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Enforcement of Patents in Europe – Germany as an Example

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1. Patent Enforcement in Europe – Present Situation

Neither the European Patent Convention (EPC) nor the Patent Cooperation Treaty (PCT) have touched and influenced in any manner the way in which patents can be presently enforced in the member countries of the European Union (EU) and/or of EPC. This situation, however, would change dramatically if some kind of a Community Patent (CP) would be introduced, the fate of a draft EU Regulation for introducing such a CP being unclear at the moment, however. Discussions amongst a group of member countries of EPC, with the aim of creating a centralized enforcement system for EPC based patents, are making soft progress, however.

In the following, the present system of patent enforcement, both for national and EPC based patents, as it is nowadays applicable in Germany will be discussed, followed by specific questions of the present situation with regard to cross-border patent enforcement.

1.1. Enforcing National Patents

If a patentee or other party entitled under the patent wishes to proceed against an infringer based on a national German patent, the patentee will file a suitable suit (litigation) at one of the patent infringement courts of first instance in Germany, which consist of essentially one

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single designated patent chamber of one of the various district courts of each Federal State of Germany. As you may know, more than 60% of all patent litigations in Germany are filed at the Düsseldorf Court, which obviously is considered as the most competent and, to some extent, a court having a tendency to interpret the scope of protection of patents in favour of the patentee as broad as possible.

At the patent infringement court, the defendant will not be heard with the argument that the patent is invalid, rather the district court ifself will have to consider the patent as valid as long as the defendant does not file a separate invalidation procedure against the patent at the German Federal Patent Court at Munich. If the patent infringement district court considers the outcome of the pending invalidation procedure as probably being in favour of the defendant, it will suspend the infringement proceedings until at least a first instance decision of the Federal Patent Court in the invalidation procedure has been issued. If an opposition procedure against the patent in dispute still can be started or is still pending, started by opposition by a third party, instead of starting an invalidation action the defendant will have to file opposition and to join the pending opposition procedure, respectively.

Against the decisions of the Federal Patent Court in the invalidation proceeding an appeal to the Federal Supreme Court is possible. In case of the patent infringement proceedings an appeal against the patent infringement district court decision is possible to the respective patent appeal court for the respective federal state of Germany, and against the decision thereof, again, an appeal to the Federal Supreme Court.

Therefore, in two steps, as far as the invalidation proceedings are concerned, and in three steps, as far as the infringment proceedings are concerned, the litigation will end with the same authority, namely the Federal Supreme Court at Karlsruhe, where the final decisions will be made both in relation to the invalidation and the patent infringement proceedings.

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1.2. Enforcing EPC Patents

Due to the fact that the EPC bundle "patent" is not really a central patent, but is, as far as enforcement is concerned, handled in the same manner as a national patent, the enforcing of EPC patents in Germany - and in all other member countries of EPC - takes place in an analogous manner as with national patents as discussed under 1.1. Common to national patents and EPC obtained bundle patents is the fact that any decision of the national courts, say German courts, as far as validity of the patent, injunction and damages are concerned, are essentially only valid for the respective country, in our example Germany, and the proceedings in all other EPC countries would have to be conducted independently.

In many instances even foreign patentees chose the possibility of going through a patent litigation and invalidation procedure in Germany first, because it is rather cheap, compared with the situation e. g. in U.K., whereafter the outcome of the German procedure very often leads to an EU wide settlement between plaintiff and defendant. One should bear in mind, however, that, whilst a certain psychological influence of the German procedures onto the other EU courts may have to be expected, there is no such <u>binding</u> connection at all.

2. Specific Questions of Patent Enforcement in Germany

2.1. Litigation Procedure and Arguments for Defence

2.1.1. General Procedure

As stated above, any patent litigation procedure in Germany generally is starting by filing an appropriate motion at one of the "Patentstreitkammern" of the Federal Republic of Germany, i. e. special chambers of selected German district courts, the most important of them being Düsseldorf, at which more than 60% of all patent litigations in Germany take place - there is no definite basis for that, but it is the most experienced one in patent matters. Other well-known patent litigation district courts in Germany are Hamburg. Mannheim and Munich.

