

PREU BOHLIG

Patent Litigation in Germany

A Quick Guide to
German Patent Litigation in 19 Chapters

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No legal advise

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Preface

Where should we file a patent infringement lawsuit? How can we defend effectively against infringement allegations? Can we protect our customers against unjustified claims? How are damages calculated? Which impact will the Unitary Patent and the Unified Patent Court have on the patent landscape?

We receive questions like these from clients every day.

Patent law and patent litigation in particular is an extremely complex subject. It often involves technical implications that require an expert's participation. Frequently patent litigation has also a multi-jurisdictional aspect.

Even though patent law is partially harmonized around the world, there are jurisdiction-specific subtleties that can have a major impact on the outcome of a case. Moreover, patent litigation – like all litigation – is highly dependent on procedural law and procedural law is not harmonized in the slightest. This makes it very hard for our international clients to fully understand how patent litigation works in Germany, what options they have and against which threats they must defend.

This guide is a simple tool with concise snapshots of different topical issues concerning patent litigation in Germany. Our goal is for this guide to be an easy-to-read summary that allows you a better understanding of what

you can expect in a German patent case. It shall also serve as a basis for further detailed questions – which we are happy to answer.

Hamburg, September 2016

Chapter One

Introduction

Germany is one of the most important jurisdictions for patent litigation in Europe. Year after year, plaintiffs bring a large number of patent infringement actions in Germany. The German courts offer patent holders excellent chances to successfully enforce their patents.

Large Number of Proceedings

The importance of Germany as a jurisdiction for patent litigation is demonstrated by the number of actions brought per year. For example, more than 1,000 patent infringement actions were brought before German courts in 2015. Many more patent infringement actions are conducted in Germany than in other European jurisdictions such as France or Great Britain, even taking into account different ways to count proceedings (e.g. separate counting of infringement and invalidity proceedings in Germany and the German courts' tendency to conduct separate proceedings for each patent the plaintiff asserts).

Germany is also a particularly appealing jurisdiction for foreign patent holders. Parties based abroad are involved in approximately half of the patent infringement actions in Germany either as plaintiff or as defendant.

Brief Duration of Proceedings

Foreign patent holders often prefer Germany as a location for patent litigation because they want to avoid an excessively long duration of the proceedings.

On average, patent infringement proceedings in the German courts of the first instance are completed within approximately ten to fourteen months.

In other jurisdictions, such as Great Britain and the Netherlands, infringement proceedings may be completed within a similar time frame but then often slow down significantly as soon as the defendant attacks the validity of the patent.

Twelve German district courts have jurisdiction for patent infringement proceedings: These are the district courts in Düsseldorf, Munich, Mannheim, Berlin, Braunschweig, Erfurt, Frankfurt, Hamburg, Leipzig, Nuremberg, Magdeburg and Saarbrücken. The district courts in Düsseldorf, Mannheim, Munich and Hamburg handle a particularly high number of cases.

These district courts have established separate patent litigation chambers with judges who deal exclusively or primarily with patent law issues. The establishment of specialized chambers is one of the reasons for the rapid speed of German proceedings.

Another reason for the high speed of German proceedings is the bifurcation principle that applies to German patent law. According to this principle, courts in the

infringement proceedings only examine the question of whether a patent was used without permission. Other authorities and courts are responsible for the assessment of the patent-in-suit's validity. These are the German Patent and Trademark Office (GPTO) or the European Patent Office (EPO) and the Federal Patent Court [Bundespatentgericht (BPatG)].

Due to this division of labor, the infringement courts can rule on an alleged infringement without having to perform a time-consuming examination of the patent's validity.

Limited Costs of Proceedings

The short duration of infringement proceedings also has the advantage of reducing the legal costs compared to other European jurisdictions. The legal costs in German patent infringement actions are also relatively lower because the procedures for taking evidence are less extensive than, for example, in common law countries. Therefore, the costs of preparing for hearings remain relatively low.

However, when comparing costs, it should be noted that the costs of possible invalidity proceedings also play a role. Although infringement and invalidity proceedings are conducted separately, the costs of invalidity proceedings are often inevitably linked to a patent infringement dispute because a serious defense requires an invalidity attack. The section on legal costs will make it clear that even in Germany the costs amount of proceedings can be

significant. These costs are usually reimbursable to the benefit of the prevailing party.

Another reason why many companies choose Germany as a venue of patent litigation is the importance of the German sales market within Europe. Compared to other European countries, Germany generates the greatest gross domestic product. Sales figures in Germany are often higher than in other European countries. Therefore, enforcing a patent in Germany usually affects the patent infringer particularly badly.

In many cases, patent infringement proceedings are conducted in Germany as a role model for all European jurisdictions. Few patents are litigated in more than one European jurisdiction. In most cases, the parties are content with a court decision in one of the major European jurisdictions. In particular, if a court has determined a patent infringement, the parties usually see no need to discuss the same infringement questions again in the courts of another European country.

Recognition of German Court Decisions

In addition, it may be advisable from a strategic point of view to obtain a decision from a German patent court. The German courts have an excellent reputation within Europe. As a consequence, the courts in other European jurisdictions take decisions from German courts seriously and partly base their own decision-making practice on

them. Hence, a decision obtained in Germany often can be used to influence other patent litigation in other European courts.

However, it should be noted that courts in Great Britain recently have shown a certain reluctance to follow German court decisions. The UK High Court (Chancery Division) regularly points out that their decisions are based on a different foundation, since procedural laws differ significantly. This may ultimately lead to different results in Great Britain, often in favor of the defendant.

Basics on German Patent Litigation

The German patent infringement courts are organized in chambers. Each chamber consists of at least three judges who usually have no technical background. One of the judges is a “rapporteur”, primarily responsible for handling the case, preparing the hearing and authoring decision drafts. Usually, communications with the court take place with the rapporteur or the presiding judge (chair).

There is no jury in German court proceedings, including patent infringement proceedings. Professional judges discuss and assess all factual and legal issues. Although some German courts involve lay judges, this is never the case in patent litigation.

In contrast to other jurisdictions, German patent infringement proceedings in most courts normally have

only one hearing. German law provides for a limited number of interim decisions on individual aspects of a dispute. Separate hearings on the interpretation of a claim (such as a Markman style hearing) do not exist in Germany.

All questions of patent interpretation, infringement and defenses against an alleged infringement are usually discussed in a single hearing. The Munich court is an exception from this rule. It discusses questions of infringement in a first hearing and questions of validity in an optional second hearing.

Usually, the proceedings in the first instance end after a hearing with a judgment on the case. The parties may reach a settlement during the court proceedings or in parallel to them, but this happens far less frequently than, for example, in the US.

Another key point in German civil procedure, and thus in German patent infringement disputes, is the “principle of party presentation” (Beibringungsgrundsatz). The principle of party presentation means that the courts will only decide on facts and evidence that the parties submit during the proceedings. It is the parties’ sole responsibility to establish the facts of a case. The principle “*dabo mihi factum, dabo tibi ius*” (give me facts and you will be given justice) applies. The distinction between matters of fact and matters of law is clear-cut.

If certain factual circumstances cannot be clarified, or if the parties do not submit them in the proceedings, the burden of substantiation and proof will determine the

outcome. As a general rule, each party is obliged to present those factual circumstances that support their legal position. If a party does not present such facts regarding a certain issue of the case, or if this party is unable to prove it, the court must not base its decision on these facts.

In Germany, an alleged infringer can have the question of infringement decided by bringing an action for a negative declaratory judgment. In that case, no previous action brought by the patent holder or another person entitled to bring a claim is required. Rather, the alleged patent infringer themselves can actively seek to have the allegations decided by a court. This can be particularly advisable if the alleged patent infringer would like to prove to their customers that the alleged patent infringement claims are unjustified. A negative declaratory action requires a specific plaintiff interest to have the case adjudicated. This specific interest will come into existence if the patent holder or another person entitled to bring a claim issues warning letters or takes legal action directed at obtaining an injunction or compensatory relief. The preparation of the case itself, in particular starting evidentiary proceedings does not give the alleged infringer the required specific interest.

It is important to note in this context that bringing an action for a negative declaratory judgment cannot achieve a decision on the validity of the patent.

Patent invalidity proceedings, which play an important role in practice, are another crucial part of patent litigation. These proceedings are brought in the Federal Patent Court.

Patent infringement proceedings and patent invalidity proceedings are often conducted in parallel. In this context, opposition proceedings at the European and German Patent Office must also be mentioned. These are usually initiated directly after the grant of the patent. They are similar to the post-grant review under the America Invents Act.

The decisions in the patent infringement proceedings and patent invalidity proceedings at the first instance can be appealed. The stages of appeal in German patent litigation are relatively clear. A higher regional court (Oberlandesgericht), which has to decide the appeal, exists for each patent infringement court of the first instance.

Above the higher regional courts, the Federal Court of Justice (Bundesgerichtshof) monitors the uniform application of the law. The Federal Court of Justice is the highest German civil court and has set up a special senate for decisions on patent disputes. Usually, the higher regional courts and district courts deviate from the Federal Court of Justice's case law only in exceptional cases. Unlike, for example, in the US, the Federal Court of Justice's decisions are not binding on the lower courts outside of the particular action. In infringement cases, the Federal Court of Justice decides on appeals on a point of law. Such appeals require admission (certiorari) either by a higher regional

court as the appeal court or by the Federal Court of Justice itself.

Certiorari requires particular reasons. German statute permits only two reasons for certiorari: the fundamental importance of the matter or the need for a decision by the Federal Court of Justice to further develop the law and guarantee uniform adjudication.

An appeal on a point of law is intended only to obtain answers to questions of law. This means that the Federal Court of Justice must base its decision in a patent infringement case on the facts that have been established by the lower courts.

If the factual basis is incomplete, inconsistent or faulty, the Federal Court of Justice may refer the case back to the lower courts.

The stages of appeal in patent invalidity disputes are fewer. Above the Federal Patent Court is only the Federal Court of Justice. This means that there is no intermediate stage such as the higher regional courts in patent infringement disputes. Unlike in patent infringement disputes, the Federal Court of Justice can also decide on factual questions in patent invalidity proceedings. The appeal in invalidity proceedings is also not subject to any admission requirements.

The following graphic shows the relevant courts and offices which can be involved in a German patent case. The EPO combines the opposition division, the Board of Appeal

and the Enlarged Board of Appeal. Whereas any decision in opposition proceedings can be appealed to the Board of Appeal, the Enlarged Board of Appeal does not regularly review decisions of the EPO Board of Appeal. It is only competent to review EPO Board of Appeal decisions in cases of exceptional importance or gross procedural errors.

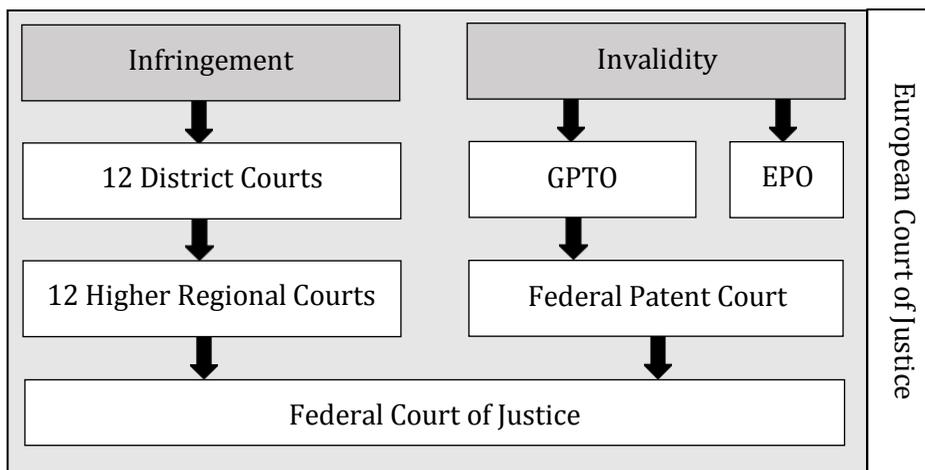


Figure 1 – Courts and offices involved in German patent cases



KEY FACTS

- ❖ Germany is one of the most important markets for the enforcement of patents.
- ❖ Court proceedings are relatively quick.
- ❖ Litigation costs are comparatively low, owing to the fact that there is often only one hearing and the taking of evidence is often unnecessary.
- ❖ German courts enjoy a very good reputation, and courts of other jurisdictions take German court decisions into account seriously in parallel proceedings.
- ❖ Out of the twelve German first instance infringement courts, the courts in Düsseldorf, Mannheim, Munich and Hamburg are the most experienced ones.
- ❖ There are no juries.

Chapter Two

Duration of Proceedings

Infringement proceedings in German patent litigation are remarkably rapid. However, if the defense in a patent dispute is associated with an attack on the asserted patent, the litigation can become lengthy, at least at the invalidity court. Currently, the main reason for this is the overloading of the Federal Patent Court as the central court of first instance for patent invalidity proceedings.

Infringement Proceedings

In Germany, patent infringement actions at the first instance end on average after ten to fourteen months. This is generally faster than patent infringement actions in most other jurisdictions.

Since German courts generally permit two written submissions from each party (plaintiff's statement of claim, defendant's statement of defense, plaintiff's reply and defendant's rejoinder), each of which requires a certain amount of time to be prepared, an action can usually not be concluded in less than nine months, although. In some cases, German courts do achieve this short turnaround time. However, between the various infringement courts certain differences exist. For example, the Düsseldorf court recently

tried to accelerate its proceedings and established a third patent chamber to this end. The Munich court adopted a slightly different procedure with usually a quick first hearing on questions of infringement and an optional second hearing on questions of validity. It comes to results more quickly if the validity of the patent is not at issue.

Invalidity Proceedings

In contrast to infringement proceedings, invalidity proceedings are very lengthy. In recent years, the duration of these proceedings has increased significantly. These days, a plaintiff can expect to wait approximately two years before a decision is reached. Since this statistical value of waiting time includes disputes that are settled before a court's decision, the average duration of proceedings at the first instance is often even significantly longer than two years if no settlement is reached.

Considering in this context that an invalidity action is usually brought to court considerably later than an infringement action, even more so if the infringement action came as a surprise, the difference between the completion of infringement proceedings and invalidity proceedings is often more than one year.

The situation is similar in opposition proceedings at the European Patent Office (EPO) and the German Patent and Trademark Office (GPTO).

No Pre-Trial Discovery

German patent litigation does not include pre-trial discovery. On filing a lawsuit, the plaintiff should already have enough information to substantiate their claims. The plaintiff should present this information to the court in the statement of claim. This lack of a pre-trial discovery phase makes German infringement proceedings significantly less costly and time-consuming than, for example, proceedings in the US.

During the course of the proceedings, opportunities to request that the other party submit documents are also very limited.

Overall, German patent infringement proceedings focus more on the debate about the interpretation of the patent and legal arguments than on reviewing extensive quantities of documents.

However, the patent owner does have several means to obtain information. We will discuss these means in the chapter on establishing the facts of the case. Anyway, these means are far less extensive than a fully-fledged pre-trial discovery in common law jurisdictions.

Taking of Evidence

During the course of infringement proceedings, taking of evidence is the exception rather than the rule. If a court does not have enough expertise regarding the interpretation of

the patent or the infringement by the allegedly infringing device it will appoint an expert. This delays the proceedings considerably, often by up to 12 months.

Trial

After the exchange of briefs, the case to trial. Unlike in the US, in most cases trials are not very time-consuming. The trial comprises a discussion of the case in a public oral hearing including and the taking of evidence, if any. In most cases, the trial starts with the judges giving the parties a preliminary assessment of the case.

The parties then have the opportunity to respond to questions brought up by the judges and presenting their view of the case. As no jury is involved and as the judges have read the briefs in preparation of the trial, the judges do not appreciate if the parties repeat their written submissions.

In a third step, if one party has contested decisive facts of the case, the court will take evidence. Depending on the nature of the facts, evidence can be taken in particular by hearing witnesses or experts. German courts tend to consent themselves with very limited evidence taking. It is in the court's discretion to admit evidence. In particular, the court can refrain from hearing expert evidence if the court disposes of the required expertise itself.

Finally, the court closes the trial and schedules a date for pronouncement of a decision.

The duration of the trial is in most cases very short, with a usual bandwidth of about two hours to one day, rarely longer.

Appeal Proceedings

The duration of appeal proceedings is similar to that of the infringement proceedings at the first instance. Some courts take more time at the appeal stage than others (such as, for example, the Karlsruhe Higher Regional Court (Oberlandesgericht Karlsruhe) in comparison to the Mannheim District Court (Landgericht Mannheim). Sometimes, the appeals court (for example in Düsseldorf) reaches a decision in less time than the court of first instance took to decide the initial case.

Appeals on Points of Law

Appeals on questions of law are heard by the Federal Court of Justice. They are usually time-consuming, especially if an infringement proceeding is pending in parallel with an invalidity proceeding. The Federal Court of Justice usually tries to avoid incompatible infringement and invalidity decisions. Therefore, the court often suspends the infringement case until it has decided on the validity.

Since the validity assessment is usually more time-consuming than the infringement proceeding, the court's practice delays the infringement case at the Federal Court

of Justice's level. However, in practice, this is of minor importance. Once the case has arrived at the Federal Court of Justice, usually too much time has passed and the case is not very urgent anymore. This is compensated by the fact that the decisions of the courts of first and second instance are generally provisionally enforceable.

German legislation enacted in 2009 tried to speed up the invalidity proceedings through procedural law changes, but this appears to have backfired to some extent. These changes might have shortened the invalidity appeal at the Federal Court of Justice, but they severely delay the first instance invalidity proceedings at the Federal Patent Court.



KEY FACTS

- ❖ Infringement disputes can usually be completed in the first instance within ten to fourteen months.
- ❖ Nullity proceedings are considerably more time-consuming than infringement proceedings.
- ❖ Hearing of evidence is not necessarily the rule and usually not very time-consuming unless the court appoints an expert.
- ❖ German civil procedural law does not have the concept of pre-trial discovery.

Chapter Three

Legal Costs

Each trial in Germany bears a cost risk. In addition to each party's own lawyers' fees, costs include court fees, the other party's costs for the party that loses and the costs of experts, translations and other services associated with litigation. In most cases, proceedings in Germany cost far less than those for example, in the US, due to a slightly different litigation culture and different procedural rules. However, German patent litigation is not always cheaper than patent litigation in other jurisdictions.

“Loser Pays” Principle

According to German civil procedure law, the losing party must pay the winning party's costs, whether or not the losing party culpably caused the proceedings to take place. These costs include lawyers' fees, other necessary costs of the winning party and court fees. This applies to both infringement proceedings and invalidity proceedings.

The loser pays principle is one reason why some non-practicing entities (NPEs) are hesitant to focus on Germany. Although there is a significant amount of NPE litigation in Germany utilizing the systemic preference for plaintiffs' interests in German patent litigation procedure, NPE activity in Germany is still relatively low.

Fee Calculations in Infringement Proceedings

Both lawyers' fees and court fees are calculated on the basis of statutory fee regulations with fixed fee rates. The actual amount of the fees depends on the amount in dispute, which is determined by the court. The amount in dispute is supposed to reflect the plaintiff's economic interest in the claims asserted with the action.

Usually, the plaintiff estimates the amount in dispute when filing the action. However, the court is not bound by this estimate. In its decision "You shall not lie", the Düsseldorf higher regional court has recently emphasized the parties' obligation to give an appropriate assessment of the value in dispute and not misrepresent the facts on which this value is to be based. The estimate of the amount in dispute has no effect on the plaintiff's claims and does not limit the amount of damages.

The amount in dispute is first and foremost a calculation factor for determining the court fees. The exact amount is often difficult to determine. In practice, amounts in dispute, as determined by courts, can range widely.

