expenses of the defendant at the relevant time, according to Art. 69.1 UPCA.

The Claimant in its submission dated 11 September 2023 stated that the request made by the Defendant could not be regarded as a "reasoned request" as the Defendant only commented on the financial situation of the "group of companies" of the Claimant, but not specifically on the Claimant itself. Further, according to Claimant, its group of companies has cash, cash equivalents and short-term investments more than \$ 110 Mio. Finally, Claimant states that in contrast to the German case law referred to by the Defendant, Rule 158.1 RoP does not have a respective wording where an automatic claim for a security can be merely based on the nationality of the Claimant. A reasoned request is necessary.

In reply to the Claimant's submission, the Defendant argues that the Claimant is economically unstable because its parent company is financially instable as it submitted in in the preliminary injunction proceedings concerning the patent-in-suit and its divisional patent EP 4 108 782 at the Munich Local Division. These submissions also apply to the Claimant. Moreover, the preliminary injunction granted by the Munich Local Division puts the financial stability of the Claimant's group under imminent threat. Furthermore, though the Claimant's group of companies may have US\$ 110 million in cash, cash equivalents and short-term investments these are contrasted by more than twice this amount in long-term debts, i.e. US\$ 230 million. It is not apparent why or how the Claimant should be economically healthy.

In reply, the Claimant submitted that it has a long-standing presence and stability as a company, its group has cash equivalents (undisputed) and therefore it is fully capable of covering the expenses associated with the legal dispute. As a British company, despite Brexit, it is not located in a distant jurisdiction where there might be concerns that UPC cost decisions may not be enforceable. The Defendant has not provided any evidence to suggest that there would be difficulties in enforcing the judgment in the UK. Furthermore, the parent company of the Claimant as well as other group companies have been involved in several lawsuits against the Defendant. The group companies have never defaulted on any cost order.

Further facts and arguments as brought forward by the parties will, where relevant, be discussed in the below.

GROUNDS

Legal framework security for costs request ex Rule 158.1 RoP

The Security Request that has to be decided upon by the CD Munich is a request to provide a security for the legal costs and other expenses that have been/are to be incurred by the Defendant in the present revocation action. The request is based on Rule 158.1 RoP which is, in turn, based on Article 69(4) UPCA.

In relation to a similar request, the Helsinki Local Division of the UPC rejected the request as unfounded in its Decision delivered on 20 October in case UPC_CFI_214/2023 (p. 13, published on the UPC website under “Decisions and Orders”) applying the following legal framework:

2.2 The relevant provisions

Article 69(4) UPCA

Legal costs

4. At the request of the defendant, the Court may 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.

Rule 158.1 RoP

Security for costs of a party

1. At any time during proceedings, following a reasoned request by one party, the Court may order the other party to provide, within a specified time period, adequate security for the legal costs and other expenses incurred and/or to be incurred by the requesting party, which the other party may be liable to bear. Where the Court decides to order such security, it shall decide whether it is appropriate to order the security by deposit or bank guarantee.

2.3 The grounds

The UPCA or the RoP do not provide further guidance as to the situations in which the Court should order the security for costs. It is mentioned in Article 69(4) UPCA that this is in particular possible in the cases referred to in Articles 59 to 62 UPCA, which include provisional measures.

It is clear based on the relevant provisions that the Court has discretion in deciding when to order the security for costs. The Court finds that as it is possible to decide on the security for costs at any stage of the proceedings, it is not appropriate in the Court of First Instance to order the costs concerning potential future proceedings in the Court of Appeal.

The Court finds that the evidence brought forward by the Defendants does not sufficiently prove the risk of insolvency of the Applicant, and vice versa the evidence provided by the Applicant indicates that the Applicant will have the financial means to cover any potential legal costs that it may be ordered to cover. Hence, the request for a security for costs is considered unfounded.

The Defendants’ request for the Court to order the Applicant to provide security for costs is hence dismissed.