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There are several others, but for the purpose for this paper there will be no necessity to mention all of them. Generally a procedure at such a "Patentstreitkammer" will take about 1 - 2 years for the first instance, with an appeal possibility to the respective appeal court to which the "Patentstreitkammer" belongs, the appeal instance normally taking another 1 - 2 years until final decision.

Against the decisions of the appeal courts a further appeal to the Federal Supreme Court in Germany is possible, but only based on special appeal reasons of non-factual nature, like wrong interpretation of law etc., (the so-called revision procedure). It should be kept in mind, for the following discussion, that the ligitation courts are a part of the general civil court system in Germany, namely District Court (Landgericht/Patentstreitkammer) - Appeal Court (Oberlandesgericht/Patentsenat) - Federal Supreme Court (Bundesgerichtshof/Patentsenat). On the other hand, grant of patents and utility models as well as invalidation actions against those industrial property rights take place at the German Patent Office/German Federal Patent Court/German Federal Supreme Court or, in case of EPC based German patents, at the European Patent Office, as far as grant and opposition procedure are concerned - in the latter case again bearing in mind that any invalidation action against an EPC based German patent must be filed at the German Federal Patent Court, as in case of national German patents, i. e. there is no EPC invalidation procedure.

The aforementioned procedure, as far as "ordinary" litigations, i.e. with the exception of fast injunctions, are concerned, which will be dealt with specifically below, in the past usually only was started after appropriate warning of the defendant by a suitable warning letter. The purpose of such a warning letter is to avoid legal cost (court fees, attorney fees, etc.) charging to the plaintiff even in case of the latter winning the litigation procedure if the defendant would have surrended immediately after starting court litigation. In recent times, however, this has become obsolete, because the Brussels Convention gives the potential defendant the possibility to start a declaratory action for non-infringement in any country within the European Union, whereafter no further "positive" patent litigation procedure can be started anymore by a plaintiff in another EU country during the pendency of the aforementioned

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procedure. If in such a case a defendant choses a country in which courts usually are known to work rather slowly, like e.g. in some regions of Italy, the plaintiff would be prevented from proceeding quickly against the infringer. Accordingly, it is sometimes not appropriate to send warning letters before filing a complaint in Germany, rather only after filing of the complaint and serving it by the Court to the defendant settlement negotiations etc. should take place.

2.1.2. Defence in Case of Litigation Based on National German Patents

The possible defense of an infringer accused of infringing a national German patent, besides of just arguing that he does not proceed as supposed by the plaintiff, is to argue that the scope of protection of the patent is not so broad that it covers the infringing features. In other words, without questioning validity of the patent itself, the defendant will argue that because of certain prior art the scope of protection of the patent is so narrow that the infringing article etc. does not make use of the protected teaching. The court, i. e. the infringement court, will have to take into consideration these arguments, following the general idea that a great invention will deserve a large scope of protection guaranteed by § 14 of the German Patent Act, namely as given by the claims interpreted with the assistance of the specification etc.

If by all means possible, the defendant will start a counter-attack against the patent, with the aim of invalidating same, by filing an invalidation action at the German Federal Patent Court, the grounds of such invalidation action being the usual ones which also can be used in opposition procedures, namely lack of patentability e.g. due to lack of novelty or inventiveness. The Federal Patent Court will, within a period of 1 - 2 years, make its decision in the first instance of the invalidation action, whereupon a factual appeal takes place to the patent senate of the German Federal Supreme Court.

After the defendant has filed its invalidation action at the German Federal Patent Court, normally immediately after the respective litigation has been started at the litigation court by the plaintiff, the court of litigation has the possibility to suspend the litigation procedure until the invalidation procedure either in the first or in the second instance has been finalized, such

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suspension being up to the litigation court's opinion as to whether it considers the invalidation procedure to be with all probability successful or not. With German national patents that usually means that in cases where the patent in dispute has been granted without any opposition procedure, the litigation court normally will suspend the procedure in case of an invalidation action, whilst in case that a patent has been granted even after opposition, or even more after an appeal opposition procedure at the German Federal Patent Court, normally no suspension will take place, provided that not quite surprisingly new arguments are introduced into the invalidation procedure by the defendant. One could say: The more "hardened" a German national patent is by the various procedures it has already survived (examination, appeal, opposition, opposition appeal), the less probability does exist that any suspension will take place in a litigation procedure based thereon.