The statutory limit for amounts in dispute is EUR 30 million. In patent disputes, amounts in dispute are normally above EUR 500,000. An analysis of 237 published decisions of the years 2011-2012 shows approximately the following distribution of amounts in dispute:

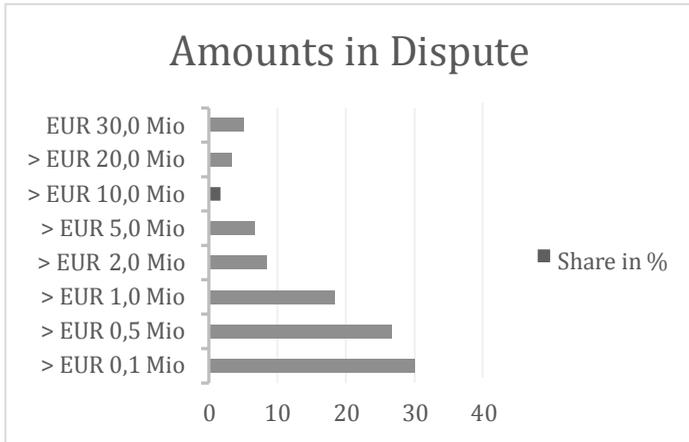


Chart 1 – Share of proceedings for certain amounts in dispute

The following table shows lawyers’ fees and court fees based on the statutory fee schedule for amounts in dispute from EUR 500,000 to EUR 30 million. These figures include only the costs of infringement proceedings at the first instance. These costs are at the same time the costs recoverable from the other party if the lawsuit is successful in its entirety. Under German procedural law, the recoverable lawyers’ fees are limited to the statutory fees.

In other words, the cost risk, i.e. the amount the winning party can request from the losing party, depends greatly on the amount in dispute. At the same time, these costs are easily predictable. In light of a recent decision of the European Court of Justice, the limitation of recoverable lawyers’ fees to the statutory amounts may be questioned if this limitation applies irrespective of the actual effort and complexity of the case.

AMOUNT IN DISPUTE EUR	TOTAL COST RISK	COURT FEES	LAWYER'S FEES
EUR 500,000	EUR 31,000	EUR 10,608	EUR 20,000
EUR 1,000,000	EUR 46,000	EUR 16,008	EUR 30,000
EUR 2,000,000	EUR 77,000	EUR 26,808	EUR 50,000
EUR 5,000,000	EUR 160,000	EUR 59,208	EUR 100,000
EUR 10,000,000	EUR 285,000	EUR 113,208	EUR 170,000
EUR 20,000,000	EUR 550,000	EUR 221,208	EUR 320,000
EUR 30,000,000	EUR 810,000	EUR 329,208	EUR 480,000

Table 1 - Estimated costs infringement proceedings first instance

The actual lawyers' fees may be different from those in the table, because they do not depend on the amount in dispute. Usually, litigators work on the basis of hourly rates or alternative remuneration models such as success-related remunerations.

The costs of an infringement action, based on an hourly fee rate, amount to approximately EUR 100,000. Usually, a defendant will incur additional costs in the amount of approximately EUR 60,000 to EUR 80,000 if the defendant wants to attack the legal validity of the patent with invalidity proceedings. Of course, the amounts of costs on the basis of hourly rates are somewhat speculative and strongly depend on the complexity and importance of the matter. The actual costs will be even higher in case of a bet-the-company litigation where no stone must be left unturned.

Table 1 above shows that in cases of lower amounts in dispute the reimbursement of costs does not cover the actual costs incurred. Costs are usually fully recovered from amounts in dispute of approximately EUR 5 million, meaning that the winning party can expect to recover its lawyer's fees in full. Court fees are always recovered in full.

The costs of appeals and appeals on a point of law are calculated on the same principles. However, the fee rates are somewhat higher. The statutory fees arising in appeal proceedings are shown in Table 2.

AMOUNT IN DISPUTE EUR	TOTAL COST RISK	COURT FEES	LAWYER'S FEES
EUR 500,000	EUR 37,000	EUR 14,144	EUR 23,000
EUR 1,000,000	EUR 56,000	EUR 21,344	EUR 35,000
EUR 2,000,000	EUR 94,000	EUR 35,744	EUR 58,000
EUR 5,000,000	EUR 194,000	EUR 78,944	EUR 115,000
EUR 10,000,000	EUR 346,000	EUR 150,944	EUR 195,000
EUR 20,000,000	EUR 645,000	EUR 294,944	EUR 350,000
EUR 30,000,000	EUR 980,000	EUR 438,344	EUR 540,000

Table 2 - Estimated costs of appeal proceedings

The costs rise again significantly in appeal proceedings on a point of law as shown in Table 3 below. Appeal proceedings on a point of law require the parties' representation by a lawyer who is specifically admitted to the Federal Court of Justice and whose charges are usually based on the fee table below. This means that high amounts

in dispute in appeal proceedings on a point of law increase the parties' costs significantly – a factor which should not be ignored.

AMOUNT IN DISPUTE EUR	TOTAL COST RISK	COURT FEES	LAWYER'S FEES
EUR 500,000	EUR 46,000	EUR 17,680	EUR 28,000
EUR 1,000,000	EUR 72,000	EUR 26,680	EUR 45,000
EUR 2,000,000	EUR 118,000	EUR 44,680	EUR 73,000
EUR 5,000,000	EUR 250,000	EUR 98,680	EUR 150,000
EUR 10,000,000	EUR 450,000	EUR 188,680	EUR 260,000
EUR 20,000,000	EUR 860,000	EUR 368,680	EUR 490,000
EUR 30,000,000	EUR 1,260,000	EUR 548,680	EUR 710,000

Table 3 - Estimated costs of appeal on points of law proceedings

Thus, the cost risk of German patent infringement proceedings with high amounts in dispute can be significant. Hence, the impression that infringement proceedings can be pursued at relatively low cost in Germany is only partially true.

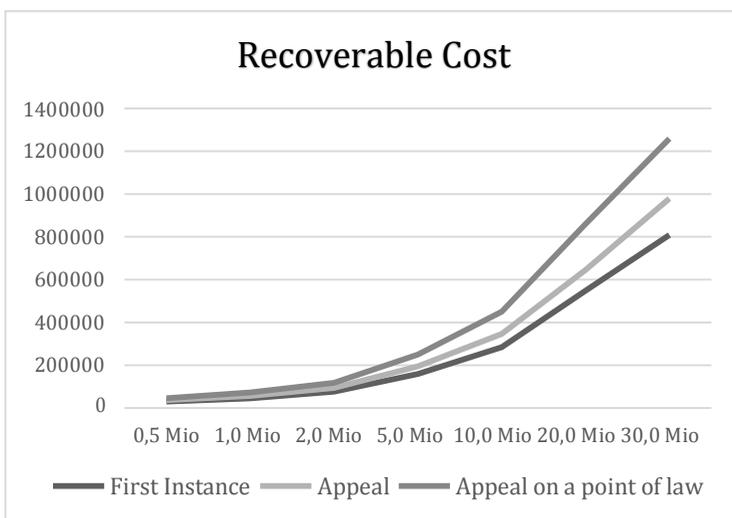


Chart 2 – Recoverable legal costs of infringement proceedings for values in dispute of up to EUR 30 million

Other Costs in Infringement Proceedings

In addition to lawyers' fees, the winning party is entitled to the reimbursement of other costs. These costs are not regulated through an exhaustive list; the statute merely requires that the costs were necessary for the assertion or defense of legal rights, such as reasonable translation costs for foreign parties, fees for necessary expert opinions and travel costs.

Unlike the lawyer's' fees and the court fees, these other costs are not linked to the amount in dispute. Therefore, it can be advantageous to have certain parts of the work done

by an expert whose cost can be recovered in full, independently from the lawyers' fees.

Exceptions from Reimbursement

In exceptional cases, the losing party is not obliged to reimburse the winner's legal fees. In particular, this is the case if the losing party accepts the asserted claims immediately after the winning party brought the action and has not previously not given cause for legal action. In this case, the losing party can even recover its own legal costs.

However, this is usually only significant in cases with a very high amount in dispute. The most common case in practice is that the patent holder brings an action without having previously sent a cease-and-desist letter.

Costs of Invalidity Proceedings

The costs of invalidity proceedings are similar to those of infringement proceedings. Again, costs are calculated on the basis of the amount in dispute. Usually, the courts determine the amount in dispute as 125% of the value of the claim in the related infringement action. Table 4 below is based on the values of the infringement proceedings.

It should be noted that invalidity proceedings have only one appeal stage. There is no additional appeal on a point of law. Thus, despite the slightly higher amounts in dispute and the higher court fees in invalidity proceedings, the

overall cost risk is comparable to that of infringement proceedings.

The costs of invalidity proceedings may also increase due to expert fees, travel costs, translation costs and other expenses. However, the amounts shown in Table 4 include a certain safety margin and can normally be used as an upper limit.

AMOUNT IN DISPUTE EUR	COST RISK FIRST INSTANCE	COST RISK APPEAL
EUR 500,000	EUR 40,000	EUR 60,000
EUR 1,000,000	EUR 60,000	EUR 90,000
EUR 2,000,000	EUR 100,000	EUR 150,000
EUR 5,000,000	EUR 220,000	EUR 310,000
EUR 10,000,000	EUR 420,000	EUR 590,000
EUR 20,000,000	EUR 810,000	EUR 1,150,000
EUR 30,000,000	EUR 970,000	EUR 1,370,000

Table 4 - Estimated costs of invalidity proceedings

In individual cases, costs may be lower, depending on case management. For example, the participation of a lawyer and a patent agent in invalidity proceedings is not necessary in all cases. Courts do generally not grant the recovery of lawyers' fees in addition to patent attorneys' fees if no infringement case is pending or imminent. In any event, the indicated costs are a realistic assessment of costs for an intense patent law dispute, including simultaneous infringement and invalidity proceedings.

Recently, there has been a tendency of some senates of the Federal Patent Court to determine very high amounts in disputes up to the maximum of EUR 30 million, in particular in cases of standard essential patents and pharmaceuticals. It should be noted that the determination of the amount in dispute by the infringement court is not binding onto the invalidity court and vice versa.

Cumulative Litigation Risk

According to the above, the cumulative risk in invalidity and infringement proceedings, which exists in all instances, can be considerable. In the worst-case scenario, the losing party must bear the entire cost of the infringement action and of the invalidity action with an amount in dispute of EUR 30 million. In addition, the losing party's must pay its own costs to the assertion and defense of their legal rights, which can be between EUR 500,000 and EUR 750,000 per patent-in-suit in complex cases.

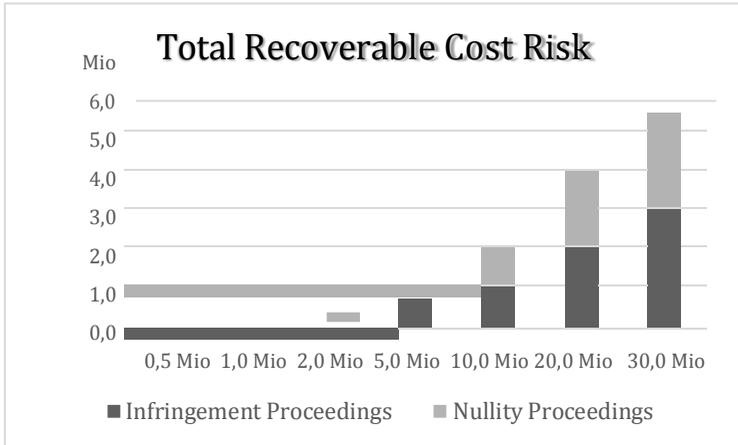


Table 5 – Total risk of recoverable cost

Advance Payment of Court Fees and Liability for Costs

It should be noted that under German procedural law, the party who submits an application or brings an action must make an advance payment of the full court fees. This means that in an action with an amount in dispute of EUR 10 million, the plaintiff must advance court fees in the amount of EUR 113,208, which can only be charged to the other party at the end of the proceedings. The same applies to the plaintiffs in invalidity proceedings, who must make even higher advance payments in order for the court to deal with their actions.

Each court may adjust the amount in dispute at any time. For example, if the court believes that the estimated amount in dispute was set too low, it will increase the amount and

request that the plaintiff pay the difference to the increased fees. This is even possible after the proceedings have ended.

Finally, the winning party is liable for the resulting court fees if the losing party is not solvent.



KEY FACTS

- ❖ The losing party must pay the costs of the proceedings.
- ❖ The recovery of legal costs is based on a statutory fee schedule
- ❖ Besides lawyer's fees and court fees further costs are recoverable if they were necessary for the assertion or the defense of rights.
- ❖ Depending on the amount in dispute, the recoverable fees may be very high.

Chapter Four

Bifurcation of Infringement and Validity Proceedings

The principle of bifurcation is a peculiarity of German patent infringement proceedings. It is very popular among plaintiffs, because it allows for swift enforcement of patents. Defendants fear it and fight it. For defendants, the bifurcation principle means that courts might find against them based on an invalid patent and thus cause them to suffer significant damages.

The bifurcation principle stipulates that questions of infringement and questions of patent validity be answered by different authorities. In Germany, the district courts have jurisdiction over infringement issues at the first instance. The Federal Patent Court has the exclusive jurisdiction for issues of validity. In infringement proceedings, the invalidity of a patent is not a suitable defense. This means that, unlike in most other jurisdictions, a defendant cannot claim as a defense that the patent, upon which the claim is made against it, is invalid or should be declared invalid.

This allows a plaintiff to enter proceedings with a dubious patent in the hope of a rapid judgment at the first instance in infringement and then use that judgment to exert considerable pressure on the defendant, who may

even be forced to agree to a settlement on unfavorable conditions.

For defendants, the main problem is not the bifurcation principle itself but the currently overlong duration of proceedings at the Federal Patent Court and the reluctance of the infringement courts to deal with validity issues. In particular, most German infringement courts are reluctant to suspend infringement proceedings in view of co-pending nullity proceedings.

Many court decisions involve a detailed analysis of the infringement situation but pay significantly less attention to considering a patent's validity.

Influence of Invalidity Proceedings on Infringement Proceedings

Invalidity proceedings can still have an effect on infringement proceedings. *First*, the infringement court has the option to suspend infringement proceedings until the Federal Patent Court has made a decision on the validity of a patent. *Second*, the interpretation of a patent in invalidity proceedings is important to understand the patent's scope of protection. The infringement courts are not strictly bound by the Federal Patent Court's claim construction. However, in most cases they will adopt this claim construction unless it seems entirely unacceptable to them.

Thus, a patent infringer can try to influence the interpretation of the patent through an invalidity action. An infringer can either attack a patent with the aim of having it declared invalid or persuade the court to interpret the patent in a favorable way for it and then use this interpretation in the infringement proceedings.

Although invalidity and infringement proceedings are separate, the two interact. This makes it advisable to have close cooperation between representatives in infringement proceedings and invalidity proceedings.

Attacking a patent in invalidity proceedings can also backfire at the infringer. This is particularly true if the Federal Patent Court adopts a broader claim construction than the infringement court and still the invalidation attempt fails. In that case, the infringer not only loses on one of his important defensive arguments. He also causes the infringement courts to consider the application of the Federal Patent Court's broader claim construction.

Suspension of Infringement Proceedings

Infringement courts have the discretion to suspend an infringement proceeding while awaiting the outcome of an invalidity proceeding, though they rarely exercise this option.

Courts suspend only about 10% of infringement proceedings, even though patent invalidity actions are brought as a response to approximately 50% of the

infringement proceedings. At the same time, the chances of success in patent invalidity proceedings are extremely high. In nearly 80% of these cases, patents are declared invalid or partially invalid. Thus, infringement courts frequently rule on infringement proceedings only to have the underlying patent later declared invalid.

The infringement courts tend to suspend proceedings only if the arguments submitted against the patent's validity are very convincing.

In addition, the courts often state that a nullity action must be brought as early as possible in order to justify the suspension of infringement proceedings. Sometimes courts even require this to happen before the patent owner files an infringement action. Recently, the Munich court has taken a very strict position and required the defendant to file an invalidity action after he received a cease-and-desist letter unless the defendant wanted to marginalize his prospects to obtain a suspension.

The low suspension rate is itself not alarming. However, combined with the long duration of proceedings in the Federal Patent Court, this gives patent owners a systemic advantage in enforcing their rights. Recently, the courts' reluctance to suspend infringement proceedings has been criticized, and some judges have started to take into account defendants' problems in obtaining a timely decision from an invalidity court. However, there has not been a significant change in the courts' practice, in particular in the most important courts in Düsseldorf, Mannheim and Munich.

PRACTICE NOTE

For an effective defense, the defendant must file an invalidity action at the Federal Patent Court as soon as possible. If possible, they should file this action before an infringement action is brought.

On the other hand, a plaintiff can initially bring an action for their patents without significant concerns over a lack of validity.

The principle of bifurcation, thus, hands the patent owner an important systemic advantage.

Consolidation of Proceedings at the Federal Court of Justice

During the stages of appeal, invalidity proceedings and infringement proceedings come together at the Federal Court of Justice. The Federal Court of Justice has jurisdiction for invalidity proceedings at the second instance, which is also the last instance. In infringement proceedings, the Federal Court of Justice has jurisdiction for appeals on a point of law as the last instance.

The Federal Court of Justice ensures that the interpretation of patents in infringement and invalidity proceedings is consistent. This ensures a consistent

decision at the last instance in both branches of the proceedings.

Recently, the Düsseldorf higher regional court has ruled that it was bound by the claim construction that the Federal Court of Justice's used in parallel invalidity proceedings. According to the Düsseldorf court, any deviation from the Federal Court of Justice's claim construction would create in that the court must grant certiorari, which should be avoided.

The Federal Court of Justice has vacated this decision and held that there is neither a legally binding effect nor a factually binding effect of its claim construction in invalidity proceedings on the lower courts in infringement cases. It is even possible that the Federal Patent Court itself deviates from its claim construction used in the invalidity proceeding, which can theoretically result in an infringement decision that is not consistent with the invalidity decision.

Restitution Proceedings

In some cases, a decision given in a patent infringement action becomes legally effective before a decision is given on the validity of the patent.

If in such a situation the decision is deprived of its basis by declaring the patent entirely or partially invalid, the defendant may initiate restitution proceedings. This

reopens the infringement proceedings. However, a time limit of five years must be observed.

Restitution proceedings are possible not only when a patent is declared invalid in invalidity proceedings but also after successful opposition proceedings before the Patent Office. The option to initiate restitution proceedings does not depend on the defendant obtaining the invalidity declaration himself. Therefore, the defendant should in any case track the fate of the patent, in particular third parties' attempts to invalidate it, even if they do not plan to attack it.

The availability of restitution proceedings can save costs. The defendant is not forced to appeal infringement decisions to keep the infringement case pending during the course of the invalidity proceedings, even though in many cases this may be the better option as it makes the enforcement of the first instance decision more difficult.

PRACTICE NOTE

The bifurcation principle means that the lawyers must watch the effects of the infringement case on the nullity case and viceversa.

Sometimes it may be necessary to argue different interpretations of a claim in nullity and infringement proceedings. Since the interpretation of the patent is a question of law, a party cannot be pinned down to a particular interpretation used during the proceedings.

There is also no principle of patent preserving interpretation in infringement proceedings. Therefore, the court may interpret patent claims broadly even if the prior art anticipates this broad interpretation. However, in such cases the infringement court will suspend the proceedings if the defendant has filed an invalidity action timely.



KEY FACTS

- ❖ Bifurcation is an important systemic advantage to the plaintiffs.
- ❖ Lack of validity is no defense in an infringement lawsuit. However, the court may suspend the case if it believes that the patent will be declared invalid.
- ❖ Due to the slowness of the German nullity court, the defendant runs a significant risk of being ordered an injunction on the basis of an invalid patent.
- ❖ An early attack on the patent is therefore often very important.

Chapter Five

Statistics

The prospects of success in a German patent dispute do not differ dramatically from those in other jurisdictions. However, the bifurcation principle described above gives plaintiffs a strategic advantage. The risk of a wrong decision at the first instance is predominantly borne by defendants, who often cannot take action against unfavorable decisions to their satisfaction due to enforcement pressure. In contrast, plaintiffs may easily have an unfavorable decision of the first instance reviewed by an appeals court.

Prospects in an Infringement Dispute

The prospects of success for a patent holder or their representative in a German infringement dispute are good. Across industries, the courts on average confirmed more than half of asserted patent infringements from 2010 to 2014. Statistical fluctuations, such as the decrease of affirmative decisions from 2012 to 2011, may have been caused by serial disputes. Most German courts tend to permit broad interpretations of patent claims. This favors plaintiffs, since there is no invalidity defense in infringement cases.