In its Order ORD_576853/2023 UPC_CFI_15/2023 dated 29 September, 2023 (published on the UPC website under “Decisions and Orders”), the local Division Munich held in relation to a request for security for legal costs (paragraphs connecting p. 11 and 12):

Eine solche Anordnung steht im Ermessen des Gerichts (Art. 69 Abs. 4 EPGÜ; Regel 158.1 VerFO). Der Berichtersteller übt das ihm eingeräumte Ermessen dahingehend aus, über den Antrag sogleich innerhalb dieser Anordnung zu entscheiden und keine Sicherheitsleistung anzuordnen.

Voraussetzung für einen erfolgreichen Antrag wäre die Darlegung, dass die Vermögensverhältnisse der anderen Partei befürchten lassen, dass ein etwaiger Kostenerstattungsanspruch nicht bedient werden kann oder dass trotz ausreichender finanziellen Mittel eine Vollstreckung einer Kostenentscheidung als unmöglich oder mit besonderen Schwierigkeiten behaftet erscheint.

and

Diese Argumentation überzeugt nicht. Da das Gericht seine Tätigkeit erst am 1. Juni 2023 aufgenommen hat, existieren naturgemäß keine Erfahrungen mit der Anerkennung und Vollstreckung von Entscheidungen des Gerichts im Ausland. In den Vereinigten Staaten von Amerika können Urteile ausländischer Gerichte sowie damit einhergehende Kostenentscheidungen grundsätzlich anerkannt und vollstreckt werden. Dass dies mit Entscheidungen und Anordnungen dieses Gerichts anders sein könnte oder ernsthaft zu erwarten ist, ist weder vorgetragen noch sonst ersichtlich.

The CD Munich finds, in line with the Helsinki and Munich local divisions, that the Court has the discretion to order a security for legal costs and other expenses incurred and/or to be incurred based on Article 69(4) UPCA and Rule 158.1 RoP (“...the Court *may* order...” in both provisions). A security order is not limited to the cases referred to in Articles 59 to 62 UPCA (see “in particular” in Article 69(4) UPCA).

Factors to be considered when ordering a security order include, as also considered by the Munich and Helsinki local divisions, the financial position of the other party that may give rise to a legitimate and real concern that a possible cost order might not be recoverable and/or the likelihood that a possible cost order by the UPC may not, or in an unduly burdensome way, be enforceable. Whether or not such factors are present and to what extent needs to be established in view of the facts and arguments brought forward by the parties (see below on burden of proof).

Imposing a security for legal costs serves to protect the position and (potential) rights of the Defendant, who did not choose to initiate the main proceedings. Protecting the Defendant has to be balanced against the burden for the Claimant caused by an order to provide security. There should not be an unjustified interference with the Claimant’s right to an effective remedy and to a fair hearing (Preamble UPCA, enshrined in Article 47 of the Charter of Fundamental Rights of the European Union, ‘the Charter’). 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 limitation of the right to an effective remedy before a tribunal. The Court of Justice of the European Union (‘CJEU’) has held in its judgement of 15 September 2016, Joined Cases C-439/14 and C-488/14 ECLI:EU:C:2016:688, par. 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 May 2016, Pillbox 38, C-477/14, EU:C:2016:324, paragraph 160)”.

In exercising its discretion under Article 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 bring forward facts and arguments why such an order is appropriate in a specific case. Accordingly, the requesting party has to make a “reasoned request”, whereby the burden of proof of facts generally is on the party relying on those facts (Article 54 UPCA). On the other hand, once facts and reasons in support of a security request have been brought forward in a credible way, it is up to the responding party to contest such facts and

reasons in a substantiated way, especially since that party will normally have knowledge of and will be in the possession of evidence in relation to its financial position and (the location of) its assets. Likewise, it is up to the respondent to argue that and why a security order would unduly interfere with its right to an effective remedy.

The request for security in the present case

As its first line of defence, the Claimant argued that there was no reasoned request because the Defendant only commented on the group of companies of the Claimant and not the Claimant itself. However, based on the request made (as part of the PO), the Court finds it sufficiently clear that the request was directed at the Claimant as a party to these proceedings (see “against the claimant”, p. 6, 2nd par. under D, PO, whereby the Court notes that there is only one claimant party in the main proceedings). The request was also reasoned as it contains concrete facts and grounds in support of the requested security. The fact that the reasons provided pertain to a large extent to the Claimant’s group of companies does not mean that the reasons do not also relate to the Claimant. From the Claimant’s own submissions, it moreover becomes clear that its financial position is indeed closely (if not completely) tied to its group of companies, in particular the parent company.