For the sake of completeness it should be added that, as a matter of course, an opposition procedure pending or introduced at the German Patent Office against a German national patent on which a litigation is based will have to be considered in the same manner by the litigation court, i. e. if it considers the opposition procedure to be most probably successful, it would with all probability suspend the litigation procedure based thereon. In this connection, furthermore one should bear in mind that there are rather great differences in the suspension practice of the various German litigation courts, the Düsseldorf court, discussed already above, apparently being not inclined to suspend the litigation procedure whenever it seems to be appropriate to proceed, in order to prevent any factual suspension of the title and rights of the patentee in a litigation procedure.

If an opposition still can be filed or an opposition procedure, started by a third party, is still pending, no invalidation can be filed by the defendant, rather he has to file an opposition or join a pending opposition procedure started by a third party, respectively. In all other aspects, the above mentioned considerations apply in this case equally.

2.1.3. Defence in Case of EPC Based German Patents

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Principally the defences for an infringer in a patent litigation procedure in Germany based on EPC based German patents are identical with those discussed above with the only point to be made that, with no material but quite considerable "technical" consequences, as discussed later on, even the opposition procedure in case of an EPC based German patent takes place at the European Patent Office, whilst in case of an invalidation action against the EPC based German patent the German Federal Patent Court will be the first authority under "national" practice, notwithstanding the fact that formally, as a matter of course, the requirements for patentability according to German Patent Law and European Patent Law are quite the same, with minor differences not playing a role in this connection.

2.1.4. Defence in case of Litigation based on German Utility Models

Entirely different from the case of a patent, whether a national German patent or an EPC based German patent, being the basis of a litigation, in case of a German utility model the defendant can, in the litigation procedure which is started at the litigation court, question the validity of the utility model itself. In other words, without starting any invalidation action at the German Federal Patent Office (with appeal possibility to the German Federal Patent Court), the defendant can win the litigation procedure by convincing the litigation court of lack of protectability of subject matter of the utility model in question. The other possibility, mostly chosen, however, is that also in this case the defendant will start an invalidation action against the utility model, and different from patent litigation procedure in which suspension of the procedure is more or less up to the litigation court and is ruled by the general provision of German civil law procedures, the German Utility Model law has a special provision according to which the court has to suspend the procedure if it considers the invalidation action to be successful, and may suspend it in general as long as it considers the outcome of an invalidation action as to be important for the litigation procedure. The duration of proceedings necessary is about the same as in patent cases.

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2.1.5. Effectiveness of Litigation and Duration of Procedure

In many cases, the duration of a litigation procedure will have a considerable effect for the decision of the patentee whether a litigation really is worth to be conducted or not. According to this one should bear in mind that, as long as a litigation in Germany is based on a national German patent which is of "normal" quality, the chance that a litigation procedure is not suspended by the litigation court because of an invalidation action are fairly good; this applies parti-cularly if the litigation procedure is conducted at the Düsseldorf court. One may even say that in cases in which the patent has already overcome an opposition procedure at the German Patent Office, first instance, in general the particular Düsseldorf litigation court would not suspend the procedure at all.

On the other hand, it had to be observed that in case of European patents, even having overcome an opposition procedure at the European Patent Office, the procedure with a higher probability would be suspended in case of an invalidation started against this respective based German patent at the German Federal Patent Court. The reason for this may be that this is the first opportunity for a national German authority to "check" whether the patent "really" can be considered to be valid also under German practice: This does not mean, of course, that there would be any "material" difference in judging the protectability of certain subject matter under European or German Law, but as a matter of facts it has turned out that it seems to be much easier to overcome the European Patent Office's objections against patentability, based on non-inventiveness, than in case of e. g. similar objections of the German Patent Office. Therefore some infringement judges in Germany have a tendency to think that a European patent first of all would really be checked only in the invalidation procedure at the German Federal Patent Court, with the consequence that the outcome of the litigation procedure would be highly dependent upon the invalidation procedure, and again with the aforementioned consequence that in such cases with all probability one would have to face the possibility of a suspension.