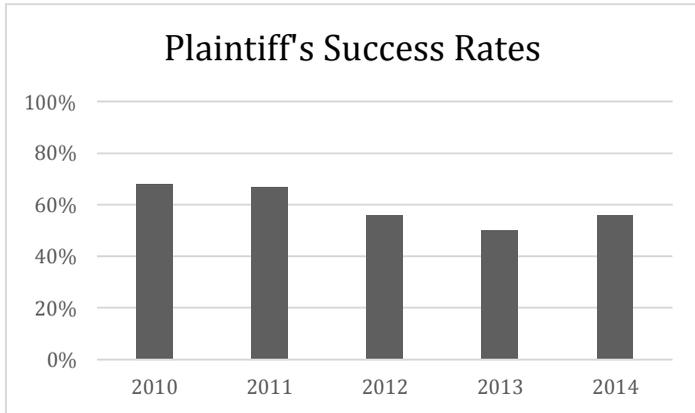


Chart 3 – Success rates of infringement actions

Success rates varied by industry from 2008 to 2014. For example, in the electrical engineering and instrument sectors courts favored 60% to 70% of alleged patent infringements, but in the mechanical engineering sector this was the case in only 50% of alleged infringements.

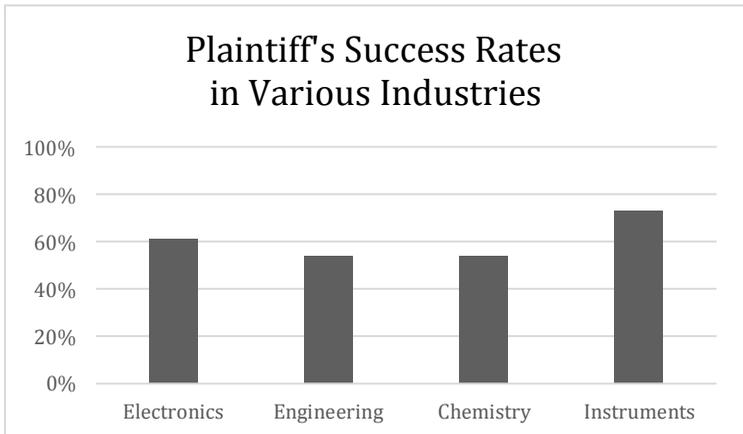


Chart 4 – Success rates in various industries

Reversal Rate in Infringement Disputes

In most cases, the decisions of the courts of first instance are upheld on appeal. The Düsseldorf Higher Regional Court, which conducts more appeal proceedings than all other higher regional courts combined and whose figures are therefore representative, partially or completely reversed first instance decisions more than 30% of the time only once (in 2013) in the period from 2010 to 2014.

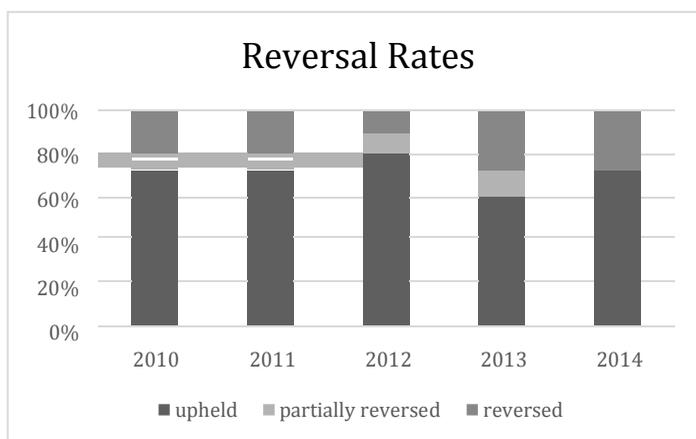


Chart 5 – Reversal rates at the appeal level (higher regional courts)

The reversal rates are no clear indication for the quality of the first instance court decisions. A share of the reversal must be attributed to the invalidations of the patents-in-suit after the first instance court decision. In such cases, the first instance decision was not necessarily wrong given the generally rigid standard for suspensions in cases of co-pending invalidity proceedings.

Preliminary Injunction Proceedings

The statistics of the Düsseldorf District Court for the years 2012 to 2014 show that the percentage of granted applications can vary greatly at different courts. For example, in 2013, the Düsseldorf District Court granted 50% of the applications for injunctions, while the national average was only 33%, though this effect may be due to an insufficient number of samples.

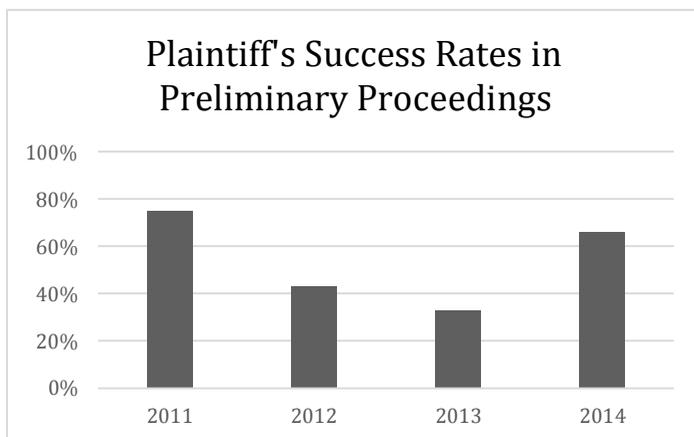


Chart 6 – Success rate in preliminary proceedings

Recently, courts have repeatedly emphasized that preliminary injunctions are available in appropriate cases. The complexity of patent infringement matters does not exclude preliminary injunctions. In the last couple of years, in particular the Munich District Court has adopted a more generous approach to preliminary injunction proceedings. In particular, compared to the Düsseldorf court, the Munich court applies less strict standards concerning the

substantiation of validity of the asserted patent. This increases the patent owners' success rate in preliminary proceedings in Munich. Moreover, the enforcement of preliminary injunctions issued in Munich is easier since the Munich court usually does not require the plaintiff to post a bond before enforcing the decision.

This makes Munich an even more interesting venue for preliminary proceedings. There is no appeal on points of law in preliminary proceedings. Therefore, the Federal Court of Justice does not have the power to achieve a uniform treatment in the lower courts.

Equivalent Patent Infringement

The statistics for recent years show that the patent holders should not rely solely on the assertion of equivalent patent infringement because there is only a very small probability of a German patent court upholding an asserted equivalent patent infringement, even though it is still theoretically possible.

While German courts confirmed 15% of the asserted equivalent patent infringements in 2008 and even 20% in 2009, a decrease can be observed in subsequent years. From 2011, the courts have confirmed equivalent patent infringements in less than 10% of the cases.

This is mainly due to the recent case law of the Federal Court of Justice since 2011. Consistent with the practice in the UK, the German Federal Court of Justice made it more

difficult for the patentee to extend the scope of their patents to the disadvantage of the public. Only recently, a slight tendency has been observed to drop this strict approach and, in appropriate cases, find equivalent infringement. Still, asserting equivalent infringement is an uphill battle.

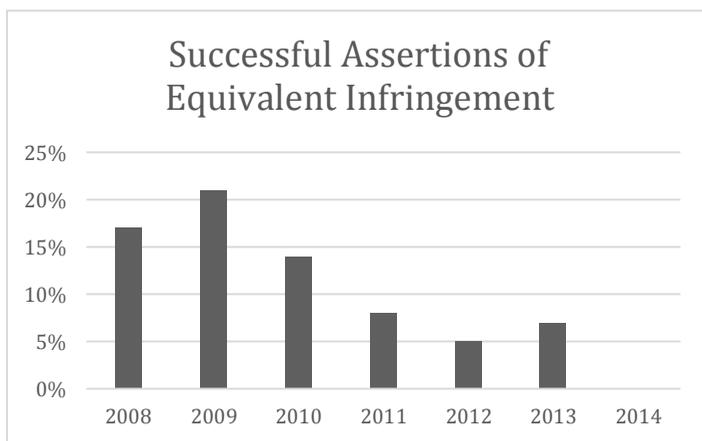


Chart 7 – Success rates for assertions of equivalent infringement



KEY FACTS

- ❖ The plaintiff's prospects in German infringement proceedings are very good.
- ❖ Reversal rates are moderate.
- ❖ In suitable cases, courts are willing to grant preliminary injunctions.
- ❖ Equivalent patent infringement is unlikely to be successful in German courts.

Chapter Six

Establishing the Facts

A patent infringement dispute requires significant resources and may need considerable investment. Patent infringement litigation is risky, and often difficult to predict. The results depend on legal details and complex technical components. Therefore, proceedings require very thorough preparation from the very beginning.

First, the claimant needs to establish the facts of the infringement as accurately as possible. This can be done with test purchases or test orders. The claimant must take care to clarify the true liabilities in as much detail as possible, in particular which places offer and deliver patent infringing products. These preparatory measures should include complete documentation of the investigation.

In the course of investigations, the patent holder must decide whether or not to confront the accused infringer with the infringement allegations. This can be done by sending an informal notice requesting the production of legitimacy or by sending a more severe cease-and-desist letter.

This procedure is not mandatory before filing an action or applying for a preliminary injunction. A patent holder may want to take advantage of the element of surprise and

therefore refrain from sending a cease-and-desist letter or a simple notice.

Recently, the Federal Court of Justice has extended the civil law liability of lawyers for cease-and-desist letters. The court held that a patent owner's lawyer was under a duty to honor the alleged infringer's interests. According to the court, the patent owner's lawyer breaches this duty if he advises his client to issue a cease-and-desist letter even though actually no unlawful infringement of the client's patent had occurred. If the lawyer acts negligently, he will be held liable for damages to the alleged infringer, both jointly with his client and severally.

The lawyer's personal liability is excluded if, in case of an uncertain legal situation, the lawyer informed his client about all relevant aspects of the case and the client nevertheless instructed his lawyer to send the cease-and-desist-letter. Still, the decision increases the professional risk of German lawyers and establishes a concept that bears some similarity to the unjustified threats regime in the UK. To contest this liability in case of a dispute, the lawyer will need to disclose privileged communication with their client, which most clients will not permit. As a result, lawyers might develop a preference for immediate legal action, which does not entail similar liability risks for the lawyers.

Establishing the facts is very important in German patent litigation. The options for obtaining evidence during the proceedings are very limited. The courts expect the parties to present comprehensive facts from the outset, based on which the courts can make an objective decision. Unlike US

litigation procedures, German law does not provide for a pre-trial discovery phase. Thus, the parties must rely on other ways of obtaining their evidence.

Test Purchases

In many cases, establishing patent infringement is not a problem, as the infringing item can often be easily purchased. A competitor may offer the product publicly, via advertisements in brochures, at trade fairs or on the Internet, and often provides detailed product descriptions, based on which all criteria of the relevant patent claim can be established with sufficient certainty.

There are also cases where products must meet minimum requirements, such as those set in DIN or ISO standards or in licensing regulations, so that they can be offered on the market successfully. These minimum requirements can also provide clues as to the basic design of the infringing item.

If the patent holder cannot easily trace the implementation of the infringing item by means of freely available promotional material or information on the patent infringer's website, additional investigations are necessary. In a test purchase, the patent holder, legal representative or another third party purchases the infringing item without disclosing the reason for the purchase. This is an effective way to check a competitor's competitive behavior.

In principle, test purchases are permitted under competition law. They may be considered to be contrary to honest commercial practices only in exceptional cases, for example if the patent holder intends to trick the competitor. This can be assumed if there is no suspicion of an impending or actual infringement of rights.

The test purchaser is of course not allowed to use any illegal means to perform the test purchase. It can be assumed that a means is not objectionable if the test purchaser behaves like an ordinary purchaser would in the relevant circumstances.

Recently, the Federal Court of Justice confirmed that under certain circumstances the delivery of a patent infringing device to the patent owner with the patent owner's consent (e.g. in a test purchase) may be covered by patent exhaustion. As a precaution, the patent owner should document carefully that the test purchase was made for the purpose of examining the device and establishing its patent infringing or non-infringing properties. In this case, the patent owner will not have consented with the putting into circulation of a patent infringing product, as he had no definitive knowledge of the patent infringing properties when ordering the product.

PRACTICE NOTE

Courts have generally recognized the costs of test purchases as necessary expenses for the assertion of the patent holder's rights. Hence, reimbursement of the costs of test purchases, along with other preparatory costs related to the action, can be requested from the opponent if the action is successful.

Of course, these costs must be reasonable, which means that a sensible patent owner would make the expenses in order to clarify whether or not his patent is infringed or not.

It goes without saying that no reimbursement will be granted if the test purchase is not necessary to establish the facts, e.g. because the infringement has already been established.

Right to Submission and Inspection

In some cases, patent infringement cannot be established via a test purchase, for example if the product is not commercially available or if the subject of patent protection is not a product but a process. However, as much information as possible is required for expedient proceedings.

In these cases, the right to submission and inspection, which is regulated in Section 140 c Para 1 of the German Patent Act (§ 140 c Abs. 1 PatG), can be of assistance. This provision gives the patent holder the right to request the submission of deeds, certificates or documents relating to banking, finance or trade, or to inspect the subject of an action.

This is intended to give patent holders the opportunity to clarify the facts of a presumed patent infringement, which up to that point was only an assumption, and to secure evidence to prove the patent infringement.

PRACTICE NOTE

The right to submission and inspection can only be asserted against the person who is suspected either to be an infringer or to participate in an infringement. It is sufficient for the infringement not to have occurred yet but to be imminent.

The right to submission and inspection is a very important tool for patent owners. As the German civil procedural law does not provide for a pre-trial discovery phase but still requires a plaintiff to substantiate their infringement allegations, it is essential for the protection of the patent rights to have a means of obtaining the necessary information easily and quickly. The handling of requests for submission and inspection is rather complicated. It is

imperative to involve an experienced patent lawyer in the preparation and enforcement of such requests.

Requirements of the Right to Submission and Inspection

The right to submission and inspection requires only that a patent infringement be sufficiently likely, not that it be absolutely certain. This is because this right serves the production of evidence and often must be asserted at a stage of the proceedings before the facts have been fully established. Therefore, the patent holder has to submit only specific, evidence-based indications to the court that suggest a patent infringement. The standard in practice is low. A reasonable likelihood of a patent infringement will be sufficient. As orders for submission and inspection are generally granted ex-parte, there is no

For example, indications of patent infringement can include:

- ❖ Design of parallel products that are distributed in countries where the patent is not in force;
- ❖ Characteristics of the patent infringing product that are specified in advertising material;
- ❖ Technical standards.

The submission and/or inspection will only be ordered if they are necessary to clarify the facts. This is not the case if other, more effective and easier methods are available to clarify the facts and to obtain evidence.

Thus, the court will deny submission and inspection if the patent holder can obtain the necessary information about the infringing product by researching the Internet or viewing advertising material. According to recent case-law, the court will also deny an order if the information sought does not relate to the implementation of the alleged infringer's product or method but to other information such as sales quantities or sales channels, at least unless the infringement is obvious on the technical side. The party seeking submission and inspection must provide sufficient evidence to the court that the order is necessary to clarify the facts, that an infringement is probable and that the defendant's interests will not be damaged unduly.

To this end, submission and inspection requests also must be proportionate. For this purpose, courts balance the patent holder's interests with the alleged infringer's interests. In principle, the following questions should be answered:

- ❖ Can the patent holder obtain the necessary information to assert their legal rights with regards to the patent infringement only via submission or inspection?
- ❖ How probable is the patent infringement?
- ❖ Are there any serious confidentiality interests of the defendant?

In general, the more likely a patent infringement is, the more far-reaching disclosures of their confidential information the defendant will have to accept.

PRACTICE NOTE

It may be advisable to apply for the inspection to be carried out by an expert so as not to compromise the defendant's confidentiality interests. Usually, courts make extensive arrangements to protect the defendant's confidentiality interests.

For example, a recognized method to protect an alleged infringer's confidentiality interests is for the patent holder to (initially) limit the inspection of findings to named legal representatives or patent agents and to oblige them to maintain secrecy.

A court does not restrict the order for submission and inspection unless it has received a specific request from the patent owner. Otherwise, if the court weighs the alleged infringer's right to secrecy higher than the patent owner's right to obtain confidential information, it will reject the application.

To avoid this risk, the patent owner may include protective measures in its application. This is recommended if time is of the essence, e.g. in trade fair cases where the first application must be successful.

Scope of the Inspection

The inspection includes visual inspection of the potentially patent infringing item and any measure necessary to establish the required facts to assess the existence of the patent infringement. Therefore, inspection can include touching, measuring, weighing or examination of the object under a microscope. It may also be necessary to install and remove parts, shut down machines and make copies.

The right to submission and inspection may also include business information on the extent of the infringing actions. However, a court will usually only grant this if the infringement has finally been established.

Enforcement of the Right to Submission and Inspection

Enforcing the right to inspection may take place in the “normal” main proceedings or – more quickly – in the preliminary proceedings. It is necessary in both proceedings to specify the exact deed, certificate or object to be inspected or presented.

The usual choice for enforcing the right to submission and inspection are preliminary proceedings. In these proceedings, the patent holder must demonstrate a particular urgency due to a justified concern that the patent infringing object will be hidden or changed and that consequently the patent holder will no longer be able to establish the facts and obtain the necessary evidence. In practice, the standard is relatively low. If there is a reasonable likelihood of infringement and unless the patent

owner has been hesitating with the application for a very long time, the courts will usually grant an order.

Independent Evidentiary Proceedings

In addition to the right to submission and inspection, German civil procedure law provides another way to obtain evidence under simpler conditions: the what is called independent evidentiary proceedings. These have the advantage that they do not require the likelihood of a patent infringement but merely a legal interest in an assessment by an expert. Thus, the obtaining of evidence can be performed under simpler conditions than under the concept of the right to submission and inspection. The required legal interest constitutes a very low threshold.

An expert opinion prepared in independent evidentiary proceedings can later be used as a fully valid opinion in the infringement proceedings.

However, the alleged infringer cannot be forced via independent evidentiary proceedings to tolerate certain investigations. Hence, the “Düsseldorf Practice” (Düsseldorfer Praxis) has been widely established in Germany, which combines independent evidentiary proceedings with preliminary proceedings for submission and inspection to avoid this restriction.

Independent evidentiary proceedings without simultaneous preliminary proceedings for submission and

inspection can be used to gather evidence with third parties who do not come into consideration as possible infringers.

Risks of an Inspection

When enforcing a right to submission and inspection, the patent holder should always bear in mind that the alleged infringer may have a claim for damages. Damages incurred by enforcing one's right to submission and inspection must be compensated if no infringement existed or was imminent. This also applies if the patent is revoked or declared invalid in opposition proceedings or nullity proceedings.

Damages to be compensated include in particular the costs for legal defense in inspection proceedings and production losses incurred during the inspection. More remote losses, such as for instance negative press coverage, are not included.

In spite of the potential liability, the patent owner is not required to provide security before enforcing an inspection.

Costs of the inspection

The legal fees incurred for obtaining an order for submission and inspection including court fees must be borne by the alleged infringer unless they appeal the court decision successfully. If the alleged infringer files appeal, the court must assess whether the initial ex-parte order for

submission and inspection was justified based on an ex-ante review. In a second step, the court will consider whether the inspection has confirmed the infringement. If so, the court will confirm the cost order. If not, the court will vacate the cost order and order the claimant to bear the costs of the proceedings including the alleged infringer's legal costs.

The costs of the inspection themselves must be borne by the claimant initially. The claimant can later reclaim these costs as damages if an infringement of the patent is established.

Submission of Other Documents

Other than in case of a right to submission and inspection, the submission of documents – whether by the alleged infringer or by a third party – can only be requested if a valid claim exists under civil law. This will rarely be the case against uninvolved third parties, for example, if a third party holds a trustee position. In case of contractual parties, such claims may arise from the contractual relationship. In these cases, possible confidentiality agreements must always be considered and observed.

The possibility of obtaining documents from third parties is highly restricted under German law.

Evidence Gathering Abroad

Another way of obtaining evidence is through non-German legal options. German courts accept evidence gathered abroad. However, German courts are very reluctant to pursue evidentiary proceedings abroad by themselves. Therefore, if a party wants to introduce foreign evidence into the proceedings, it should have gathered such evidence proactively in the relevant jurisdiction and not put their hopes on the German courts gathering evidence under The Hague Convention.

Evidence in the United States

Section 1782 of Title 28 of the United States Code is probably the world's most generous provision for judicial assistance, and it has been used increasingly in Germany. This procedure, allows statements, declarations and the submission of documents or other items for use in foreign proceedings to be requested from persons who are resident in the jurisdiction of a US district court.

Judicial assistance under Section 1782 of Title 28 of the United States Code can be used in German proceedings against the opposing party and third parties. It does not require that a legal action is already be pending. Rather, it is sufficient for a legal action to be reasonably considered.