Defendant argued that the Claimant is located in the United Kingdom (‘UK’) and that this makes it believe that it will not be able to enforce a cost reimbursement. The Court notes that after the UK’s withdrawal from the European Union, Regulation (EU) No 1215/2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (recast) (the ‘Brussels Ibis Regulation’) no longer applies in the UK. Consequently, judgements rendered by EU Courts will no longer automatically be recognised in the UK as before under Article 36(1) Brussels Ibis Regulation.¹ The UK is furthermore not a member of the Lugano Convention² nor of any other instrument of international law with a similar effect to the best of the Court’s knowledge. This means that, even though the Court agrees with the Claimant that the UK, being a former EU Member State and former Member State of the UPC, cannot be considered a “distant jurisdiction”, and even if the enforcement of UPC (cost) judgements should in principle be possible in the UK according to UK national procedures, there is undoubtedly an additional (procedural) burden and uncertainty on the party seeking to enforce a UPC (cost) judgement in the UK compared to other (EU) jurisdictions. This is a factor that weighs in favour of ordering a security.

Defendant furthermore reasoned that there are considerable doubts whether the Claimant will still be in a position to bear the legal costs and other expenses of the defendant at the relevant time given its business record.

First of all, it appears from the submissions made by the parent company of the Claimant’s group in proceedings UPC_2/2023 relating to a (second generation) divisional patent of the patent that is the subject of the main proceedings, which submissions have not been contested or further elaborated on by the Claimant in the present proceedings, that an injunction rendered in that case would be “*existenzbedrohend*” for in any event the German and Dutch subsidiaries and would create an “*existenzielle Risiko*” for the group (BP02, par. 874-880). The Munich local division has in fact ordered an injunction in case 2/2023 (order dated 19 September, 2023, ACT_459746/2023, published on the UPC website under “Decisions and Orders”). Therefore, that risk appears to have materialised.

These statements thus give rise to a legitimate concern that the Claimant will not have adequate financial means to cover the legal expenses that it may be liable for. The fact that the Claimant already exists for a long time and was not created for the sole purpose of bringing the present action and/or that in the past the group of companies has never defaulted on any cost order does not take away this concern which is

¹ Article 36(1) Brussels Ibis Regulation: A judgment given in a Member State shall be recognised in the other Member States without any special procedure being required.

² 2007 Convention on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters, OJ EU L 339, 21.12.2007.

for a cost order that may potentially be imposed at a later point in time, i.e. in the future, especially now that a preliminary injunction has been imposed by the UPC on the parent company.

Secondly, even though the Court on the basis of the evidence before it, is not in a position to assess the financial stability of the Claimant's group of companies in any detail and conclusively, the Claimant has not provided any information as to its own, independent, financial position nor has it pointed at any of its own assets that could be suitable for redress should it be liable for any legal costs. Instead, it relies solely on the cash position of its group of companies. The group, however, in its own words, has never been profitable and therefore relies on money from investors (BP02, par. 879-880). It is furthermore undisputed by Claimant that the group has long-term debts exceeding the amount of its cash position. No further explanation has been provided as to how the parent company (or the group) will deal with a potential cost order against its UK subsidiary in this case.

These facts and circumstances all weigh in favour of ordering the requested security for costs. The Defendant has established credible concerns about its prospects of recovering costs that the Claimant may be liable for in view of the financial position of the Claimant which is moreover domiciled in a jurisdiction where no treaty is in place to facilitate the recognition and enforcement of UPC judgements. Against this, the Claimant has not raised any concrete arguments why imposing the requested security would be unreasonable or unfair.

Under the circumstances of the present case, ordering a security for costs on the conditions set out below is also proportionate to the legitimate aim of protecting the Defendant against the risk that it will be unable to recover legal costs that the Claimant may be liable for. First of all, the Claimant is ordered to provide a *security* for costs. No money will be transferred from the Claimant to the Defendant as a consequence of this order. If the Defendant does not obtain a cost award in the main proceedings for whatever reason, for instance if the Defendant were to be unsuccessful in the main proceedings, there will be no obligation for the Claimant to pay the costs incurred by the Defendant. Proportionality is, moreover, taken into account in setting the amount of the security required, the time period and modality of providing the security. As follows from the above, the Claimant has not argued that and why a security order would be disproportionate.