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2.1.6. Special Aspects – Opposition, Patent Restriction, and Derivative Utility Model

A special note should be given to a situation in which an infringer is attacked based on a patent which is pending under opposition by a third party: In this case, the alleged infringer has the possibility to join the opposition procedure within two months after formal receipt of the respective patent litigation complaint, so that from then on the defendant acts as a co-opposer in the opposition procedure, with the full possibility to bring new arguments, prior art, etc.

A special note should also be given to a situation in which the patentee, wishing to start patent litigation, knows that the patent is not fully valid, but would be so only in a restricted form: In this case, at the German Patent Office a restriction procedure should be started and completed before filing the patent litigation complaint, such restriction procedure not taking more than six weeks, so that a "hardened" patent can be used in the patent litigation.

The aforementioned possibility of a restriction procedure also exists in relation to an EPC patent designating Germany.

A further note should be given to a situation in which a patent applicant cannot yet attack patent infringing actions because the patent has not yet been granted: In this case the possibility of filing a so-called derivative utility model in Germany should be taken into consideration, which can be filed at any time during the life of a patent application before patent grant, in which case the utility model will enjoy both the priority and application date of patent at the German and European Patent Offices, respectively. The registration of such a utility model, after filing, will only take about three months, whereafter full injunctional and indemnification relief, as in case of a patent, can be obtained based on a litigation using the derivative utility model.

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3. Fast Injunction Procedures in Germany

Foreign importers of goods, particularly at a time when they first try to enter the German market by showing a respective article on a trade show, exhibition or the like, very often have made the experience that apparently "out of the blue sky" they are confronted with a court order originating from a fast injunction procedure which forces them immediately to stop exhibiting the respective article, to terminate sales talks etc., even without having had the opportunity to be heard by the respective court. Such court orders in the instances to be dealt with in this article are based on Intellectual Property Rights (IPRs), i. e. patents, trademarks, designs, utility models, copyright etc., owned by a competitor which considers the respective article as an infringement of its IPR.

In order to develop suitable attack and defence strategies, the latter with the goal of avoiding court orders of the aforementioned injunctional nature, the German fast injunction procedure shall briefly be explained as follows:

In a fast injunction procedure, different from main litigation procedures, no claim for damages can be raised by the plaintiff, rather only a claim to cease and desist. As a first prerequisite for a fast injunction procedure, e. g. based on a patent, to be successful it is necessary for the plaintiff that he convinces the court that subject matter is urgent, i. e. that the delay otherwise caused by a normal litigation procedure and its duration, respectively, would be too detrimental for the plaintiff than to be balanced by the interest and right of the defendant to undergo a full-flesh litigation. Such urgency is assumed not to exist if certain time limits between the first getting knowledge of the allegedly infringing action by the plaintiff and the filing of the fast injunction complaint have expired. In the case of the district court of Munich, just as an example, such time limit is strictly four weeks, other courts in Germany are more liberal.

Furthermore subject matter must be clear and simple enough, at the discretion of the court, to be decided in an abbreviated fast injunction procedure, and in case of patent

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infringement that, just as an example, generally means that it is very difficult for the plaintiff to be successful in a fast injunction procedure if doctrine of equivalents play a role, rather only literal infringement would "help".

Also, if the validity of the IPR in dispute is doubtful, the court would not consider the fast injunction procedure as suitable. Similar considerations, i. e. in relation to both the question whether there is an infringement or not and to the validity of the respective IPR, apply to fast injunction procedures based on IPRs other than patents.

Principally, after a fast injunction request has been filed, the court has the possibility either to immediately issue a preliminary injunction, without any oral proceedings, i. e. before notifying the defendant beforehand, so that the first time the defendant gets knowledge of the injunction procedure is at the time when the court order is served to the defendant by the plaintiff. In such case, the defendant immediately has to stop the allegedly infringing actions, and its only relief is to oppose against the court order, whereupon within a short period of time, usually within several days or maximum a few weeks, in oral proceedings, in which both the defendant and the plaintiff participate, a first instance decision will be made as to whether the court order will be lifted or kept in force.

