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Lessons from Harvard: UK-based Nanostring ordered to pay EUR 300,000 as security for legal costs in revocation action

NanoString Technologies Europe Limited v President and Fellows of Harvard College (UPC_CFI_252/2023)

Decision delivered on 30 October 2023 (Order no. ORD_574057/2023)

Introduction

The Central Division (Munich Section) has ordered UK-based NanoString Technologies Europe Limited ("NanoString") to pay EUR 300,000 as security for the legal costs of the President and Fellows of Harvard College ("Harvard"). The proceedings concern NanoString's revocation action against Harvard's EP 2794928. The decision is interesting for two reasons. First, security was ordered despite the NanoString group of companies having cash, cash equivalents and short-term investments of more than USD 110 million. Second, the court ruled that there was an additional procedural burden and uncertainty on the party seeking to enforce a UPC costs judgment in the UK "compared to other (EU) jurisdictions" and that this was a factor that weighed in favour of ordering security.

The relevant provisions

Article 69(4) of the Agreement on a Unified Patent Court ("UPCA") provides:

"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."

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Rule 158.1 of the Rules of Procedure of the Unified Patent Court ("RoP") states:

"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."

Previous decisions

The Judge-rapporteur referred to two decisions, in which security for costs was sought but refused.

The first in time is a decision of the Munich Local Division in Edwards Lifesciences Corporation v Meril GmbH (reported here). The Judge-rapporteur ruled that, to succeed in a security application, an applicant must demonstrate that the financial circumstances of the other party give rise to fears that a possible claim for reimbursement of costs cannot be served or that despite sufficient financial means an enforcement of a decision on costs appears to be impossible or fraught with particular difficulties. The applicants argued that the US courts had not yet considered a UPC judgment and there was therefore great legal uncertainty surrounding the recognition and enforcement in the US of a UPC costs decision. Rejecting the argument, the Judge-rapporteur held that judgments of foreign courts as well as associated costs decisions can in principle be recognised and enforced in the US and there was no suggestion nor evidence before him that this would be different in respect of UPC decisions and orders.

The second is a decision of the Helsinki Local Division in AIM Sport Vision AG v Supponor (reported here). In that case, the defendants requested that the court order security in the amount of EUR 1.6 million (for costs covering both first instance and Court of Appeal proceedings). The applicant had a taxable capital of over 63 million Swiss Francs. The Finnish court found that the defendants' evidence did not sufficiently prove the risk of insolvency of the applicant; by contrast, the applicant's evidence indicated that the applicant would have the financial means to cover any potential legal costs.

Decision

Paraphrasing the Munich Local Division, the court held that the factors to be considered when ordering security for costs include the financial position of the other party that may

give rise to a legitimate and real concern that a possible costs order might not be recoverable and/or the likelihood that a possible UPC costs order may not, or in an unduly burdensome way, be enforceable. In exercising its discretion under Article 69(4) UPCA and Rule 158.1 RoP, the court must weigh the protection of the defendant's position and rights against the burden of an order for security on a claimant. The Judge-rapporteur referred to Article 47 of the EU Charter of Fundamental Rights, which concerns undue interference with a claimant's right to an effective remedy before a tribunal and to a fair hearing, and CJEU case law.

The applicant must advance facts and arguments to justify an order for security in a particular case by way of a "reasoned request" and bears the burden of proof. Once the applicant has done so in a credible way, the burden shifts to the respondent to contest the facts and arguments, especially given that the respondent will normally know and have evidence of its financial position, its assets and their location. The respondent will also need to advance any argument as to why an order for security would unduly interfere with its right to an effective remedy.

NanoString's financial position

The court found that NanoString's financial position was closely, if not completely, tied to the NanoString group, in particular its parent company, and that the parent company had made submissions in another UPC proceeding that an injunction (which was subsequently ordered against it) would be life-threatening for its German and Dutch subsidiaries and an existential threat to the group. In addition, NanoString only relied on its group cash position, whilst admitting that the group had never been profitable and relied on money from investors and had long-term debts exceeding its cash position. NanoString also failed to explain how its parent company or the group would address a potential costs order against its UK subsidiary.

Enforcement in the UK

The Judge-rapporteur agreed with NanoString that the UK could not be considered a "distant jurisdiction" and did not make a finding that enforcement of a UPC costs decision in the UK was impossible. However, given that there was no treaty in place to facilitate the recognition and enforcement of UPC decisions in the UK, the judge ruled that "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."

The court ruled that Harvard had established credible concerns about the prospects of recovering its costs while NanoString had not raised any cogent arguments as to why

imposing the requested security would be unreasonable or unfair. The court made the order for security for costs.

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Quantum

Harvard submitted that the amount of security ordered could be based upon the table of ceilings for reimbursable costs as set by the UPC Administrative Committee on 24 April 2023, which for the value in dispute of EUR 7.5 million would be EUR 600,000. NanoString did not make any submissions on quantum. The court ordered security in the amount of EUR 300,000. The court reasoned that the ceilings represented a maximum amount of recoverable costs and that Article 69 UPCA contained a number of safeguards in its wording "reasonable and proportionate" and "equity" that might lower the amount in a costs order. Furthermore, Harvard had not provided any information as to the costs directly related to the revocation action which it had already incurred or expected to incur and whether those costs were prima facie reasonable and proportionate.

NanoString had to provide the security within six weeks of the date of service of the order. It was permitted to choose the form of security (a deposit in the dedicated UPC account or a bank guarantee from a significant EU bank under the direct supervision of the European Central Bank).

Comment

This decision highlights that the outcome of a security for costs application before the UPC will be highly fact dependent.

Respondents to a security for costs application should be prepared to set out their financial position in detail (including addressing, if needed, any previous statements on potential threats to their solvency), and to explain how a future costs order against it will be settled. Although not addressed in this case, issues of confidentiality may have to be dealt with in providing such evidence. On the other hand, applicants are likely to benefit from evidence setting out their costs to date and estimated future costs of the proceedings, and the reasons why they are reasonable and proportionate, especially if they are seeking an order for security in an amount corresponding to the ceiling amount of recoverable costs specified by the UPC Administrative Committee.

In this decision, the Judge-rapporteur found that there is an additional procedural burden of enforcement of UPC decisions and orders in the UK and that this was a factor weighing in favour of ordering security. By contrast, in the Edwards Lifesciences case, enforcement of UPC decisions in the US was not considered to be an issue. Whilst it may be explained by the evidence before the judge-rapporteur in each case, the difference in

conclusions does raise the question: what threshold must be reached for enforcement of a costs decision in a non-EU court to be deemed "fraught with particular difficulties" or "unduly burdensome". Permission to appeal was granted in this case – we wait to see whether the Court of Appeal will be invited to clarify this.

Tom's article was also published on Law360 Expert Analysis - UPC Decision Highlights Key Security Costs Questions