Based on the foregoing, weighing the relevant facts and circumstances, the Court, exercising its discretion under Article 69(4) UPCA and Rule 158.1 RoP, will order the Claimant to provide adequate security for legal costs and other expenses as set out below.

The security ordered: amount, form and time limit

In its request, the Defendant has deferred to the Court with regard to the form of security and to set a reasonable time limit for the Claimant to provide the security. As to the amount of security, the Defendant states that it could be based upon the table of ceilings for reimbursable costs as set by the Administrative Committee of the UPC ('AC') on 24 April 2023 as D-AC/10/24042023_D (annex). According to this table, the corresponding security for a value in dispute of EUR 7.5 million would be EUR 600,000.

The Claimant did not make any submissions in this regard.

The Court finds it fair, reasonable and proportionate to order the Claimant to provide a security to the amount of EUR 300,000. First of all, the table as drawn up by the AC relates to a ceiling for recoverable costs, i.e. the *maximum* amount of costs recoverable. Moreover, Article 69 UPCA contains a number of additional safeguards, e.g. "reasonable and proportionate" and "equity" that might lower a possible cost order. The Defendant has not provided any information as to the actual costs it has already incurred or expects to incur which are directly related to the present revocation action and whether these costs are (prima facie) reasonable and proportionate. In the absence of such information, an amount of EUR 300,000 is deemed to be adequate security. The Court notes that, should an additional security be

required at some point in time in view of the actual costs (to be) incurred in these proceedings, the Defendant can request an additional security “at any time during the proceedings” (Rule 158.1 RoP).

The security may be provided by the Claimant in the form of a deposit on the UPC account dedicated for security deposits (details to be found on the UPC website³) or by a bank guarantee provided by a significant EU bank which is under the direct supervision of the European Central Bank. The Claimant may choose which form of security it prefers to provide.

As to the time period, the Claimant has to provide security within six weeks of the date of service of the present order. This period is deemed sufficiently long to make the necessary arrangements for the Claimant on the one hand and on the other hand should give the Defendant the security it is entitled to within a reasonable time.

The Court rejects the request for a decision by default against Claimant if Claimant fails to provide adequate security within the time limit set by the Court. This request is currently unfounded and premature. If and when a situation were to arise in which such a decision could be an appropriate remedy, a request may be made pursuant to Rule 158.5 in connection with Rule 355 RoP. The Claimant is hereby informed of this possibility as required by Rule 158.4 RoP (also see below).

Leave for appeal for both parties is granted as with a view to ensuring a consistent application and interpretation of the RoP (Preamble RoP, no. 8).

ORDER

For these grounds, having heard the parties on all aspects of relevance for the following order, the Judge-rapporteur:

- Orders the Claimant to within six weeks of the date of service of this order provide security for legal costs and other expenses pursuant to Rule 158.1 RoP to the amount of EUR 300,000 (three hundred thousand euro) by way of deposit on the UPC account dedicated for security deposits, alternatively by way of bank guarantee provided by a significant EU bank which is under the direct supervision of the European Central Bank, to be chosen by the Claimant.
- Rejects the request for a decision by default to be given against claimant if claimant fails to provide adequate security within the time limit set by the Court.
- Grants leave to appeal for both parties.

³ <https://www.unified-patent-court.org/en/court/payments> - mentioning the case number and this order.

ORDER DETAILS

Order no. ORD_574057/2023 in ACTION NUMBER: ACT_551180/2023

UPC number: UPC_CFI_252/2023

Action type: Revocation Action

Issued on 30 October 2023

KUPECZ

Judge-rapporteur

INFORMATION ABOUT APPEAL

Leave to appeal is granted for both parties. 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, Rule 220.2, 224.1(b) RoP).

INFORMATION UPON SPECIFYING THE TIME LIMIT

Pursuant to Rule 158.4 RoP the Claimant is informed that if it fails to provide the aforementioned security within the time stated (six weeks of the date of service of this order) a decision by default may be given, in accordance with Rule 355 RoP.