Between the serving of the court order and the aforementioned oral proceedings, in other words, all actions of the defendant have to be stopped, which, e. g., in case of an exhibition means that the defendant has to remove its respective goods from the exhibition immediately after receipt of the court order and has no chance anymore to put the respective goods back into the exhibition because the exhibition will have expired when the court order is lifted. This can be very troublesome for the defendant, in spite of the fact that, as a matter of course, the plaintiff if lateron the stopping of the actions of the defendant appears as not justified will have to remunerate the respective damages to the defendant.

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The other possibility for the court to act, after having received the request for fast injunction from the plaintiff, is to serve that request to the defendant, requesting the defendant to comment on it, and simultaneously issuing oral proceedings, as above. In this case, before the oral proceedings there is no preliminary injunction order, and consequently the defendant has not to stop its actions before the Oral Proceedings and the decision to be made then by the court after having heard the parties. In other words, the defendant has the possibility to argue against the reasons of the plaintiff brought forward to the court in favour of the fast injunction request, using arguments of non-infringement, non-validity, etc.. As an example, in a patent procedure the defendant has a chance to prove that it has already filed an invalidation action against the respective patent, probable to be successful, etc..

If, either by prior knowledge or based on appropriate searches, a party (e. g. an importer) wishing to enter the German market place with new goods, knows of certain IPRs of competitors that might be infringed, the importer will check whether a) there are good reasons to deny infringement and/or b) the IPR in question for good reasons would be invalid. If no such defence argument can be found, as a matter of course the importer better should not pose the respective article onto the German market. If good arguments for defence, however, can be found, the importer should choose a strategy which avoids the above mentioned risk of immediate court order to cease and desist without oral proceedings. In the following the mechanism widely used for this purpose in Germany should be discussed:

Since it is entirely up to the court whether after filing of a fast injunction request the respective cease and desist order issues immediately or only after appropriate defence of the defendant and after oral proceedings, it is obviously necessary to make the respective court aware of the defence arguments of the defendant before even a request for fast injunction is filed by a plaintiff. To achieve this pre-awareness of the court, it is customary to file a so called Protective Writ at the court or courts at which the respective plaintiff could file its request for fast injunction.

Assuming that the foreign importer in question has no legal residence or subsidiary in Germany, like in case of a U.S. entity, and that the only allegedly infringing action is the exposing of a respective article at an exhibition at a certain place in Germany, say Cologne, it obviously is only necessary to deposit the Protective Writ at the court under whose jurisdiction the respective exhibition is. Assuming that the risk of infringement exists in relation to a patent, and assuming that the exhibition would be at Cologne, the Protective Writ will only have to be deposited at the patent dispute chamber of the district court of Düsseldorf, which is responsible for the whole Federal State of North Rhine Westphalia, in which Cologne is situated.

If the article is not only to be exposed at a certain exhibition, but generally e. g. advertised for in Germany, the Protective Writ would have to be deposited, in case of patents, at each patent dispute chamber in Germany. If it is a trademark case, similar rules apply for courts having jurisdictions in trademark matters etc. Further details of the courts in question will certainly be discussed, as the author of this article warmly would like to recommend, between the importer and his domestic and German lawyers and patent attorneys, respectively, so that at least it can be made sure that the Protective Writ is deposited and thereby brought to the knowledge of each court at which a fast injunction request could be filed.

A Protective Writ of the aforementioned kind materially contains the possible arguments of defence of the defendant against an attack based on a certain IPR or certain IPRs. If invalidity arguments are included, e. g. in case of a patent, the Protective Writ would have to be accompanied by a draft invalidation request which the defendant would announce to immediately deposit at the German Federal Patent Court against a certain patent if the respective IPR (patent) would be tried to be enforced against the defendant. Generally, the Protective Writ in an abbreviated form would contain all arguments of defence, including affidavits, draft invalidation requests, etc.

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The Protective Writ does just request the court that in case that a fast injunction complaint is filed no decision is made without prior oral proceedings, because of the reasons of defence as contained therein. Such a Protective Writ will be accepted by the respective court and "stored", but not be brought to the knowledge of the potential plaintiff until the plaintiff would really file a fast injunction request. In other words, if no fast injunction request would be filed, no third party, and particularly not the potential plaintiff, would get knowledge of the Protective Writ.