This option requires the involvement of a qualified US litigator and a close cooperation between him and German counsel.

Evidence in France

French methods of obtaining evidence can also be used for proceedings conducted or planned in Germany. The French principle of saisie contrefaçon serves to establish and obtain evidence, and is a standard preparatory measure in French proceedings.

Evidence in the UK

Moreover, English law includes search orders. If sufficient grounds for suspicion exist, a respondent can be obliged to accept a search of their business premises for evidence and the confiscation of such evidence. They can also be required to provide information, for example on suppliers or customers of the infringing products or other necessary details.

This is known as an Anton Piller order or “search and seizure order”. It is a form of injunction, which may be sought by the applicant in order to enter the premises of the respondent to search for and potentially remove some or all items covered by the order. The order is usually sought to preserve evidence that may be the subject of an action.

Claims for Information and Accounting

Since German law does not permit pre-trial discovery, a plaintiff usually has no specific knowledge of the extent of potentially infringing acts. The plaintiff cannot normally gain such knowledge prior to the proceedings or to a

hearing. Rather, the proceedings serve the obtaining of such information. This ultimately means that the amount of compensation payments can only be ascertained in further proceedings. The claimant has to go through the full proceedings first and prove that an infringement of the patent has occurred. Only then, as a result of the court proceedings, the defendant will be ordered to provide sales information and accounting including information on the profits made with the infringement.

This makes the enforcement of damage payments a burdensome and lengthy exercise. Practitioners from common law jurisdictions are used to pre-trial discovery and therefore this concept appears strange to them.



KEY FACTS

- ❖ Thorough preparation of proceedings is essential as no pre-trial procedural stage exists.
- ❖ If possible, evidence should be secured in advance, for example by test purchases.
- ❖ The right to submission and inspection may be claimed in preliminary proceedings. In addition or instead, this right may be pursued in main proceedings.
- ❖ German law allows the use of evidence obtained abroad. In view of the lack of discovery, this can be an important option.

Cease-and-Desist Letters and Strategy Considerations

The economic value of a patent is reflected in how it is enforced. If a patent owner suspects an infringement of their patent, they may react more or less aggressively. German law offers the less aggressive request to produce legitimacy (Berechtigungsanfrage) and the more severe cease-and-desist letter (Abmahnung). Both of these can be sent to the alleged infringer before initiating legal proceedings but are generally not mandatory.

Request to produce legitimacy

In a request to produce legitimacy, the patent owner notifies the alleged infringer of the patent and requests notice as to why the alleged infringer feels entitled to use the invention. The request for production of legitimacy does not (yet) contain the patent owner's threat to bring an action. It does not trigger any claims for reimbursement of legal costs, whether from the patent owner or the alleged infringer. It also does not entitle the alleged infringer to resolve the legitimacy of the alleged use of the invention by bringing an action for a negative declaratory judgment. Thus, the request to produce legitimacy's function and character are purely informative.

Despite its informative character, such requests are useful if the patent owner prefers out of court negotiations over litigation. It paves the way for discussions with the alleged infringer without poisoning the climate of the discussions.

In view of the recent development of the case law, in particular the discussions about a personal liability of the lawyers for unjustified cease-and-desist letters, the option of a request to product legitimacy may become more interesting for patent owners. Such requests are inappropriate, however, if the patent owner has reason to suspect that the alleged infringer will remove evidence in reply to the request.

Cease-and-desist letter

A cease-and-desist letter is more serious. The alleged infringer who rightly receives a cease-and-desist letter must reimburse the patent owner for the legal costs incurred through the cease-and-desist letter. If an alleged infringer does not respond adequately to the cease-and-desist letter, they give the patent owner cause for legal action. They then must bear the costs of the proceedings, even if they admit the infringement and accept the asserted claims immediately in court.

However, the cease-and-desist letter is not just advantageous for the patent owner. It also bears risks. If a cease-and-desist letter is not justified, the alleged infringer

may request not only reimbursement of their legal costs. They may also consider bringing an action for a negative declaratory judgment.

The cease-and-desist letter is the final pre-judicial proceedings stage and serves as preparation for, or avoidance of, an action by threatening specific measures.

The requirements for a cease-and-desist letter are currently very strict. Not only must the person sending the cease-and-desist letter prepare the letter correctly in every detail; they must also the scope of protection conferred by the patent and the infringement allegations must be explained in detail. Additionally, the patent owner is supposed to prove why he is entitled to rely on the patent, in particular if his ownership has not been registered. Thus, the cease-and-desist letter should be formulated with great care.

Generally, the only correct response to a cease-and-desist letter are

- ❖ either acknowledging the accusations and issuing a cease-and-desist undertaking under contractual penalty for the case of non-obedience
- ❖ or rejecting the accusations and preparing a defense.

Only in exceptional cases, other reactions may be suitable. In any case, it is imperative to involve a German qualified lawyer. In particular, no accused infringer should

sign a pre-formulated cease-and-desist undertaking without professional advice.

PRACTICE NOTE

The wording of a request to produce legitimacy should be examined very closely. This is the only way to avoid the court classifying a relatively “soft” wording as a cease-and-desist letter, which could cause significant costs if a court later decides in favor of the defendant. A draft cease-and-desist undertaking should never be enclosed.

If a utility model appears to be infringed, the validity of the utility model should be examined very closely before sending a cease-and-desist letter. This will require closer scrutiny than in a patent case, as a patent has already successfully passed an examination by the patent office. Concerns about the validity of a patent must only be pursued if new evidence has surfaced which was not considered by the patent office.

A cease-and-desist letter that does not meet these requirements gives cause for liability, irrespective of whether the person who received the cease-and-desist letter actually infringes the patent.

Strategy Considerations

Before initiating any patent proceedings, a patent holder must establish the facts and consider numerous strategic points. This includes answering in particular the following questions:

- ❖ Which legal entity should bring the action?
- ❖ Against whom should proceedings reasonably be directed?
- ❖ When would be a good time to start proceedings?
- ❖ On which rights should the attack be based and which means should be chosen?
- ❖ Where should the action be filed, i.e. with which court?

The Right Plaintiff Entity

Risk minimization is particularly appropriate if the plaintiff has reason to fear a counter-attack in response to the patent infringement proceedings.

In this case, it makes sense to choose an entity as plaintiff that offers as few points of attack as possible, especially outside of Germany.

Tax considerations may also become important. It may be advisable to sue through a company resident in the United Kingdom if a substantial amount of compensation for damages or license fees is to be expected, since these

proceeds may receive preferential tax treatment (e.g. the what is called “patent box”).

In any case, it is disadvantageous to bring an action through a company that can be forced to provide security for legal costs in advance since this may protract proceedings unnecessarily. According to German civil procedural law, plaintiffs who do not have their habitual place of abode in a member state of the European Union or in a signatory state of the Agreement on the European Economic Area shall provide security for the costs of the proceedings should the defendant so demand. This obligation shall not be given where due to international treaties, no such security deposit may be demanded. Therefore, unless one wants to advance significant security for costs, a plaintiff entity should ascertain that it either has an administrative center in the EU/EEC or is covered by an international treaty excluding security for costs.

Recently, the Düsseldorf courts adopted a very broad interpretation of the procedural security requirement. The Federal Court of Justice has clarified that in any event a plaintiff does not need to provide procedural security if no relevant links to place outside the EU or EEC are present. There is no need to positively prove a certain place of abode if there is no indication that it might be placed outside the EU/EEC.

PRACTICE NOTE

Before bringing an action, the plaintiff should confirm that the patent register identifies the plaintiff as the legitimate patent holder. If not, the plaintiff will need either an exclusive license or an authorization from the legitimate patent holder and a personal interest in enforcing the patent.

These documents should be clarified as early as possible, because the plaintiff must produce the evidence for this relatively soon after beginning an action.

Recently, German courts have clarified that any entity registered as the patent owner may initiate an action for injunctive relief, irrespective whether the patent registry truly reflects the ownership. With regards to other remedies, in particular damages, the situation is more complicated. The courts assume that the entity shown in the patent registry is entitled to claim damages. However, the defendant may contest the plaintiff's ownership if they can demonstrate that the plaintiff actually does not own the patent.

Identifying the Right Defendant

There is often more than one infringer. Usually, several parties including suppliers, manufacturers, distributors, dealers, importers, end-users, network operators, etc. may participate in the same infringement. Under German law, the patent holder may proceed against any person involved in the infringement and is therefore not forced to assert claims only against the “main” infringer.

Thus, in preparing for proceedings, the patent holder should consider various issues. These include each potential defendant’s expected resistance, their accessibility and liquidity and the relevant market.

If a patent is to be enforced for the first time and an action can be brought against several infringers, it may be advantageous to select the infringer who presumably invests the least amount of time and money in its defense. This creates precedents that can have a significant impact on subsequent actions, although they are not binding.

The issue of accessibility is directly related to the costs and duration of the proceedings. If the plaintiff decides to sue directly the foreign parent company of a company operating in Germany, this would incur additional time and cost for translations and service abroad. An action like this would make little sense if a domestic subsidiary that carries out the operational business is available as defendant. However, there may be cases where both entities are sued for strategic reasons. This is permissible from a procedural point of view.

Recently, the Federal Court of Justice lowered the requirements to hold directors of a company personally liable for patent infringing activities. It is not necessary anymore for the plaintiff to substantiate the directors' personal involvement in the infringing activities. If the directors seek to avoid personal liability, they must explain in detail and provide evidence why, according to the inner-company distribution of responsibilities, they have not violated any obligation for executive care. The standard applied by the Federal Court of Justice is very high. Some courts of instance have already adopted this new case law and, without exception at least in 2016, held the directors of companies liable.

Lawsuits directed against the directors personally certainly create additional pressure and can therefore be a very useful tactical means to obtain a favorable and quick settlement.

If the plaintiff contemplates to sue a big international company, they should always consider a counteraction either in Germany or, to raise the stakes, in the UK or in the US. Therefore, it may be useful to study the prospective defendant's litigation behavior in Germany and abroad before deciding to sue.

Choosing the Right Time to File the Lawsuit

The time of the filing of an action is strategically the least critical point. However, in general, it can be said that the

sooner the action is filed the better, unless the use of the patent can be easily avoided and the interest in license fees is paramount. In this case, the early filing of an action early can let this source of income run dry very quickly

There is nothing wrong with giving a potential infringer the chance to either stop the infringement or take a license before filing the action, but this approach is not mandatory. In any case, it is not advisable to give the strategic advantage of fast infringement proceedings away by entering lengthy licensing negotiations if there is a serious chance that nullity proceedings may be filed. Instead, the plaintiff should try to increase the pressure on the infringer by filing an infringement action.

One issue to consider is whether the alleged infringer should be given the opportunity to file opposition proceedings against the patent. Opposition proceedings, which are comparable to the post-grant examination introduced in the US, can be filed against a European patent at the EPO within nine months after the grant of the patent. Currently, the practice of the EPO's Opposition Divisions is rigorous, in particular on the question of inventive step. A German patent is also open to opposition proceedings within a deadline of nine months to file the opposition at the GPTO.

Weak patents are at risk of being destroyed at the EPO or the GPTO. This could be an argument to approach the alleged infringer only after the opposition period has expired.

On the other hand, a patent will be strengthened significantly if it is upheld in opposition proceedings. This facilitates the enforcement of the patent in Germany. Also, as a general rule, most German courts only issue preliminary injunctions based on patents that have been challenged in adversarial proceedings like the EPO opposition proceedings.

Thus, opposition proceedings bear both positives and negatives for both patent owners and alleged infringers. Generally, the prospect of success of opposition proceedings will influence the decision whether to confront the infringer with the infringement allegations before or after the opposition period has expired.

Choosing the Right Means for the Litigation

The question for the right means includes a variety of strategic considerations. For example, the plaintiff will have to decide whether to proceed by way of “normal” proceedings or whether to file for a preliminary injunction. The answer will depend mainly on the claim’s urgency and the patent’s strength.

In addition, the plaintiff may contemplate which specific products and infringements they wish to include in their action. Usually, for time saving and cost reasons it is advantageous for the purposes of infringement proceedings to concentrate on a few, obviously infringing items. However, this decision should be made in view of possible

work-around designs and of the question to what extent an injunction would be a satisfactory remedy in case of success.

Since parallel invalidity or opposition proceedings may require limitations to the patent claims, preparations for such limitations should already be made in subsidiary motions when bringing the action. Under the concept of bifurcation, the infringement courts are allowed to base a decision on claims limited by additional features even if the main claim is clearly not patentable, e.g. due to lack of novelty or inventiveness and the court would normally suspend the case in view of co-pending invalidity proceedings.

Under German law, all patent rights that may be directed against a particular item must be asserted jointly. Although this rule is not very strictly applied in practice, the application of the rule may result in the consequence that no further action can be brought based on another patent which could have been subject of the first action.

The plaintiff will also need to consider whether to base the lawsuit on direct literal infringement or contributory infringement. Contributory infringement is in many cases easier to prove as it does not require the presence of all features of the invention in the infringing product. However, contributory infringement does not provide as far-reaching remedies as direct infringement does. In particular, damages are more difficult to enforce in case of contributory infringement and there is no claim for destruction of goods and recall from the distribution

channels. If the focus is on injunctive relief, invoking contributory infringement may be the best option.

Choosing the Right Venue

Finally, the patent holder must decide where to file the action. Usually, the patent holder may choose to file an action in any of the twelve first instance infringement courts. The standards of the German courts are in theory the same. However, the courts vary in experience and speed with which they try cases. Some courts are more plaintiff-friendly when it comes to claim construction, but they may have a tendency to suspend proceedings more easily in view of co-pending nullity proceedings.

There is no clear rule as to which court to choose. Usually, it is a safe choice to pick one of the big three courts (Düsseldorf, Mannheim or Munich). However, if the plaintiff's case is weak, it might choose an inexperienced court to take advantage of the possibility of an erroneous decision in its favor.

Recently, the Mannheim and the Munich court moved quicker than the Düsseldorf court, with comparable results, which may be an argument for those courts. However, if one considers the appeal level, too, Düsseldorf still appears to be a top venue with relatively quick decisions about appeals and two very experienced patent senates.

Still another question is the right venue for preliminary proceedings. In practice, it has been easier to convince the

courts in Munich and Hamburg that the patent on which the court is supposed to base the preliminary injunction is valid. The plaintiff's right to choose the venue includes the right to choose different venues for preliminary proceedings and main proceedings. Experienced litigators utilize the subtle differences of the courts' case handling.



KEY FACTS

- ❖ Patent owners are not obliged to notify the infringer before filing a lawsuit.
- ❖ Cease-and-desist letters can raise civil law liability of the claimant and their lawyer.
- ❖ Choices of plaintiff entity, right defendant and right venue are important.
- ❖ An early attack on the patent is therefore often very important.

Chapter Eight

Standard Essential Patents (SEPs)

Standards are essential in the digital economy. They enable us to communicate on smartphones, use tablets and other key parts of modern life. The European Court of Justice (ECJ), Europe's highest court, delivered a judgment in Huawei v. ZTE explaining when EU competition law will prevent holders of patents that are essential to comply with a standard (SEPs) from seeking an injunction against a willing licensee. Any company asserting SEPs must observe the ECJ's ruling before they file suit.

According to the ECJ's case law in Huawei v. ZTE, an SEP holder cannot seek an injunction to bar a competitor from making or selling a product infringing an SEP, unless the SEP holder:

- ❖ alerts a potential infringer of the infringement ;
and
- ❖ presents a specific, written offer for a license on fair, reasonable and non-discriminatory (FRAND) terms, including precise details on the royalty.

An injunction can be issued only if the infringer does not respond in a serious and diligent manner within a reasonable timeframe. No injunction can be issued if the alleged infringer responds with a written counter-offer

corresponding to FRAND terms and provides a guarantee or deposits a provisional sum for past and future use of the SEPs.

The plaintiff must take this special situation into account before filing the action. His position is on the one hand easier to handle, as generally infringement is easier to establish if industry standards apply. On the other hand, great care is necessary in deciding which remedies to seek.

In its *Huawei v. ZTE* decision, the ECJ imposes affirmative duties on SEP holders, notably the duty to first present a license offer. In the meantime, German courts have clarified that this obligation must be met by all plaintiffs asserting SEPs irrespective of whether the lawsuit was filed before or after the ECJ pronounced its decision.

The ECJ decision was based on a referral by the Düsseldorf District Court. The Düsseldorf court acted on the assumption that the plaintiff had a dominant market position. Thus, the ECJ did not analyze and did not give guidance whether all SEP holders should automatically be deemed dominant (which is a pre-condition for invoking Article 102 TFEU). The Advocate General had previously expressed caution about assuming that all SEP holders are dominant.

German courts have recently agreed to the Advocate General's position and require defendants to demonstrate that the plaintiff's market position is actually dominant based on the SEP. The courts have held that the marginal use of a standardized patented technology in a particular

market may speak against a dominant position. Defendants must therefore substantiate that the standard specification they want to access by using the patent in suit is relevant on the market.

In its decision, the ECJ referred to the classic case law about the need to maintain the right balance between competition rules and protection of intellectual property rights and the right to effective judicial protection. Under that case law, bringing an infringement action, cannot in itself constitute an abuse of a dominant position. Enforcement of IP rights violates competition rules only in exceptional circumstances. The ECJ focused on two main factors. One of these factors distinguished the case from the previous case law on compulsorylicensing:

First, the patent was indispensable. It was essential to a standard established by a standardization body. Any competitor that envisaged manufacturing products complying with the standard to which the patent is linked needed to use the patent's technical solution.

Second, the SEP status was given in return for the proprietor's irrevocable undertaking to the standardization body that it is prepared to grant licenses on FRAND terms, in conjunction with the fact that SEP status means that its proprietor can prevent products manufactured by competitors from appearing or remaining on the market and thereby reserve to itself the manufacture of the products in question.

The ECJ decision refers to competitors only. While the operative part of the judgment applies on its face to all SEP holders, the reference to "competitors" in the reasoning of the judgment does leave open a question of whether the same legal standard would apply to the seeking of an injunction by a pure licensing entity which is not a competing manufacturer. German courts have applied the ECJ's decision to both manufacturers and non-practicing entities.

The ECJ set out "specific requirements" with which the SEP holder needs to comply in order to be able to seek an injunction without abusing its dominant position. The requirements on the SEP holder described below are cumulative and need to be fulfilled in the order presented by the judgment. The most important German appeals courts in patent cases, the courts in Düsseldorf and Karlsruhe, have confirmed this approach recently.

The SEP holder must alert the alleged infringer, by giving notice or engaging in prior consultation, of the alleged infringement by designating the SEP at issue and specifying the way in which it has been infringed. The ECJ reasoned that this criterion is justified because, due to the large number of SEPs, the alleged infringer may not be aware that it is infringing a patent. German courts have discussed this requirement already. They have not applied a very strict standard but basically only require the SEP holder to name the patent and the functionality that allegedly infringes the patent. In view of the general requirements applied to

cease-and-desist letters, this approach appears as too generous.

After the alleged infringer has expressed its willingness to take a FRAND license, the SEP holder must present to the alleged infringer a specific, written offer for a license on FRAND terms, specifying the amount of the royalty and the way that royalty is to be calculated. The ECJ noted that this requirement stems from the SEP holder's commitment to limit its exclusive IP right by licensing it on FRAND terms, and from the fact that it has the necessary information to comply with the principle of non-discrimination, in particular, if it has already granted other licenses.

There was some debate among the courts in Mannheim and Düsseldorf as to whether the SEP holder's offer must exactly match the FRAND conditions. The Mannheim court held that the ECJ only required the SEP holder to make an offer that is "not evidently un-FRAND". Rightly, the Karlsruhe Higher Regional Court reversed that decision and emphasized that it is the SEP holder's burden of proving that his offer actually meets the FRAND criteria.

German courts have not resolved the question so far whether the SEP holder must disclose his calculation of the royalty rate in detail with his FRAND offer. No German court has advocated such an obligation on the part of the SEP holder. However, the ECJ decision seems to suggest such obligation and SEP holders should watch the development of German case law closely.

The alleged infringer must diligently respond to the SEP holder's written offer, "in accordance with recognized commercial practices in the field and in good faith, a point which must be established on the basis of objective factors and which implies, in particular, that there are no delaying tactics." Should the alleged infringer not accept the SEP holder's offer, it has to submit, promptly and in writing, a specific counter-offer that corresponds to FRAND terms.