Whilst there is no absolute certainty that a court would consider such a Protective Writ, and a court in this case cannot be blamed by the defendant for not having respected the Protective Writ, in by far the majority of cases Protective Writs of this kind are carefully administered and considered by the respective courts and give a good basis for defence. Typically, depending on the subject value in dispute, for preparing and filing the Protective Writ a few thousand U.S. Dollars, based on service time spent, would have to be paid by the defendant as attorneys fees in Germany. By the way, a Protective Writ of the aforementioned kind should preferably be "renewed", by a letter to the respective court, every six months, since German courts usually after the expiry of six months, from the filing of such a Protective Writ, assume that the Protective Writ would not be of interest anymore, and would otherwise depose it, not recognizing it anymore in case of a future necessity.

In summary, it should be stressed that fast injunction procedures in Germany are not seldom, and that appropriate measures for defence, as summarized above, should be duly considered by foreign entities before trying to enter the German market.

4. Border Crossing Infringement

In the European Union (EU) the principle of an EU wide exhaustion of patent rights has been generally adopted. Accordingly, as soon as a product has been brought into the market place in any of the EU countries with the explicit or implicit consent of the

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patentee, the free circulation of such product inside EU can no longer be prohibited by the patentee or its licensees. Accordingly, EU-wide so-called parallel imports are generally to be tolerated.

Since the principle of the admissibility of parallel imports, however, is tied to the consent of the patentee, a compulsory license granted in a certain EU country does not enable those goods freely to circulate inside EU in case that there are other parallel patents on which not such a compulsory license was imposed.

A further principle is that products produced under so-called rights of private prior use, i. e. in cases where a party before the priority date of the patent in dispute had already started using the invention in a certain country cannot freely circulate into countries inside EU where other parallel patents exist and no such private right of prior use was created.

It should be duly noted, in this regard, also, that the EU countries generally do not accept a world-wide exhaustion of patent rights.

5. Cross-Border Litigation

A few years ago, particularly by Dutch courts the practice was developed that in case of related patents, like national patents derived from a single EPC application, injunctional relief could be obtained by filing a complaint e.g. in the Netherlands, with effect also for the other countries of EU where parallel patents existed. Decisions of that kind have been difficult to enforce, and sometimes even impossible, e.g. in U.K.. In the meantime even the Dutch courts have restricted the aforementioned practice dramatically. The only safe way to obtain enforceable cross-border decisions in the member countries of the European Union in general and the EU in particular exists in case that the complaint is directed, based on possibly all parallel patents, against the defendant in its country of residence inside the European Union, in which case e.g. the German court, in the same manner as the Dutch court, will handle infringements of patents outside of Germany, too. If the court of jurisdiction, however, is not

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chosen because of residence of defendant, rather because of where infringing actions took place, only the patent(s) infringed in the respective territory, with strict territorial restriction, can be relied on.

6. Calculation of Damages in Patent Litigation Procedures in Germany

6.1. Introduction

In patent litigation, whether in Japan, in Europe, specifically in Germany, or in U.S.A., the patentee generally has two goals to achieve: On the one hand, the patentee wishes to stop the patent infringer's infringing actions, preferably as quickly as possible, and, on the other hand, the patentee wishes to get indemnified for the harm which the infringer has done to the patentee during the time between the start of the possibility of collecting damages for patent infringement and the stopping of the infringement.

There are jurisdictions, like U.S.A., in which, if looked at from the viewpoint of an "innocent" observer from a country like Germany, the main purpose of a patent infringement procedure seems to be to get damages from the infringer, the injunctional relief described above being of less importance. The reason may be that in a jurisdiction like in U.S.A. the amount of damages sometimes is giant, compared with European and specifically German habits, whereas for an observer from e.g. U.S.A. the amount of damages that can be collected in a country like Germany sometimes appears as ridiculous. Accordingly, as a general observation one might duly say that in Europe, particularly in Germany, the injunctional relief is the main fruit of a successful patent infringement action, while in e.g. U.S.A. the real fruit consists of the damages.