If the alleged infringer uses the teaching of the SEP prior to the conclusion of a license agreement, they need to provide appropriate security from the point at which its counter-offer is rejected. The amount of security must include past acts of use of the SEP for which the alleged infringer must be able to render account. Security can be provided by, for example, providing a bank guarantee or placing the necessary amounts on deposit.

The ECJ then states that if no agreement is reached after this round of offer and counter-offer, the parties "may, by common agreement, request that the amount of the royalty be determined by an independent third party, by decision without delay".

The ECJ clarified that an alleged infringer "cannot be criticized" for challenging, in parallel to the negotiations relating to the grant of licenses, the validity of the relevant SEPs, their essential nature to the standard, or their actual use.

The detailed guidelines set by the ECJ establish a clear procedural framework for SEP holders seeking injunctive

relief. They also limit the possibility to use the threat of an injunction against users of a standardized technology, at least if the latter are prepared to take a license under valid patents which they actually use.

The decision has significantly changed the balance of German SEP litigation. So far, Germany has been a forum of choice for European patent litigation. German courts have been generous in granting injunctions for patent infringements and have taken the view that competition law defenses generally do not bar an injunction, even if the litigation concerns an SEP. Accordingly, it was the defendant's burden to prove all elements of a competition law defense. Under the ECJ's approach, the SEP holder seeking injunctive relief is obliged to prove that they approached the infringer and offered an agreement on FRAND terms. If the defendant contests the FRAND assertion, for example on the basis of an own FRAND royalty calculation, the court will have to appoint an expert to resolve this issue. This will likely be time-consuming and costly. Meanwhile, German courts have accepted these implications.

For plaintiffs, seeking injunctive relief against alleged infringers based on SEPs requires thorough preparation. The plaintiff must observe the framework set out by the ECJ and, in particular, must make a FRAND offer if the alleged infringer shows willingness to negotiate. As the plaintiff bears the burden of prove that the offer was FRAND, they should have expert opinions and calculations of royalties readily available.

The ECJ has not attempted to define FRAND. The decision suggests that there is no single right view of FRAND in any particular licensing discussion, given that the alleged infringer is able to submit its FRAND counter-offer to a FRAND offer of the SEP holder. FRAND appears to be something that is for negotiation. Accordingly, though the ruling is clear as to the procedures that have to be followed to obtain an injunction, it will not end, but only shift the focus of the controversies in SEP cases pending before national courts.

The German courts have not resolved this issue yet. Many questions are still open, as for instance:

- ❖ May an SEP holder offer a portfolio license instead of a license under the single SEP? If so, which are the criteria to be applied to the patent portfolio?
- ❖ May an SEP holder decide to license on a worldwide basis only or must they issue territorially limited licenses, too?
- ❖ May an SEP holder decide to license patents covering electronic components to retailers only instead of licensing the component manufacturers?



KEY FACTS

- ❖ SEP owners must meet the criteria set out by the ECJ in the *Huawei v. ZTE* decision.
- ❖ They must inform the alleged infringer about the patent and, if the alleged infringer contemplates taking a license, make a FRAND offer.
- ❖ The alleged infringer must react diligently and either accept the offer or provide a FRAND counter-offer.
- ❖ If the SEP holder rejects the counter-offer, the alleged infringer may continue to use the patent if he provides a security for the royalties incurred.
- ❖ The obligation do not apply if the SEP holder only enforces information and accounting claims and damage claims.

Chapter Nine

Customs Seizures

Customs seizures provide the patent holders with a cost-effective and efficient tool to strengthen and protect their proprietary rights. Customs seizures also only require patent holders to go through administrative proceedings, rather than lengthy court proceedings.

In recent years, customs seizures have become an increasingly popular tool and are now of considerable importance when enforcing proprietary rights. The IP Rights Department of German Customs (Zentralstelle Gewerblicher Rechtsschutz [ZGR]) is the competent authority for customs seizures.

Chart 8 shows the development of the number of applications over several years. In the year 2014, a total number of 1,049 applications for customs seizures were submitted in Germany. This is a slight decrease compared to the previous years. However, in general, the number of applications for customs seizures in Germany has increased steadily over the last 20 years.

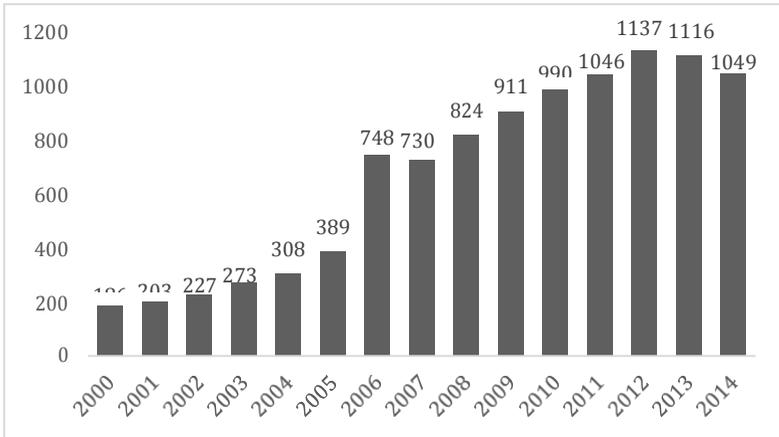


Chart 8 – Applications for Customs Seizures in Germany

Customs seizures come in two forms: One is the EU customs seizure and the other is the national German customs seizure. Which customs seizure proceedings are appropriate in a particular case depends on the underlying goods movement.

As a rule, EU customs seizures are easier to enforce but they are also limited, as they do not apply to intra-community trade among EU members.

Customs seizures are both an important tool to prevent third parties from importing patent infringing goods into Germany or the European Union and a valuable source of information. They can be used to find out about unknown infringers who import their goods.

Therefore, customs seizures provide a useful method to establish the facts of a case. In many cases, they are actually the starting point of litigation.

Basic Requirements for Customs Seizures

The seizure of allegedly infringing goods in Germany requires three things:

- ❖ The rights holder must submit a customs seizure application to the competent customs authority. In Germany, this is the Federal Finance Office South-East in Munich (Bundesfinanzdirektion Südost, München/ZGR) for national and intra-EU seizure proceedings.
- ❖ The customs authority must check the information provided by the applicant and determine whether the goods in question are patent infringing goods.
- ❖ In addition, there must be a seizure situation. This is the case if the allegedly infringing goods are under customs supervision and if the customs authority is permitted to access such goods, for example, upon import or export of goods or the exhibition of “travel luggage” at a trade fair.

The following text will focus on the simpler and more effective EU customs seizure.

EU Customs Seizures

In comparison to national customs seizures, EU customs seizures are becoming increasingly important and are

primarily used to prevent imports. Patent owners use these proceedings in particular to prevent the import of infringing goods from Asia, which are intended to be exhibited at German trade fairs.

Thus, EU customs seizures are primarily used to prevent imports. The export of infringing goods is less often the focus of these proceedings. EU customs seizures are not available for goods that move between EU member states and for goods that were manufactured with the consent of the patent holder.

In any case, the patent holders can always apply for national German customs seizures instead of or in addition to EU customs seizures. However, simultaneous applications are rare due to stricter requirements of the seizure under German law.

In most cases, customs seizures are used in a general manner to identify and seize any product that is imported, infringes a certain patent and has the properties described in the seizure application. This means that the customs seizure proceedings are usually not tailored to specific products but merely add the patent and the possible infringing products described in the application to the customs' "watch list".

However, customs seizure proceedings can also be used if the import of specific infringing goods is imminent, such as the import of very specific machines or materials. In these cases, if there is a concrete suspicion of such imports taking place, the lawyer should establish a close contact to

the customs authorities and, if appropriate in severe cases, the state attorney's office to organize the seizure. Moreover, as the custom's means are limited, the patent owner may consider to hire private investigators to support the customs authorities in determining the location of the infringing goods.

PRACTICE NOTE

If possible, the patent owners should try to access the goods via EU customs seizures.

Compared to the German customs seizures EU customs seizures are simpler than German customs seizures, because they only require evidence of a suspicion that proprietary rights have been infringed. Moreover, they do not require a security payment.

Opposed to that, German customs seizures, on the other hand, require that the infringement be obvious, which is harder to prove. Additionally, German customs seizures require a security payment upon filing of the application.

Content and Form of an EU Customs Seizure Application

The patent owner must assert an infringement of one of their patents to initiate EU customs seizure proceedings. Each application may be based on a violation of national

rights. In this context, it should be noted that the customs authority's powers only extend to the territorial scope of the relevant patent if an infringement of national proprietary rights is asserted.

In Germany, an application for EU customs seizure proceedings must be submitted to the Zentralstelle Gewerblicher Rechtsschutz (ZGR). This can be done with the form available on the ZGR's website or by submitting the application online (http://www.zoll.de/EN/Businesses/Movement-of-goods/Import/Restrictions/Goods/Protection-of-industrial-property/protection-of-industrial-property_node.html).

The success of the application depends on the careful preparation and compilation of the necessary documents. Amongst other things, the applicant must prove their eligibility. To do this, the applicant should at least enclose a copy of the patent registration with the application. The licensee should submit an authorization by the licensor or the relevant parts of the license agreement that reveal their eligibility. In addition, the application must provide evidence of an alleged infringement.

PRACTICE NOTE

In order to have the application for an EU customs seizure granted, an applicant should draft the application as precisely as possible and state all special features and technical data that characterize the protected product and make the allegedly infringing goods easily identifiable. Relevant information in this context often includes the following: distinguishing characteristics, typical import routes and means of transport.

Applicant's Obligations

Prior to submitting an application, the applicant should also consider that they will have to meet several obligations.

In the application, the applicant must agree to bear all of the costs that the customs authority incurs in the customs seizure proceedings. However, this should not deter a patent holder, since they can recover these costs from the infringer if the patent right is found to have been infringed and they do not have to provide security payment in the case of EU seizure proceedings.

In addition, the applicant must agree to assume liability for damages incurred by the opponent in customs seizures.

However, this should only be the case if a court subsequently determines that the patent was not infringed.

Another obligation is the need to file a lawsuit very shortly after the importer of the seized goods opposes the seizure. Therefore, the patent owner has to be aware of the fact that they should have all the documents in place for filing with the competent court before the goods are seized.

Temporal Validity of the Application

In some situations, the patent holder may anticipate the import of infringing goods but cannot identify the exact import date, for example because the goods are not to be exhibited at a trade fair. If this is the case, it is not advisable to submit an application regarding one individual case of infringement. Rather, the patent holder should submit an application covering the period of one year.

After expiry of the application expires, a patent holder can extend the application for a maximum of another year free of charge.

Actions if the Application is Successful

If the customs authority concludes that there are grounds to suspect an infringement of patent rights, it will take several actions.

First, it may refuse to hand over the infringing goods to the intended recipient and detain them. This detention of goods is an actual, official seizure. If the declarant considers the detention of goods unjustified, for example because they do not infringe a patent right, they can file opposition proceedings. Recently, the customs have stopped to forward samples of the seized goods to the applicant. Instead they send photographs. If these are not sufficient to determine the infringement, the applicant should examine the goods directly at the customs office.

Second, the customs authority must decide whether the goods should be destroyed. The destruction can happen in two ways: in a simplified procedure or a procedure for goods in small quantities.

In the simplified procedure, the goods are destroyed if the patent holder consents and the recipient of the goods does not oppose the destruction. The destruction of goods in small quantities, in particular goods weighing less than 2 kg, only requires that the recipient does not oppose the destruction of the goods.

Early Release

If infringement proceedings are already pending between the applicant and the recipient, the recipient can apply for the early release of the allegedly infringing goods. However, this requires a security payment by the recipient,

and the infringement court must not have ordered precautionary measures such as safekeeping.

Court Proceedings

If the declarant opposes the customs seizure, the customs authority will inform the applicant, who must make a statement whether they want the seizure to be upheld. In that case, the applicant needs to present an enforceable court decision in their favor confirming the seizure. There is a deadline of two weeks (ten working days) to provide the customs authority with a copy of the court decision.

If the court decision cannot be obtained in time, the customs authority will extend the seizure up to another two weeks if the applicant can prove that they have requested a court decision but not obtained it yet.



KEY FACTS

- ❖ Customs seizures are possible on the basis of European law and of German law.
- ❖ The requirements of a seizure under European law are lower; however, the European regulation does not cover intra-Community movements of goods.
- ❖ The applicant of a border seizure should be ready to file a request to the competent court immediately if the infringer opposes the seizure.
- ❖ Border seizures can be used to establish the facts of the case.

Chapter Ten

Forms and Acts of Infringement

The basic plaintiff's argument is to convince the court that the defendant uses the patent without entitlement or authorization. This argument can be based on various approaches. The plaintiff may base the action on various forms of infringement of the patented invention and various acts of infringement.

Patent infringement requires a use of the patented invention by the infringer. With regards to the forms of use of the patented invention, *direct* and *indirect* use must be differentiated as much as the forms of *literal* and *equivalent* use. With regards to the acts of infringement in practice, the main acts to be considered are the *manufacturing*, *offering* and *marketing* of patented goods and the *application of protected methods*.

A plaintiff can allege both infringements that have already occurred and those that are imminent. If the plaintiff seeks a cease-and-desist order, they would rely on a risk of recurrence if an infringement has already occurred and on a risk of first-time infringement if the infringement is (only) imminent.

Patent Interpretation and Determining the Scope of Protection

Whether or not a specific use of the patented invention can be determined in an allegedly infringing item depends on how the patent claims are construed. In all cases of infringement, the court must determine how one skilled in the art would interpret the claims. The interpretation of the patent is the basis for the determination of the patent's scope of protection.

According to Art. 69 of the European Patent Convention, the extent of the protection conferred by a European Patent is determined by the claims, and the description and drawings are used to interpret those claims. All European jurisdictions agree that Art. 69 of the European Patent Convention prioritizes the patent claim over the description and drawings. Those may only be used to support an understanding of the patent claims, which understanding is supported by the wording of the patent claims. The courts will not construe a literal meaning of the patent claim that goes beyond the wording of the patent claim.

German patent courts are very generous in interpreting patent claims. If the wording of the patent claims does not preclude a broad interpretation of the patent is not excluded by the wording of the claims and provided that it is not clearly excluded in the patent specification as a whole, the courts apply this broad interpretation. As a rule, the courts must not interpret the patent claims in a manner that falls short

of the literal meaning of the patent claims unless there are very compelling reasons for doing so.

There are differences in detail. For example, the Düsseldorf courts interpret patent claims predominantly in a functional way, with less emphasis on physical features of a claim, and try to avoid interpretations that lead to redundancy of individual features of a claim. Some other courts do not avoid redundancies that strictly, but put stronger emphasis on the physical features.

The patent specification is considered its “own dictionary”. Terms used in the patent claims do not necessarily have their ordinary meaning but the meaning attributed to them by the patent specification. Only if the patent specification does not give such terms a specific meaning, their ordinary meaning is decisive.

German courts do not consider the effect of the interpretation on the validity of the patent (or only consider it reluctantly). There is no principle of interpretation that preserves the patent. Likewise, courts are reluctant to consider circumstances outside the patent specification, in particular declarations of the patent owner during the prosecution phase of the patent. It remains to be seen whether this practice is sustainable. Most other jurisdictions do not ignore the patent application files, and German courts have started to use the files under the pretext that the files may disclose valuable information as to how an expert in general interprets certain terms used in the patent. This introduces the prosecution files through the backdoor.

For their interpretation of the patent claims, the courts may also take into account other prior art. Most courts do this with some reluctance and limit themselves to the consideration of prior art that is cited in the patent specification. Such prior art is particularly important for the interpretation of the claims if the patent clearly distinguishes itself from such prior art or builds on such prior art.

Features of dependent claims may be taken into account for the interpretation of independent claims. In many cases, dependent claims are a limitation of the independent claims to which they refer, allowing the argument by conversion that the dependent claim does not contain the same limitation. However, according to the recent case law of the Federal Court of Justice, this must be assessed on a case-by-case basis.

The patent's scope includes the literal use of the patent and its equivalents. Both literal and equivalent use can occur directly or indirectly, which amounts to direct or indirect infringement, or in the manner of contributory infringement, which bears some similarity to indirect infringement.

Literal Use

A literal use occurs if the allegedly infringing item or the method in question meets all requirements of the patent claim and is suitable to achieve the purpose of the invention,

if such purpose is laid down in the patent claims. A literal use is the core of most infringements and is argued in the majority of actions.

Equivalent Use

The principle of literal use is complemented by the doctrine of equivalent use. Equivalent use is, as a rule, accepted throughout most European jurisdictions. Equivalent use may be argued if no direct use is present because one or more features of the patent claim are not met. However, the doctrine of equivalents does not enable general inventive ideas to obtain protection. At least in the major jurisdictions very clear requirements have been established which all must be met in order to argue equivalent use successfully.

There are certain differences between the European jurisdictions in how favorable they are to the argument of equivalent use. There are jurisdictions like Germany which have traditionally been using a somewhat broader approach. There are also jurisdictions, like the United Kingdom, where equivalent use seems to have died out. At least it is very difficult to argue equivalence.

A primary issue in determining equivalent use is the public's interest in sufficient legal certainty. In the last couple of years, courts have tended to favor this public interest over the interest of the patent holder. One of the main arguments in favor of legal certainty is that it is the

patent holder's responsibility to ensure sufficient and appropriate claim drafting. If the patent holder is not sufficiently careful when drafting the claims, this omission should not result in an unclear limitation of the scope of protection conferred by the patent. So, in general, in cases of doubt, the burden of proving that a particular technical solution was supposed to be covered by the patent claims lies with the patent holder.

However, the case law of some district courts and higher regional courts in Germany seem to weigh the patent holder's interest higher than this public interest. It remains to be seen whether the German Federal Court of Justice tries to harmonize this court practice with other major European patent jurisdictions like the UK. This would require the German Federal Court of Justice to point out the importance of legal certainty and clarify the patent holder's responsibility for the claim drafting.

Direct Infringement

Direct infringement is present if a person, the infringer, manufactures or markets a patent protected item or practices all features of a patent protected method themselves or jointly with another person. A literal use does not always require the use of all features by one person or one company. A division of labor is usually also deemed a direct use.

Even though, as a rule, all features must be present, German courts have assumed direct infringement in cases where the infringer had sold products lacking one of the features where it was clear that the purchasers will complete the invention using a readily available addition.

The plaintiff may sue companies for direct infringement that markets the patent protected item or method. Moreover, according to the recent case law of the Federal Court of Justice, the directors of those companies are usually considered direct infringers, too. German law recognizes the concept of corporate separateness. However, in practice in many cases the directors do not escape personal liability as German courts have established an obligation on the part of the directors themselves to observe third parties' intellectual property rights in their business. Therefore, the company does not need to be shown as an alter ego of the director before liability can be established. A director can exculpate themselves by establishing that another director of the company was in charge of observing third parties' intellectual property rights primarily and that there was no cause to believe that the other director failed to meet this obligation.

Contributory Infringement

Contributory infringement is an underestimated business risk. Contributory infringement is present if the alleged infringer provides means relating to an essential element of the invention thereby enabling the purchaser of

the means to practice the invention as protected in the patent, either literally or equivalently.

In a sense, contributory infringement protects the patent holder before their invention has actually been used, as it only requires the delivery of suitable means irrespective of whether a direct infringement ever takes place. For this reason, the concept of contributory infringement is often also called a concept of threatened direct infringement.

Contributory infringement is usually asserted in cases of method or system claims, where the method or system is supposed to be infringed (contributorily) by a delivery or offer of physical means to use the method or to be used in the system. It is very likely that the courts will soften up the requirement of a physical means in view of new manufacturing methods. Arguably, the transmission of CAD files enabling 3D printing of patent protected items will be considered the delivery of a patent infringing means.

Even though the concept of contributory infringement has been reduced considerably by German courts in the last few years, it remains an important business risk.

Contributory infringement has been argued successfully in cases where the physical devices used in the method or the system were licensed. One of the main issues with contributory infringement is that the scope of license agreements and the effect of patent exhaustion may be judged differently in the major European jurisdictions. German courts tend to be very restrictive with the concept of patent exhaustion and implicit licenses.

Importance in Spare Parts Cases

In spare parts cases, the patent holder's often profits through the sales of spare parts and not by manufacturing and selling the principal product. In some cases, inventions have resulted in the creation of whole new markets. One example is the market for coffee capsules, which only became a real market once coffee brewing machines had been invented that could use these items. Other examples include the markets for printer cartridges or resins for use in additive manual fracturing processes.

In these cases, developing companies experienced considerable problems in enforcing their patents, even though strong arguments could be made in their favor. In recent cases, German courts held that the public's interest in using the patented machines with consumables of their choice (including non-licensed consumables) outweighed the patent holder's interest in additional compensation related to their invention.

Recently, the Munich District Court has shown a tendency to highlight the patent owners' rights in some decisions concerning printer cartridges. Probably, this does not change the landscape considerably. However, it demonstrates that contributory infringement can still be an important aspect in spare part cases, even though some courts are rather reserved in view of the public interest in an unrestricted use of the main products with spare parts of their choice.

The 'Essential Element' Requirement

In Germany, just as in a number of other countries, contributory infringement requires that an (allegedly infringing) means is supplied or offered, which means must explicitly relate to an essential element of the patented invention. This qualification is often hard to determine. A common definition is that means relate to an essential element of the patented invention if they are suited to functionally co-operate with one or more features of the patent claim to realize the protected inventive idea.

A feature of the invention is not necessarily essential just because it is part of the patent claim. In particular, a feature is not essential if it does not contribute to the invention. The element has to be functional like a “gearwheel in a gearbox,” and it is not sufficient if the element is only an “object” of the invention or of a method protected by the patent.

German courts have shown an inconsistent handling of the essential element requirement. For instance, the Karlsruhe Higher Regional Court decided a case where the means related to a feature that was only part of a dependent claim. This result is certainly not obvious. By definition, under German and European patent law, the additional features of dependent claims are not supposed to be essential features of the invention protected by the independent claim. With clever claim drafting, in particular with clever drafting of dependent claims (which are usually not examined very thoroughly in the patent office), experienced patent attorneys can obtain additional

protection for means that relate to the invention only remotely.

Double Domestic Nexus

If a plaintiff wants to bring forward the argument of contributory infringement, they must prove the “double domestic nexus.” This means, on the one hand, that the patent infringing means is offered or supplied to the German market. On the other hand the means must serve for the use of the invention in Germany.

Lately, German courts have interpreted these preconditions rather generously to plaintiffs. For example, a foreign manufacturer or trader of patent infringing devices, without delivering the devices to Germany themselves, was already held liable as they delivered their products knowing that their customer intends to distribute the goods within Germany and that the goods will remain there in order to use them for the purpose of the invention protected by a patent.

Indirect Infringement

Indirect infringement includes inducement to infringement and other forms of contribution to a third party’s infringing act, like aiding and abetting a third party’s infringement.

Indirect infringement may in some cases be conducted outside the territory where the patent is protected. In the

famous decision “Radio Controlled Watch”, the German Federal Court of Justice decided that even a relatively remote participation in a third party’s contributory infringement which takes place outside Germany may be considered a domestic infringement if the foreign party knew that their participation would be used for infringement in Germany and how it would be used.

Recently, the Karlsruhe Higher Regional Court adopted a somewhat stricter standard and pointed out that the foreign alleged infringer does not participate culpably in a domestic patent infringement if he does not positively know that the goods he delivered will be delivered to Germany.

Acts of Infringement

A precondition of patent infringement is an infringing act. This could be the manufacturing, offering and placing on the marketing of products that are covered by the patent. The plaintiff must substantiate these actions during the court proceedings and also prove them if the defendant disputes them.

In any event, German patent law does not only provide protection against patent infringing manufacturing and marketing of items directly claimed in the patent. It also prevents offering, placing on the market or using a product which is produced directly by a process which is the subject-matter of the patent, or from either importing or possessing such a product for the purposes referred to. It does not

matter whether the infringer or another third person used the method abroad where no patent protection exists for the method, as long as the infringer markets or otherwise uses the direct product of the method in Germany.

This protection of the direct method products is supposed to cover physical items and, under certain circumstances non-physical items such as data or information stemming from the use of a protected method. The case law does not appear to be settled on this topic.

Manufacturing

The manufacturing of a patent protected item means the physical act of creating the item. Again, the classical approach of German courts is that any act of manufacturing must have a physical effect. The mere provision of information would not be sufficient. However, with the advent of new manufacturing methods, as for instance 3D printing, the courts will reconsider this approach. It is at least conceivable that the provision of electronic information just as CAD files for the purpose of using them in the further manufacturing process will be considered a first step of the manufacturing process and, thus, be covered by the German Patent Act.

Offering

According to current case law, a binding contractual offer is not a precondition for an offering in the legal sense. Rather, any act that promotes sales is sufficient. The question whether such an offering relates to Germany at all

is often disputed. However, a domestic connection may exist even if the offer is made on the Internet in a foreign language if prospective domestic customers understand that language. In many areas, an offer in English is deemed sufficient due to the widespread use of the language among customer groups.

Usually, the exhibition of goods at domestic trade fairs is regarded as an offering. Even the organizer of a trade fair stall can be liable as an offeror, as can companies that display another company's promotional flyers at their own trade fair stalls.

German courts have a broad understanding of the concept of an offering. In effect, this includes any act that promotes sales attributable to a person who actually distributes the goods or who willingly partakes in the distribution.

Placing on the Market

A plaintiff can also prove infringement by showing that the defendant has already placed the products on the market.

A product is placed on the market when the person placing the product on the market gives the customer the power to use or dispose of the product.

The distinction between offering and placing on the market is important in litigation. For example, an offering can be justified by exhaustion if exhausted goods are available on the market and the defendant claims that they

can obtain the offered products from a legal source. In contrast, when products are placed on the market, authorization must be proven concretely for each patented product placed on the market.

Using

Moreover, the mere use of the product which is the subject-matter of the patent is covered by the patent. In practice, the use does not play a very important role. Most patent infringers will not only use the patent protected item but also offer it for sale or put it on the market. The focus may be on the use in two scenarios:

First, an company that uses a technology in their own business, e.g. in their own manufacturing process, without intention to sell the patent protected product may be the target.

Second, there are cases where the plaintiff sues the defendant because of their participation in a private third party's infringement of the patent. The private third party will usually not be active on any market with the product but merely use it in their private household. As using is one of the patent infringing activities, a business' participation in such private use amounts to an infringing activity. The private party themselves does not infringe the patent as the private party is covered by a private useexemption.

Importing or Possessing

For the sake of completeness, the importing and possessing must be mentioned. The patent provides

protection against any third party's activities of importing and possessing products covered by the patent if the infringer imports or possesses the product for the purposes of offering it, putting it on the market or using it.



KEY FACTS

- ❖ Patent infringement can occur under the concepts of literal and equivalent infringement as well as under the concepts of direct and indirect infringement including contributory infringement.
- ❖ German courts have a very broad approach to liability. In particular, the courts tend to automatically assume the directors' liability for patent infringing activities of their company.
- ❖ It used to be very difficult to establish equivalent infringement. Recently, German court have shown a slightly more generous approach to equivalent infringement.
- ❖ The requirements to find contributory infringement and all other forms of indirect infringement including aiding and abetting are relatively low. Almost any participation in a third party's infringing activity is sufficient to cause liability.

Chapter Eleven

Procedure in the Infringement Courts

The general rules of the German civil procedure law apply to German patent infringement proceedings, too. These rules are not always suitable for the particularities of patent disputes. However, they are binding. In particular, German civil procedure law tends not to stagger proceedings a great deal. Infringement and validity issues are tried at different courts. The amount of damages to be paid is usually determined in a second round of proceedings.

All issues regarding the patent infringement and related legal consequences are usually litigated in a single stage of the litigation. This stage includes the following issues:

- ❖ Points of admissibility under civil procedural law;
- ❖ Interpretation of the patent at issue;
- ❖ Finding of infringement;
- ❖ Liability of the defendant;
- ❖ Order of all remedies except the amount of damages or compensation

Therefore, infringement proceedings are usually very compact and give the parties little opportunity to adapt to the circumstances.

Initiation of Proceedings

The German legal system does not provide for a pre-trial stage in patent infringement proceedings. In Germany, proceedings commence upon filing of the action in the competent district court. Twelve district courts have jurisdiction for patent infringement proceedings.

The plaintiff may choose the court where they think they have the best chances of enforcing their strategy. Two aspects are crucial regarding the court's territorial jurisdiction: *First*, the plaintiff may file the action with the court in whose district the defendant resides. *Second*, the plaintiff may choose a court where the patent infringement occurred or is imminent. In practice, companies usually offer their products nationwide. Hence, an action can be filed against them with any of Germany's twelve patent infringement courts. Even if, in exceptional cases, a company does not offer products nationwide, courts tend to assume that the company might change that business model and act on the assumption of a risk of a first-time infringement in their district, which also creates territorial jurisdiction.

For the purpose of establishing the court's territorial jurisdiction, it will even be sufficient to just plausibly assert

that a domestic patent infringement is imminent. It is not decisive whether this is really the case or not. If it transpires that no imminent domestic patent infringement can be proven, the court will not dismiss based on lack of jurisdiction but on lack of impending infringement.

Contents of a Statement of Claim

German procedural law follows the concept of *Fact Pleading*. The plaintiff in patent infringement proceedings should submit sufficient facts so that the statement of claim can fully illustrate how the patent has been infringed. In German civil courts the “principle of party presentation” (Beibringungsgrundsatz) applies. This means that the litigants themselves must submit all relevant facts. In the statement of claim, the plaintiff should offer to provide the necessary evidence, which is suitable to support their allegations.

The consequences of insufficient substantiation for a plaintiff are twofold. *First*, the plaintiff loses valuable time, because later substantiation in many cases prolongs the proceeding. *Second*, the plaintiff does not exert pressure on the defendant who is not obligated to respond to unsubstantiated allegations in a substantiated manner. Thus, the defendant does not have to commit themselves to certain facts of the case as long as the plaintiff’s assertions do not force them to do so.

The statement of claim usually starts with the remedies sought by the plaintiff. In the second part, which is the most important one, the plaintiff describes the facts of the case. In the third part, the plaintiff makes legal arguments. These legal arguments are very superficial. In most cases they will limit themselves to citing some relevant sections of the German Patent Act on remedies.

The statement of claim should also contain an estimate of the value in dispute. If the value in dispute is plausible to the court, the court will base its provisional determination on it. On the basis of this determination, the court will invite the plaintiff to advance the court fees.

Service of the Action

After receiving an advance payment of court costs, the court serves the defendant with the action. The advance payment of court costs is calculated on the basis of the provisional value in dispute stated in the statement of claim. Service of the action will take a considerable amount of time if the defendant is based abroad and service must be effected there.

Service will be effected on the basis of the EU Regulation 1393/2007, on the basis of bilateral or multilateral international agreements as The Hague Service Convention or, in absence of such agreements by general letters rogatory.

EU Regulation 1393/2007 covers all EU member states. About 70 countries including PR China (but not Taiwan), the US, India, Israel, Turkey, Russia and Switzerland are signatory states of the Hague Service Convention. As a general rule, except under the EU Regulation 1393/2007, translations of all documents to be served are needed. The plaintiff's lawyer must certify the documents.

Within the EU no translations are necessary at first. However, the defendant may refuse service of process if they are not able to speak the language of the document to be served and if no translation is provided into the office language of the state where service shall be effected. In that case, the statement of claim must be translated, including attachments that are indispensable for understanding the cause of action.

As service of process abroad often delays the proceedings, the plaintiff should consider filing at a time when service can be effected in Germany, e.g. when the defendant participates in a domestic trade fair. Moreover, if the plaintiff is suing multiple defendants, they may move to separate the proceedings against the foreign defendant so that the case can continue against the domestic party. The court may consolidate the cases at a later point in time.

PRACTICE NOTE

The plaintiff should not include all of their evidence and arguments in the statement of claim. At the beginning of proceedings, it is usually sufficient to submit short statements on the features of the patent claim. Still, this is not comparable with filing a lawsuit in the US, where the complaint serves as a notice rather than the function of reasoning for the infringement. Even though a plaintiff may do this briefly, the plaintiff must substantiate the infringement and bring forward a clear motion.

The courts then consider it to be the defendant's responsibility to raise the bar in their reply. In other words, the plaintiff should anticipate the defendant's possible arguments already when preparing the statement of claim but only use the anticipated counter-arguments in their written reply. There is no benefit to making the defendant aware of possible problems or weaknesses in the infringement argumentation.

Since judges in the district courts' patent litigation chambers have usually not undergone a technical education, the submissions regarding the patent's technical features and the design of the attacked product should be presented clearly in a way that makes it possible for non-experts to understand them.

Defense Notice or First Hearing

The court may, at its discretion, either determine a date for the first hearing or enter into written preliminary proceedings. In practice, both types of proceedings have become blurred.

If the court sets a deadline for the defense notice, the defendant must decide within a statutory deadline of two weeks whether they submit a statement of defense. If the defendant decides to submit a statement of defense, they must name a lawyer who must affirm their authorization to represent the defendant and submit a defense notice within this two-week period. If the court determines a date for the first hearing, further dates and deadlines will be determined at said hearing. This is common practice in particular at the Düsseldorf District Court.

PRACTICE NOTE

The two-week period to submit the defense notice is a statutory deadline that cannot be extended. Missing this deadline can have important consequences. If the defendant misses the deadline, the court can issue a default judgment by assessing whether the action is founded only on the basis of the plaintiff's submissions.

A default judgment is subject to appeal. However, the plaintiff can enforce it without a security deposit until it has been reversed. Hence missing the deadline can have fatal consequences.

Statement of Defense

The court gives the defendant the opportunity to submit a statement of defense. The court often sets a deadline of two months for this, although deadlines can be longer in complex cases. In the statement of defense, the defendant should state all defenses and counter-arguments suitable to refute the plaintiff's allegations. This includes mainly technical arguments against the infringement and also legal arguments such as lack of liability for the infringement, reference to licenses or exhaustion, or a private right based on prior use.

This also includes the attack on the patent validity. Strictly speaking, an attack on the patent's validity is not a defense argument. However, the infringement court may stay the dispute if a pending nullity action appears likely to succeed.

The Munich Procedure

A core feature of the Munich procedure is that the Munich court usually conducts two oral hearings and is very strict with deadlines.

If service on the defendant can be effected in Germany, the Munich court tries to hear the case a first time three to six months after service of the lawsuit on the defendant. A first instance decision usually takes ten to fifteen months from service.

Even though the Munich court claims to appoint experts only rarely, this occurs more often than for instance in the

Düsseldorf court. The court offers mediation, which parties hardly ever make use of.

In the first hearing, the court discusses with the party mainly questions of claim construction and patent infringement. In most cases, the court will inform the parties about their current assessment of the case without giving any definitive guidelines. At the end of the first hearing, the court discusses with the parties the further procedure. If necessary, the court schedules the date for the second hearing and the deadlines for further submissions. These deadlines are usually two months for each party and will only extend them by one week in very exceptional cases. The court also invites the parties to submit a summary of their arguments to the court around three weeks before the second hearing in order to facilitate the court's preparation for the hearing.

In the second hearing, which normally takes place three to four months after the first hearing, the court discusses the validity if the defendant brought a motion to suspend the proceedings and if an invalidity action is pending.

If service of documents is necessary abroad, the proceedings will be delayed by about six months on average.

The Düsseldorf Procedure

The procedure in the Düsseldorf District Court is different. The Düsseldorf court schedules a first hearing approximately six weeks after the service of process. In this first hearing, the court only records the parties' motions,

gives the parties deadlines for their written submissions and, in most cases, schedules the main hearing. At first glance, it is not obvious why the court holds a separate hearing for this even though it could easily inform the parties in writing and record the motions in the main hearing. The reason is that under German civil procedural law, once the case was heard (even if in a 10 minute case management hearing), the court may decide on the basis of the record as it stands if in a subsequent hearing no party shows up or only one party shows up and requests such decision.

The second hearing is the main hearing. The court discusses all the relevant questions of the case in this main hearing, starting with claim construction and ending with the validity of the patent if the defendant filed a motion to suspend the proceedings based on a pending invalidity action. As compared to the Munich District Court, the Düsseldorf court is slightly slower. The reason for this is, however, not in the procedure itself but in the relatively heavy caseload of the Düsseldorf court.

The Mannheim Procedure

The Mannheim Procedure is more flexible than the Munich and the Düsseldorf procedure.

The Mannheim District Court usually schedules a first hearing once the defendant has filed the statement of defense, around six to eight months after service of process. This first hearing can be conducted as a full hearing on all relevant questions including infringement and validity.

However, the Mannheim court also leaves open the option to schedule a second hearing. Often, additional briefs are exchanged after the hearing.

Reply, Rejoinder and Summons for a Hearing

If this has not already been done by this point, the court will set deadlines for further written submissions (the plaintiff's reply and the defendant's rejoinder) following the statement of defense or in the first hearing. Generally, the period between the end of the rejoinder deadline and the hearing is approximately six weeks.

It is usually very difficult to have a hearing postponed. However, if one of the parties can bring forward an urgent reason for postponement, such as severe illness, or unforeseeable and unavoidable inability to prepare for the hearing, the court must schedule a new hearing date. For the sake of a good working relationship with the judges, lawyers will only file a request for postponement in very exceptional cases.

Missing a deadline for filing a brief can have fatal consequences. The court must not take into account pleadings that were filed late if otherwise the proceedings would be delayed.

PRACTICE NOTE

In addition to the reply and rejoinder, the litigants may make further written submissions. The court must consider these written submissions.

In this context, it may be advisable for the plaintiff to make a further written submission shortly before the hearing in order to respond to the defendant's arguments in the rejoinder and possibly to influence the direction of the hearing. In such cases, the court may grant the defendant a deadline to submit a written response. The hearing is often crucial for the outcome of the dispute. It is often difficult for a party to balance out a disadvantageous hearing with a further written submission.

It is also possible to file a brief after the oral hearing in order to summarize the hearing and reiterate important points, even if the court has not granted a deadline. The judges are obligated to take note of such submissions.

The Hearing

The hearing plays a less important role in German litigation than in common law proceedings. Professional judges give judgments in the courts. Litigation in Germany does not involve a jury. Depending on the complexity of the

case, a hearing lasts between 30 minutes and a full trial day of eight to ten hours, although the latter is very rare. Hearings are generally in public.

The point of the hearing is to discuss the facts and the law with regards to the dispute as it appears to the court based on the written submissions of the plaintiff, the defendant and any third parties. In addition, evidence can be heard.

PRACTICE NOTE

If sensitive trade secrets will be discussed in a hearing, the affected party should apply to the court to exclude the public. It is also possible to exclude the public from the hearing on whether the public can be excluded. This application requires diligent preparation, in particular, to make clear to the court why the litigant's interest in secrecy outweighs the public's interest in the proceedings. Public hearings are one of the cornerstones of German court practice. Therefore, any application to exclude the public must be reasoned very skillfully.

As opposed to court practice in other jurisdictions, the rules for the hearing are not very strict. The presiding judge has the lead and gives the floor to the lawyers. However, there are no enforceable regulations for speaking time, and the judges must generally not cut anyone short to avoid appearing biased. Usually, the hearings are based on respectful professional conduct and courtesy.

Initiation by the Court

Initially, the court presents its more or less clear view of the dispute, including the anticipated tendency of its decision. Depending on the individual judge's personality, this tendency may be more or less pronounced.

There are judges whose preconception or tendency cannot easily be changed. However, there are also examples where a negative tendency can still be reversed by skillful arguments during the hearing.

The Parties' Arguments

After the court's initiation, the parties can state their arguments in relation to their submissions. In doing so, the parties should not repeat their (usually very detailed) written submissions but instead respond to the court's questions and comments.

Since these responses usually must be given *ad hoc*, a very thorough preparation is required with regards to the possible course of proceedings and possible arguments brought by the opponent. There are no restrictions on the amount of time a party can take to speak.

Hearing of Witness Evidence

Occasionally, evidence is heard at the hearing. In particular, evidence may be heard with regards to the question of whether infringing offers have actually been made and the composition of allegedly infringing items. Evidence may also be taken in the form of witness testimony

or expert opinions. Written statements or affirmations in lieu of oath are not suitable forms of evidence in normal litigation proceedings.

Unlike in US proceedings, instead of nominating witnesses, the parties do not nominate witnesses but merely name them. The court then decides whether to summon and hear those witnesses. The hearing of witnesses is primarily the court's task, rather than a task of the parties or their representatives. However, they are entitled to ask questions. This is a fundamental difference to US proceedings.