The purpose of this paper is to explain the manner in which damages are calculated in Germany, which is the European country in which more than 70 % of all European patent litigation takes place, and possibly thereby to explain why a patentee in Germany usually has

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injunction, i.e. stopping of an infringer, as its main goal, and not the "pure" collecting of damages.

6.2. Damages for Patent Infringement - Compensation or Punishment?

As a matter of principle, the idea of using the payment of damages as a kind of a "punishment" for anybody who has infringed somebody else's right, like property etc., is alien to German Law. Rather payment of damages, quite generally, means the following: As far as possible, the - in the case this papers deals with - patentee, by damages to be paid by the infringer, should be put into a situation which would have existed if the patent infringement would not have taken place. In other words, the "indemnification" of the patentee essentially consists of a "restoration" of a world, as closely as possible, in which the patent would have been respected, i.e. in which the infringer would not, against the wish of the patentee, have used the patent.

Based on this, it already may be stated at this point that no "punitive" damages are used in Germany. The concept of "treble damages" or the like has no home in German Law and jurisdiction.

6.3. Methods of Calculating Damages

In principle, three different methods are available, at the choice of the patentee, to calculate the damages to be paid by the infringer. As a procedural rule, the patentee will not have to make this choice already when starting a patent infringement procedure, rather in such a "main" patent litigation only a verdict will issue, if the patentee is successful, that <u>in principle</u> the infringer has to pay damages. Furthermore, the infringer will be forced to disclose his accounts to the patentee to the extent that the patentee can learn about the turnover and the profit made by the infringer during the time period of infringing use, including an indication of the infringer's cost, the names of the suppliers to the infringer, and the names of customers of the infringer.

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Based on the aforementioned disclosure by the defendant, the patentee then will have to make a choice between the three generally known methods of calculating damages in patent matters available, namely license analogy, refund of lost profit of the patentee, and reclaiming of the infringer's profit made, respectively.

6.3.1. License Analogy

When applying this method, first of all it is assumed that during the infringing period a fictive arms-length license agreement has been in existence between the patentee, as "licensor", and the infringer, as "licensee".

Then, the court determining the damages will have to find a royalty rate which would have been used in the market place under the circumstances of the patent infringing actions. When doing so, a "usually accepted" royalty rate will be determined, which in Germany rather easily can be found. The reason is that particularly with regard to the calculation of remuneration for employees' inventions year by year many arbitration proposals of the German Board for Employees' Inventions at the German Patent and Trademark Office (GPTO) are disclosed, in which the value of employees' inventions is, in a very similar manner as in patent litigation, determined based on license analogy. The Arbitration Board is in more or less permanent contact with chambers of commerce and industry, employers' organizations, other economical associations etc. and observes the market place carefully, so that the royalty rates as regularly published in such arbitration proposals reflect the habits in the market place quite well. Good examples for royalty rates, and also of literature where to locate them, can be found in CASRIP Newsletter - Fall 1997, Volume 4, Issue 3, "Actual Royalty Rates in Patent-, Know-How- and Computerprogram-License Agreement", by Dr. Michael Gross, as well as e.g. in "Lizenzsätze für technische Erfindungen", 2nd edition, of Hellebrand/Kaube, ISBN 3-452-24693-0.

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Accordingly, finding the applicable royalty rate usually in Germany does not need expert witnesses to be heard by the court. Only in very seldom cases the judges of e.g. the Düsseldorf District Court would call for a court expert in order to determine the applicable royalty rate. Typical royalty rates, as far as experience has shown, rather closely follow the well-known 25 % rule (e.g. Les Nouvelles, Volume XXXVIII No. 4, December 2002, page 123, "Use of the 25 per Cent Rule in Valuing IP" of Mr. Robert Goldscheider, John Jarosz and Carla Mulhern.