End of the Hearing

The court's opinion will usually become clearer in the course of the hearing. At the end of the hearing, the court will set a date to pronounce the decision, usually within approximately four to six weeks after the date of the hearing. It is only in very clear cases that the court pronounces a decision directly at the hearing, in an "immediate" decision (Stuhurteil). Normally, the courts avoid this practice, as it can embarrass the losing party.

In many cases, the decision will be a judgment but it can also be any other decision, in particular an order to commission an expert opinion. At the date of the pronouncement of the decision, the complete decision will be available, including the grounds for the decision, if they are required.

For the defending party, this approach is relatively difficult to control. Before pronouncing the final decision

the court will not provide any definite information on the assessment of the infringement situation or a possible suspension of proceedings, if appropriate. In other words, the entire dispute is often addressed and discussed in a single hearing only, and the outcome of the dispute at the first instance is announced a few weeks after the end of that hearing. The Munich procedure differs to some extent as the Munich District Court discusses the infringement situation already in the first hearing.

For the defendant, this makes preparing for the worst case scenario of a cease-and-desist order (injunction) extremely complicated. Often, alternative solutions or other reaction to a cease-and desist order, should it be enforced, must be considered on short notice after the court has pronounced its decision.

If the court finds after the hearing that the dispute is not yet at a stage where a decision can be made, it will reopen the hearing. This happens rarely in practice, because the courts feel a certain pressure to decide cases quickly.

Experts and Evidence Taking

If the court commissions an expert's report, both parties will have an opportunity to comment in writing on the selection of the expert. Generally, the court orders the parties to name suitable experts in the relevant area of technology in order to complete the selection process swiftly. After the completion of the report, the court will

grant the parties an opportunity to comment on it. The expert will then be questioned about his report by the court and the parties in a hearing, usually an additional one.

Generally, the commissioning of an expert's report is not very popular in infringement courts, because it significantly delays proceedings.

In Germany, an expert's report is only procedurally admitted as evidence if the expert was appointed by the court according to the rules of the procedure. The parties are free to submit private expert opinions to the court with their briefs. However, the court will only take these opinions into account as part of each party's pleadings, meaning that expert opinions submitted by the parties are treated as part of that party's submission, which the court may follow or not.

Party expert opinions may be a valuable tool to unsettle unfavorable court experts and force the court to commission new or additional expert's reports.

In recent years, some of the important German patent courts have developed a severe reluctance against the taking of evidence. Wherever they can justify it from a procedural law point of view, they will avoid the taking of evidence. Therefore, the parties need to make very detailed factual submissions with cannot possibly be misconceived.

PRACTICE NOTE

To give a recent example: If a defendant contests that test were conducted with the accused products and/or the test environment used by the other party was appropriate, and – requesting the appointment of an expert – holds that none of the results gathered during those tests are of any probative value, the Düsseldorf court might well disregard this submission with the argument, that the party did not dispute the correctness of the test results. Therefore, in order to force the court to take evidence, the submissions must be very specific.

Third-party involvement

In any German civil litigation, third parties can join the infringement proceedings by filing a third-party intervention. The only requirement is that this party has *a legitimate interest in one party prevailing over the other* in a legal dispute pending between other parties. The third-party intervention in support of a party to the dispute may be made at any stage of the legal dispute until a final and binding judgment is handed down, and may also be effected in conjunction with an appellate remedy.

Third-party interventions are a useful tool to influence the course of the proceedings if it is likely that the defendant will confront the third-party (e.g. a supplier) with claims for

compensation in case of a negative outcome of the proceedings. In such cases, a legitimate interest in the defendant prevailing over the plaintiff exists.

The intervention entitles the third party to assert means of challenge or defense and to effectively take all actions in the proceedings, provided that their declarations and actions are not in opposition to the declarations made and actions taken by the defendant. An intervention enables the third party to bring forward all promising non-infringement and invalidity arguments. This would in particular be helpful if the defendant was to decide, for whatever reasons, to defend the case sloppily.

The third party intervening in support of a party to the dispute must enter into the legal dispute in whatever situation the dispute may be in at the time the third party is acceding to it. The third-party intervention creates a binding effect of the court's decision between the intervener and the supported main party, usually the defendant. In a later indemnification lawsuit, the intervener will not be heard, in their relationship to the primary party, where it alleges that the legal dispute as brought before the judge has been ruled on incorrectly. In the indemnification case, the intervener will rarely be heard with allegations to the effect that the primary party had pursued the proceedings inadequately, unless the intervener demonstrates that the status of the legal dispute as given at the time of his accession, or declarations made and actions taken by the primary party, prevented them from lodging means of challenge or defense, or insofar as means of challenge or

defense of which the intervener was unaware were not lodged by the primary party, either intentionally or through grossly negligent fault.

It is important to note that no binding effect will come into existence in the intervener's relationship to the adverse party. Moreover, the intervener cannot simply be joined as a co-defendant, and there is no fee shifting on the intervener. However, if the party supported by the intervener wins the case, the intervener may reclaim legal fees from the adverse party exactly as a regular party of the proceedings.

In many cases, the defendant will try to involve suppliers or other third parties by filing a third-party notice. Any party believing that they have a warranty claim or a claim to indemnification against a third party should the legal dispute's outcome not be in its favor, or any party concerned that such a claim may be brought against it by a third party, may file third-party notice to that third party with the court. The party must file the notice before a final and binding judgment has been handed down in the legal dispute.

The third-party notice must be in a written pleading in which the reasons for filing such third-party notice and the status of the legal dispute are to be set out. The written pleading is to be served on the third party, and a copy of same is to be communicated to the opponent of the party filing the third-party notice. The third-party notice shall become valid only upon its having been served on the third party.

Where the third party accedes to the party filing third-party notice, their relationship to the parties shall be determined in accordance with the principles applying to the third-party intervention in support of a party to the dispute. If the third party refuses to accede to the proceedings, or if they fail to react in substance, the legal dispute will be continued without their interests being taken into consideration. However, the third party will be bound to the court's decision as if they had acceded to the proceedings.

Decision

At the end of the hearing, the court will set a date to pronounce its decision. The decision will be pronounced approximately four to six weeks after the date of the hearing. The decision can be postponed by the court. This happens in particular if the court does not get the written judgment finished or it finds it needs to review a new aspect of the case which needs reconsideration. The court can choose between several types of decisions. The court will serve the decision on the parties' lawyers. Usually, the courts are willing to inform the lawyers of the outcome on the telephone in advance, even though they are not required to offer this service.

Types of decisions

A court may find in favor of the plaintiff if it assumes a patent infringement and has no serious doubts regarding

the validity of the patent, which would lead to the suspension of proceedings. The court may also dismiss the case if it is not convinced of the patent infringement.

If the court believes there is or was an infringement but deems it highly likely that the patent will be declared invalid in parallel nullity proceedings before the Federal Patent Court, the court will suspend infringement proceedings until the Federal Patent Court has made its decision.

If the court cannot definitely determine whether there is infringement, it may decide to commission an expert or hear further witnesses. In this case, there will be a new hearing.

In exceptional cases, the court may reopen the hearing for other reasons, in particular, if in its view relevant aspects of the case have not been discussed at the hearing. This happens very rarely.

If the court finds in favor of the plaintiff, numerous legal consequences can be pronounced. A central aspect – in case of a valid patent – is a cease and desist order (injunction). In addition, the decision usually contains an order against the defendant to provide information and render accounts, to assess damages on their merits and to destroy infringing goods and recall those goods from distribution channels. In special cases, the court may allow the plaintiff to publicize the judgment at the defendant's cost.

If the court issues a decision on the merits, the decision always contains a cost decision. Usually, the loser must pay the cost of the proceeding including the court fees. The decision will also include an order relating to the

provisional enforcement of the decision unless the decision is final ipso iure, e.g., decisions of the last instance court.

Burden of Proof

The plaintiff in patent infringement proceedings must meet the requirements of civil proceedings, including meeting the burden of proof for all facts on which the claim is based. For example, if the defendant substantially disputes that the patent is in force and that the plaintiff is entitled to derive any rights from the patent, the plaintiff must submit evidence that this is the case. In addition, the plaintiff may need to prove that the defendant has used the patented invention. The defendant has no obligation to cooperate or to disclose information.

Section 139 Para 3 of the German Patent Act (§ 139 Abs. 3 PatG) offers important relief in this context to plaintiffs. According to this provision, a court should presume that, in the case of inventions whose subject is a method for the manufacturing of a new product, each product of the same nature was manufactured using the patented method.

This provision is meant to cover scenarios in which the patent holder has no or insufficient information about important facts. Usually, the plaintiff has information only on the product of the method but no insight into the production process and thus into the procedure on which the product is based.

A consequence of the reversal of the burden of proof is that the alleged patent infringer must provide full proof that

they operated on the basis of a method other than the patented one.

The defendant bears the burden of proof for any facts that destroy or impede the plaintiff's claim. This means, for example, that the defendant must prove the facts on which their entitlement to use the patented invention is based. This can be a right of prior use, a license or the reliance on the principle of exhaustion. It can also be a defense such as forfeiture or a claim's limitation.

The concept of burden of proof is accompanied by the parties' obligations under procedural law to make their declarations as to the facts and circumstances fully, completely and truthfully. Moreover, each party is to react in substance to the facts alleged by the opponent. If a party does not dispute certain facts, those facts are to be deemed as having been acknowledged unless the intention to dispute them is evident from the other declarations made by the party. A party may declare its lack of knowledge only where this concerns facts that were neither actions taken by the party itself, nor within its ken.

German courts have developed a system of mutual obligations to substantiate the facts corresponding to the information the parties' can reasonably be expected to provide. This means that the obligations to substantiate facts can depend on the other parties' pleading. If the plaintiff alleges facts with a detailed submission, the defendant must counter these facts in detail unless he can explain why he cannot gather the necessary information.

The parties' obligation to respond completely and truthfully makes the lack of discovery more bearable.

PRACTICE NOTE

It may be sufficient for the plaintiff to prove the novelty of the product within the meaning of Section 139 Para 3 of the German Patent Act (§139 Abs. 3 PatG) by referring to the Patent Office's search report, if the defendant does not dispute the report's accuracy.

The novelty of the product does not have to be established with regards to features that are stated in the patent claim. Rather, it is sufficient if the product contains any novel feature compared to previously known products.

In practice, plaintiffs rarely invoke Section 139 Para 3 of the German Patent Act (§139 Abs. 3 PatG), though many could benefit by invoking it.

Standard of Evidence

In the German civil law, a fact is only proven if in the court's view it has been established beyond a reasonable doubt. This does not require scientific certainty. Rather, it is sufficient if the court's conviction is based on circumstances that do not leave room for doubt.

It is often disputed between parties to what extent and how thoroughly they have to make submissions on the issue

of patent infringement. In cases of standard essential patents, plaintiffs can often rely on short references to standard specifications together with the allegation that the infringing item works according to these standards.

Thus, in many cases, the infringement argument relates not to the allegedly infringing device itself but to industry standards.

German courts have confirmed this practice repeatedly. They state that an item working in accordance with a particular industry standard can be factually presumed to realize all mandatory requirements of that standard. The defendant can refute this presumption, but courts have established almost unattainable requirements to demonstrate that an allegedly infringing item does not fully comply with the industry standard. Lately, the Mannheim court has found that the detailed submission of a deviation from mandatory standard requirements is contradictory if the defendant leaves it at the same time undisputed that the allegedly infringing item can be operated under that standard.

The plaintiff's infringement claim may also considerably rely on the defendant's advertising messages. In addition, the courts have endorsed an indirect approach of proving infringement: The presence of a feature can be concluded if other possible non-infringing alternatives can be excluded based on investigations. However, it is a precondition that the analytical methods used cover all solutions that could be reasonably considered as an explanation. Therefore, the proof of an infringement of a protected method can

indirectly be brought with evidence that allows the conclusion that a non-infringing method was not used.

PRACTICE NOTE

Whether a court considers particular facts to be established or not is often difficult to tell. In many cases it is also difficult to know whether a court will find a factual submission sufficiently substantiated or requiring further explanation.

To avoid unpleasant surprises, lawyers should proactively ask the court in the oral hearing which points they need to further substantiate their case. The judges are obligated to respond to such questions truthfully. If they have not pointed the lawyer to particular facts in the hearing in response to such a request, they must not base their decision on insufficient substantiation of these facts.

Many court decisions contain points that are difficult to argue. Courts sometimes use allegedly insufficient substantiation to make their line of arguments conclusive. One should not give a court the possibility to choose such an easy way out.

To what extent and in what depth the parties must plead questions of patent infringement is often in dispute between the parties involved. In that context, one procedural limitation is important to note: Pursuant to Section 296 Para 2 of the German Civil Procedure Code

(§ 296 II ZPO), evidence that was submitted late may be rejected if the delay was caused by gross negligence and if its admission would delay the settlement of the dispute. Therefore, the parties must submit timely evidence that supports their arguments.



KEY FACTS

- ❖ The procedure in the infringement courts differs in the three main venues Düsseldorf, Munich and Mannheim.
- ❖ The oral hearing is important. However, it does not have the same weight as a trial in US proceedings.
- ❖ Third parties with a legitimate interest in one main party prevailing can participate in the infringement proceedings by filing intervention briefs or acceding to the proceedings in response to a third-party notification.
- ❖ Deadlines in German patent infringement proceedings must be observed. Otherwise, the court may refuse to accept the pleadings.

Chapter Twelve

Remedies

Under German patent law, a patent holder may seek various remedies when a court determines that patent infringement occurred or is imminent. These claims are not at the discretion of the court but are an inevitable consequence of a finding of a patent infringement, provided that all other requirements of the remedy at issue have been met.

Permanent Injunctions

A patent holder's most powerful remedy against an infringer is a cease-and-desist order (injunction). The decisive requirement of an injunction is a risk of infringement. If there is a risk of a first-time or repeated infringement of the patent, the court must grant a cease-and-desist order.

Therefore, in German patent litigation, the most important determination the court must make is whether there is such risk of infringement or not. In the context of injunctive relief, everything focusses on this determination.

PRACTICE NOTE:

In some ways, German infringement proceedings operate in a backward direction. The current situation and any suspected future infringements are less important to courts than the analysis of an (alleged) infringement in the past, which dominates proceedings in most cases. The outcome of a dispute depends mainly on these completed events.

The outcome of a dispute is not affected if a previously infringing item is changed so that it no longer infringes the patent. This often confuses non-German parties, who wonder why litigation would need to continue if an item no longer infringes a patent. In any event, if the accused item is changed, this might be an opportunity to settle the case

If an infringement has occurred already, a risk of repeated infringement is generally deemed to exist. The infringer can only dispel the presumed risk of recurrence by giving a cease-and-desist undertaking to the other party. This undertaking must contain a sufficient penalty in the event of an infringement. The amount of the penalty must be sufficient to effectively keep the infringer from repeating the infringing activity.

The situation is more complicated in the case of a risk of first-time infringement, i.e. if no infringement has occurred yet, because the alleged or potential infringer can remedy this risk with a so-called “actus contrarius” (a contrary

action). For example, if the patent holder learns that a competitor plans to enter the market with an infringing product, this would be a case of a risk of first-time infringement. Usually, if the competitor then declares that they will refrain from launching the product or make appropriate changes to the product in order to avoid a patent infringement, the risk of first-time infringement no longer applies. Contrary to the case of a risk of recurrence, no formal declaration of the infringer is required. In particular, the infringer is not required to give a cease-and-desist undertaking containing a contractual penalty for the case of breach.

However, the case law has begun to tighten. Recently, the Federal Court of Justice held that even the legitimate use of a patent may constitute a risk of initial infringement if the use of the patent was legitimate only by chance. In particular, if the potential infringer did not obtain sufficient information on the lawfulness of their actions and merely (successfully) relied on luck, there may be a risk of initial infringement.

In this case, the court would grant a cease-and-desist order, just as it would in cases of a risk of recurrence. In principle, the infringer must comply with the cease-and-desist order, although the lawful use of the patent remains possible and the potential infringer can continue to trade with properly licensed goods.

Warning Notice

In case of a contributory infringement, the court usually does not grant a cease-and-desist order. This is certainly the case when a non-infringing use of the product is conceivable.

In such cases, the courts merely oblige the defendant to issue a warning notice. The contributory infringer must then notify its customers in an appropriate manner that the use of the product in a patent infringing way is not permitted. Usually, this is done by printing codes on the packaging or by notifying the customers directly.

Recently, the courts have required defendants, in certain scenarios, to use their best endeavors to ensure that their customers do not actually infringe the patent. This may also include the defendant's requiring their customers to sign undertakings stating that they will pay a contractual penalty if they do not comply with the warning notice. This should be considered an option in particular if it is too expensive to check whether customers comply with the warning notice, for example, in the case of patent protected underground pipelines.

PRACTICE NOTE:

A warning notice is not always an automatic consequence of a contributory infringement. In one case of contributory infringement, the Dusseldorf District Court ordered a total prohibition of the distribution of the products even though a non-infringing use was theoretically possible.

The court and noted that the possibility of a non-infringing use does not depend on theoretical uses.

It is therefore important for each defendant to state a real alternative to be considered as a non-infringing use of the product in order to avoid an injunction covering the distribution of the products.

Disclosure of Information and Accounts

If a patent infringement has already occurred, the plaintiff can request disclosure of detailed information on further acts of use.

This information enables the plaintiff to identify any third parties (such as customers and suppliers) involved in the patent infringement and to take action against them. It also provides a basis for the plaintiff to calculate the amount of damages, which they will later claim from the defendant.

A plaintiff's right to information can include details of:

- ❖ Manufacturing quantities and times regarding the infringing items,
- ❖ Deliveries, itemized by quantity, delivery times and prices, including type designations and customers' names and addresses
- ❖ Individual offers, itemized as above
- ❖ Production costs, itemized by individual cost factors, and profits made

In order to protect the defendants' privacy rights it is possible for defendants to provide certain information only to an auditor bound to secrecy (so-called "auditor's proviso").

The right to information is largely harmonized across Europe. The EU "Enforcement Directive", implemented by all EU member states into national law, sets a minimum level of information to be disclosed to plaintiffs in all European cases if infringement was established.

For a defendant, complying with the right to information can require considerable cost and effort and potentially damage their business. Compiling the relevant information requires significant resources. Moreover, the information provided often includes business information that should not necessarily be disclosed to competitors. In this respect, the right to information is painful for the infringer. If the information also enables the plaintiff to identify and approach the infringer's business partners, which act as suppliers or are customers, the business impact on the defendant can be considerable.

Usually, the plaintiff claims both the right to information and the right to request disclosure of accounts. The formulation of these motions to disclose information and accounting is complicated. However, German courts have developed standard language for these requests, which is appropriate for the majority of cases, and the courts usually assist the parties with what they believe is the correct wording.

Damages

Along with the claim for a cease-and-desist order, the claim for damages is crucially most important. Initially, this claim is asserted only on its merits during infringement proceedings.

If the court determines that an infringement has occurred, and if the parties subsequently cannot agree on the amount of damages, the claim will be re-asserted in new proceedings with regards to the amount of damages.

The plaintiff can calculate damages using one of three methods. They can request:

- ❖ payment of the profit the infringer gained by committing the infringement,
- ❖ compensation for damages actually incurred or
- ❖ payment of a fictitious license fee (license analogy).

Infringer's Profit

To assess the infringer's profit, it is necessary to determine the share of the profit that resulted directly from the patent infringement and not from other factors ("causal share"). There is no rule that an infringer's entire profit from the infringing product be based on the use of the plaintiff's patent. In practice, courts have awarded various causal shares of an infringer's profit as damages.

There are no upper or lower percentage limits to assessing an infringer's profit. However, it is rare in practice for courts to award less than 5% as a causal share, and they usually award no more than 50%.

Courts consider a number of circumstances when determining the causal share. The relevant question is always how significant the patented technical solution was for the customer's purchase decision. A low price for the infringing products may reduce the causal share if it is impossible to determine that the use of the patented invention enabled the distribution at such a low price. Similarly, the importance of the patent to the profit decreases if the product also uses other valid proprietary rights, something which the infringer must substantiate and prove. The importance of the invention is paramount. If it is a pioneering invention, a very high causal share is determined very quickly.