One should duly take into account, however, that the German Courts have an increasing tendency not to apply just the royalty rates found in arms-length voluntary non-exclusive licensing agreements in a "simplistic" manner. Rather, as it has e.g. been described by Peter Meier-Beck in "Damages for Patent Infringement according to German Law - Basic principles, assessment and enforcement", Journal of Industrial Property, Vol. 15, 327-352, Seoul, 2004, and e.g. by the author of this paper in "Schadensersatzberechnung nach der Lizenzanalogie", VPP-Festschrift, May 2005, when determining the royalty rate to be used in the specific circumstances of calculating compensation for patent infringement by license analogy, a number of factors have to be taken into consideration: The "arms-length license agreement" to compare with is a very specific one, namely with no down-payment, no minimum royalties, no risk of invalidation of the patent in question, no risk of unenforceability of the licensed patent, and no risk of lack of success of the licensed product as such. Accordingly, the running royalty rates applied by German Courts are often distinctly higher than the "normal" running royalty rates in arms-length voluntary license agreements. As a rule one might even assume that they would generally be up to 200 % of the royalty rate one would find in a license agreements with minimum royalty provisions, down-payments etc.. In other words: If e.g. in machinery industry the "normal" royalty rate would be 2 %, in infringement procedures one might end up with 4 % royalty rate, based on net-sales.

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6.3.2. Patentee's lost profit

It is characteristic for German Law and practice that a patentee, wishing to have his lost profit refunded, not only will have to prove which profit the patentee would have made if instead of the infringer the patentee would have made and sold the infringing products, but the patentee also would have to prove that he would have made the infringers business, if the infringement would not have taken place.

The latter condition is very difficult to fulfill: It practically applies only if the infringing product is the only product to be used for a certain purpose, like with a pharmaceutical which cannot be replaced by any other pharmaceutical. In such a case, it is rather clear that, if not the infringer would have made available the respective product, the patentee would have done so. Another example are "tender" situations, like in the following situation which the author of this papers has experienced recently: A community in East Germany had asked for offers to build a community squash-court-system in East Germany. The squash-court-system was under patent protection. The two bidders were the patentee and the later infringer. The later infringer got the offer and did the work. The conclusion of the court was that in this case the patentee was entitled to get the lost profit refunded from the infringer, because if the infringer would not have made the business, the patentee would have done it.

6.3.3. Reclaiming of infringers' profit

Until a few years ago, it was very difficult to find any infringer who ever had made an alleged profit by patent infringement. The reason was that it was generally accepted that the infringer could not only deduct the variable, product-specific cost from the sales price achieved, but also the respective percentage of the overheads. According to a recent decision of the 1st Senate of the German Federal Court of Justice, well known under the key word "Gemeinkostenanteil" ("distribution of overheads"), published under the heading of "Prorated Overheads" 145 BGHZ 366 = 2001 GRUR 329 = 2002 IIC 900 (English translation), overheads cannot "generally" be deducted from the respective profit. Several

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judges in Germany have already explained, however, that, if the aforementioned principles would come under scrutiny by them, and particularly by the 10th Senate of the German Federal Supreme Court, responsible mainly for patent matters, the 1st Senate mainly being responsible for copyright matters, the aforementioned ruling "Gemeinkostenanteil" probably would be applied in rather specific manner: As far as the infringer would breakdown the overheads to an extent that the product-specific part of the overheads would be attributed to the infringing products, also that part could be deducted from the net sales prices achieved, and this is probably the way in which infringers in future will show there "profits" or, better to say "non-profits".

Generally spoken, it is very difficult, anyway, to check the calculation as made by an infringer, with regard to the infringer's profit, in detail, because of the general lack of discovery available in Germany. As long as the calculation of the infringer is plausible, the patentee has practically no possibility to prove that the infringer is not right. The patentee would need "objective" evidence that the infringer does not say the truth, in which case the whole declaration of the infringer would become a criminal act, because of giving a false declaration under oath, and then the attorney general as well as police would take over. Generally, such procedures, however, are not observed in Germany.

6.4. Conclusion

As a matter of principle and in general, license analogy is and seems to remain the main generally accepted method to calculate damages in patent litigation in Germany.

The "normal" running royalty rate, however, as deductible from a comparison with armslength voluntary license agreements, will be subject to increase, up to twice the "normal" rate, because of the lack of risk-bearing factors of "normal" license agreements as a burden to the licensee, like minimum royalties, down-payments, invalidity and unenforceability considerations etc..