The revenue accrued from the infringing product is the reference figure for the calculation, unless additional revenue has been accrued from non-infringing parts and

such revenue is fundamentally based on the revenue accrued from the infringing parts. However, this is the exception in practice. If such revenue is included in the calculation, this usually results in a decrease of the causal share.

As a rule, only revenue accrued from the infringing product is relevant. Table 6 shows selected cases in the past decade where German courts decided about causal shares. The annotations set out factors that led to an increase (+) or a decrease (-) of the causal share, according to each court's reasoning.

PRODUCT	CAUSAL SHARE	ANNOTATION
Cable lock with bracket for bike	10%	(-) just improvement of details
Radio-controlled wrist watch	30%	(+) technical design important to clients (-) design also a purchase factor; lower product price
Ink cartridge	20%	
Light with particular socket	2%	(-) only a small part of the finished product affected by the patent
Blind	40%	(+) no technical alternative available (-) infringer's good reputation supported purchase decision
Method for the increase of surfaces' wettability	60%	(+) pioneer patent; competitors' oppositions prove importance of the invention

LCD display	5% (first instance 50%)	(-) low price of the product; use of the patented functionality by customers unlikely and therefore not crucial for purchase decision
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Table 6 – Selected causal shares

Actual Damages

In practice, actual damages are rarely calculated because the plaintiff would have to provide relatively precise evidence for the actual damage they incurred.

For example, this would be the case if the defendant had completed an order with the infringing goods, which otherwise the patent holder would have completed.

However, the calculation of actual damages is not completely out of question. Contrary to a common misunderstanding, the court may estimate the actual damages if the plaintiff proves a sufficient basis for the estimate.

License Analogy

The most popular method of calculating damages is the license analogy. This approach to calculating damages is based on the amount the infringer would have had to pay if they had obtained permission in the form of a license to use the invention.

Essentially, the same circumstances have an impact on the determination of license rates, which would be considered during free license rate negotiations. This

mainly includes the economic importance of the patent, in particular the following points:

- ❖ scope of the patent;
- ❖ ability to substitute non-infringing solutions for the patented solution;
- ❖ traceability of the use of the patented solution;
- ❖ expected increase of revenue by use of the invention;
- ❖ research and development cost associated with the invention;
- ❖ general situation regarding proprietary rights, for instance license rates for numerous standard-essential proprietary rights are usually relatively low because an excessive accumulation of license rate claims with a choking effect must be avoided.

In practice, license rates of 0.5 to 5% are common.

PRACTICE NOTE:

A patent holder can also refer to existing license agreements with third parties unless those license agreements contain a confidentiality obligation.

According to the Karlsruhe Higher Regional Court, these agreed license rates can form the basis for calculating damages without further assessment even if few such agreements were concluded. In addition, the amount of damages should be increased by the loss of interest if a due date would have been agreed during independent license negotiations

Damages for contributory infringement

Recently, the Düsseldorf District Court has held that, contrary to the hitherto practice, the defendant has to pay damages for contributory infringements irrespective of the extent to which the contributory infringement actually results in direct infringement. It is unclear whether the higher courts will approve of this approach. However, defendants must bear in mind that on the basis of this decision contributory infringement may become as costly on the damage side as a direct infringement.

Destruction

In addition to the cease-and-desist claim, one of a plaintiff's most powerful claims is the claim for destruction

of infringing goods. It is standard for plaintiffs to file a claim for destruction. The requirements for this remedy include that the infringer be in Germany, that the infringer own infringing goods, and that a direct patent infringement has occurred or is imminent through the infringing item. A mere contributory patent infringement is not sufficient to support a claim for destruction.

Continuity of the Destruction Claim

In this context, it must be noted that the claim for destruction survives the expiration of the asserted patent. This means that patent infringing goods retained are permanently flawed. The background of this concept is that the patent infringer shall not be able to gain a benefit by producing infringing goods on a large scale before the patent expires and put them on the market immediately after the patent expires. This is of course different if the patent is declared invalid in a nullity action, for example due to a lack of novelty or the inventive step. In that case, goods that previously fell under the patent can be sold freely.

Unlike for the granting of injunctive relief, the question whether the destruction is reasonable in relation to the value of the object and the gravity of the infringement plays a greater role in the case of a claim for destruction. From the courts' point of view, the claim for destruction serves the rights of the patent holder under the European Enforcement Directive, which prohibits a restrictive interpretation. Hence German courts will only in rare cases refrain from granting an order for destruction.

Avoidance of Destruction

Not only can the enforcement of a claim for destruction cause direct financial losses. It can also cause other significant inconveniences. Usually, the enforcement includes seizures at the alleged infringer's business premises or at trade fairs. This can cause considerable negative publicity.

Therefore, avoiding the enforcement of a claim for destruction is a key issue for defense lawyers. The main problem is that the avoidance of the destruction can be sanctioned under criminal law. To rule this risk out, defendants should export infringing goods from Germany and transfer their title to another entity (such as a customer) as early as possible.

Although plaintiffs often obtain a destruction order without much discussion, it is not easy for them to enforce one. This is because a defendant is not obligated to hand over the infringing products to the plaintiff but must only tolerate the seizure of infringing products for the purpose of destruction.

In view of the possible implications under criminal law, it is imperative to involve qualified counsel.

PRACTICE NOTE

Warning: Under certain circumstances, preventing the enforcement of a claim for destruction can be subject to prosecution as “obstruction of enforcement”. It is possible to avoid the enforcement of a claim for destruction without punishment even if an infringement decision has already been found, although this is difficult to achieve.

The devil is in the details. In particular, the exemption from punishment depends on the infringer giving up all ownership or possession of infringing items while at the same time avoiding any further use of the patent under the German Patent Act.

This is like the proverbial ride on the edge of a razor blade.

Recall from Distribution Channels

In addition to the claim for destruction, the patent holder has a right to demand the recall of infringing goods from distribution channels. In practice, it is standard to file this claim. The infringer must ask their customers to discontinue the distribution of the patent infringing goods or to recall them. However, the customers cannot be forced to return the goods. Hence, the recall claim plays a smaller role in practice than the claim for destruction.

Recently, the Federal Court of Justice held that the obligation to recall infringing goods from the distribution channel follows as part of the general obligations under an injunction. If this approach is right, a plaintiff will not require an express recall order in the court's decision any longer.



KEY FACTS

- ❖ The main remedies sought by plaintiffs are (permanent) injunctions, information and accounting, damages, destruction of goods, recall from the distribution channel and the publication of decisions.
- ❖ Injunctive relief generally follows as an automatic legal consequence of a finding of infringement.
- ❖ There are three accepted methods of damages calculation. The most important methods in practice are the license analogy and the calculation on the basis of the infringer's profits.
- ❖ Concrete amounts of damages are usually enforced in additional proceedings. As this is very burdensome, most cases settle if the infringement, the liability and the validity of the patent have been established.

Chapter Thirteen

Defenses

In infringement proceedings, the defendant has a number of defense options. This chapter explains several defense strategies. A defense against an allegation of patent infringement aims either to win or to make it as hard as possible for the plaintiff to succeed. An effective defense does more than avoid actual, imminent claims. In many cases, it can signal to the plaintiff and to third parties that the defendant is not an easy target, thus discouraging litigation against this particular defendant.

Security for Legal Costs

In Germany, foreign plaintiffs must provide security for legal costs under certain conditions at the defendant's request in both patent infringement proceedings and patent nullity proceedings.

This makes recoverable assets available to the defendant in case they win so that they can satisfy their reimbursement claims for costs. This need to provide security may be a decisive factor in choosing an appropriate entity to act as plaintiff.



Figure 1 – Security for costs; plaintiffs from the dark colored countries must provide security

Obligation to Provide Security for Legal Costs

As a principle, a plaintiff must only provide security for legal costs if they are domiciled neither in an EU member state nor in a country that is a signatory to the Agreement on the European Economic Area.

Controversy exists over the question of what a domicile is in this context. A registered office is usually regarded as sufficient to establish a domicile if a delivery address exists there. However, some courts consider the actual administrative center as the domicile, in particular the Düsseldorf courts.

According to the Düsseldorf courts' practice, the crucial factor should not merely be the administrative center of the company according to the Articles of Association but – corresponding to the “habitual residence” of natural persons – the actual administrative headquarters.

These headquarters become established at any place where business management is carried out and, at the same time, documents can be served. The crucial factor is the management's place of activity or the otherwise appointed representative bodies, i.e. the place where the management's fundamental decisions are effectively implemented in on-going acts of management. This requires a certain organizational stabilization, including the presence of premises in which – firstly – the management bodies actually carry out their activities for the company and – secondly – mail addressed to the company can be effectively served.

Recently, the Federal Court of Justice has clarified that where a company incorporated under the laws of a EU or EEA member state has its statutory seat in the EU or in the EEA, it is in any case not obliged to provide security for costs if all places that come into consideration to determine the actual center of administration are in the European Union or the European Economic Area.

The need to provide security for legal costs does not apply where

- ❖ due to international treaties, no such security deposit may be demanded;
- ❖ the decision as to the defendant's reimbursement of the costs it has incurred in the proceedings would be enforced based on international treaties;
- ❖ the plaintiff possesses real estate assets, or claims secured in rem, in Germany that suffice to cover the costs of the proceedings;
- ❖ countercharges are brought (a nullity suit does not qualify as countercharges to an infringement suit).

The plaintiff must provide the security for costs only if the court grants the relevant order. The court grants this order normally without an oral hearing before reviewing the merits of the case.

PRACTICE NOTE:

It is important for the defendant to request the security for legal costs prior to the hearing. Usually, this must be done together with the statement of defense. A later assertion of security for legal costs is usually not possible unless the plaintiff changes their action in the course of the proceedings. In that case, security for legal costs can be requested again.

Amount of Security for Legal Costs

The amount of security for legal costs is based on the defendant's likely costs. This is not based on the defendant's lawyers' hourly rates, which are usually billed, but on the remuneration in accordance with statutory remuneration regulations. Depending on the amount in dispute, these can be higher or lower than the hourly rates.

There is some disagreement between the courts about the amount of security for legal costs. Most courts are of the opinion that the security for legal costs to be paid at the beginning of the litigation should include all the costs incurred in court proceedings of the first and second instance as well as the costs of a possible motion for certiorari before the Federal Court of Justice. The inclusion of costs for appeals is burdensome for the plaintiff. The Munich District Court does not include costs of a possible motion for certiorari. The following amounts are to be expected depending on the amount in dispute:

AMOUNT IN DISPUTE EUR	AMOUNT OF SECURITY EUR
EUR 500,000	EUR 75,000
EUR 1,000,000	EUR 110,000
EUR 2,000,000	EUR 172,500
EUR 5,000,000	EUR 367,000
EUR 10,000,000	EUR 692,000
EUR 20,000,000	EUR 1,342,000
EUR 30,000,000	EUR 1,900,000

Table 7 – Amounts of security for costs

These costs increase by approximately 10% if a second defendant is involved who is represented by the same lawyer as the first defendant. Each defendant is free to choose an own law firm for representation. The full amount of security for costs must be provided for each defendant who incurs separate costs. Therefore, lawsuits against multiple defendants can result in very high security amounts if the defendants are not being represented by the same law firm.

Practical Effect of Security for Legal Costs

The security for legal costs can be a serious obstacle for the plaintiffs in enforcing their rights. Plaintiffs should therefore consider whether to bring the action through a company with its registered office in the European Union or the European Economic Area or a country from which no

security for legal costs can be required pursuant to an international treaty.

However, if such a company brings an action, it must be able to prove a minimum of business activity. If it becomes evident during the proceedings that the company acts only as a mailbox company for the purpose of litigation, the defendant may then require security for legal costs. The discussion of the security for legal costs can significantly prolong the dispute and in addition tie up large amounts of capital.

Payment of Security for Legal Costs

The court sets a deadline for the payment of security for legal costs. If the plaintiff does not pay the security for legal costs the court will declare that the action is withdrawn or reject an appeal brought by the plaintiff. The proceedings are then concluded in favor of the defendant.

Usually, the security is provided by a guarantee from a banking institution recognized in Germany.

Res Judicata, Lis Pendens and Double Assertion

Another procedural defense are the *res judicata* and *lis pendens* objections. If the plaintiff had already sued the same defendant on the basis of the same cause of action, and if this other lawsuit is still pending or has already been decided with prejudice, the new action is inadmissible.

Similarly, German patent law prevents that the plaintiff raises allegations against the same allegedly patent infringing item and the same defendant based on another patent. Any person who has brought an action may bring a further action against the defendant for the same or the same kind of act by virtue of another patent only where he was, through no fault of his own, not in the position to assert this patent in earlier proceedings.

Disputing the Infringement

One of the major defenses is, of course, the argument that the accused items do not infringe the patent as they do not comprise the features of the asserted patent claim. This line of defense is reciprocal to the plaintiff's arguments and does therefore not require additional explanation.

License and Exhaustion

The defendant may rely on the defense that the allegedly infringing items are licensed or free from patent rights due to exhaustion. Whereas the license defense usually depends on a license agreement the defendant may have in place with the patent owner or an exclusive licensee, exhaustion is not based on contractual provisions but is an implied limitation of the patent right. The distinction can be difficult, in particular in cases of systems and method claims. These cases can be treated under the doctrine of exhaustion or, as

some court decisions show, under the concept of implied licenses.

The principle of exhaustion applies in patent law as well as in other areas of intellectual property law. Exhaustion occurs when the patent holder or any party authorized by the patent holder places a product covered by the patent on the market. The location where the product is placed on the market is relevant for the effect of exhaustion. Exhaustion of patent rights in force in Germany can only occur if the product has been placed on the market within the EU or EEA.

The exhaustion of patent rights is not regulated by law. It is based on the assumption that the patent holder has exercised their rights under the patent or at least could have exercised them by placing the protected product on the market for the first time within the territory of the EU or the EEA and, with regards to the very product placed on the market, has therefore received sufficient remuneration for their innovation.

PRACTICE NOTE:

In Germany, the principle of international exhaustion does not apply. Thus, if a device is placed on the market outside the EU/EEA, for example, in Asia or the USA, the effect of exhaustion does not occur. During court proceedings, this limitation always leads to significant problems for the defendant's lawyer, who must explain where the product was placed on the market. However, especially for complex products, there is no easy answer, because information from suppliers may be required or the origin of individual components can no longer be traced.

Traditionally, German courts have approached the issue of patent exhaustion cautiously. In the past, this has often led to decisions of German courts that appeared difficult to understand from an international perspective.

In general, German courts, compared to other jurisdictions, tend to decide in favor of the patent holder. In recent years, this has changed slightly. The Düsseldorf District Court and the Düsseldorf Higher Regional Court have begun to prioritize the interests of the public in an unrestricted intended use of devices placed on the market over the interests of the patent holder in the multiple use of their proprietary rights.

The issue of exhaustion becomes particularly complicated in cases of “re-manufacturing”, as distinguished from mere repair cases. It is generally

accepted that the re-manufacturing of a patented product creates new rights for the patent holder, while a mere repair does not. However, the question of how to identify a mere repair or a re-manufacturing of a product is a regular subject of discussion.

The results may vary depending on which legal position is prioritized. In the past, this has had a particular impact on “spare parts” cases. Recently, the Düsseldorf courts have ruled in the “coffee capsule” cases that manufacturing a coffee-brewing system according to the patent by inserting new coffee capsules is not a re-manufacturing of the protected system but the intended use of the system previously placed on the market.

There are a wide range of issues, in particular relating to the handling of protected systems and methods. Exhaustion cannot be considered under German law for method claims, because the exhaustion of patent rights always starts with a product that was placed on the market. There is no such product in the case of a protected method, because in those cases a procedure is protected rather than a product.

This also applies to cases in which a machine, which is required or suitable for the performance of the method, is delivered with the patent holder’s consent.

The situation is similar in cases of patent protected systems, where the patent claim describes a system of various components that are used in their interaction. If only the component of the system that is essential for the invention is licensed, strictly speaking no patent exhaustion

in relation to the entire system occurs. In principle, the patent holder can continue to assert their patent claims against the user or distributor of the system.

For these cases, the courts have lately resorted to the assumption of an implied license. Thus, the Federal Court of Justice stated in the “Rohrschweißverfahren” decision that, absent any indication to the contrary, licensing a component may be deemed an authorization by the component’s manufacturer to grant a non-exclusive license for the protected method patent in favor of their customers.

This means that, based on the implied license received from the component’s manufacturer, the customer is authorized to use the invention. This only applies where there is no contrary indication, such as contractual stipulations between the proprietary rights holder and the component’s manufacturer.

With regards to system claims, the Düsseldorf District Court recently ruled, in an unpublished decision on a system consisting of a memory controller, a memory and corresponding conductor tracks, that the consent to place on the market a memory module which is essential for the invention authorizes the distributor of the module to grant simple licenses to the patent on the system.

This case law is still in its early stages. German patent law has not yet established a practice comparable with US law (for example, in the US Supreme Court’s *Quanta v. LGE* decision). However, the Düsseldorf District Court recently assumed again that an “extended exhaustion” of a patent on

a system can be considered when the invention is practically fully realized with the part that was placed on the market. According to this, if the part that is not placed on the market is merely a marginal ingredient, which customers can easily combine with the part that was placed on the market, then exhaustion occurs with respect to the complete patented product.

Still, the issue of patent exhaustion or implied license must be treated in each case with caution. Most defendants usually find it difficult to bring exhaustion arguments before German courts, and the patent holders' attempts to avoid the exhaustion of patent rights by clever drafting of its license agreements are often successful

The exhaustion of patent rights is a means of defense against all allegations of a patent infringing activity. In particular, it may be used against the assertion of an allegedly infringing offering.

There is no case law explaining how the exhaustion of patent rights can be established if actual devices have not yet been placed on the market or delivered by the alleged infringer. However, German courts have stated in relation to a comparable trademark law question that it is sufficient for the defense to prove that the delivery can take place from licensed sources. There is no need to request proof that such exhausted goods are already in the alleged infringer's possession. It is sufficient that it will be possible to procure such products if a customer actually accepts the offer of such goods.

However, it must be emphasized in this context that the exhaustion of patent infringing goods is a fact which the defendant must invoke. This means that the defendant bears the full burden of proving that the goods in which they trade come from licensed sources or are licensed. Any doubt is borne by the defendant.

Prior Use Right

The defendant may invoke right of prior use. According to this prior use right, the patent shall have no effect in respect of a person who, at the time the patent application was filed, had already begun to use the invention in Germany or had made the necessary arrangements for so doing. That person shall be entitled to use the invention for the needs of his own business in his own workshops or in the workshops of others. This entitlement may be inherited or sold only together with the business.

The prior use right is very narrow in scope and, in practice, very difficult to establish. The defendant needs to have very clear documentary evidence to convince the court that he was in possession of exactly the same invention before the application date of the patent and that he made arrangements to use the invention (instead of only contemplating it as one of several possible solutions).

Research Exemption

The defendant may also invoke research exemptions. To this end, a distinction should be made between the “general” research exemption and the more specific “Roche-Bolar-Exemption”.

The General Research Exemption

The German research exemption is an exception to the rule that one is only allowed to use a patented invention with the patent owner’s consent. According to the exemption, the effect of a patent shall not extend to acts done for experimental purposes relating to the subject-matter of the patented invention.

The research exemption only applies if the purpose of the use of the patented invention is to gain new insights into the patented invention itself and possible uses of the patented invention as well as further develop the patented invention

The research exemption does not require a context with a current or prospective regulatory authority approval procedure. The exemption is also not restricted to medicinal research but covers all kinds of research. Clearly not exempted under the general research exemption is the use of patented inventions as research tools. In other words, only the research on a patented research tool is privileged, not other research with the tool. However, the distinction between the use as a mere research tool and the use as the (or an) object of the research can be difficult in individual

cases. In particular, there may be scenarios where the use of a tool serves the research on a new invention on the one hand and the research on the interaction between the tool and the new invention (for instance a new compound) on the other hand. In that case, the research exemption would apply unless the research on the tool itself is clearly marginal.

“(Roche)-Bolar”-Exemption

The “Bolar” exemption is based on Art. 10 (6) of the amended Directive 2001/83/EC on the Community code relating to medicinal products for human use. According to the exemption, the effect of the patent shall not extend to studies, experiments and the practical requirements resulting therefrom which are necessary for obtaining authorization to place medicinal products on the market in the European Union, or for obtaining approval for pharmaceutical products on the market in the Member States of the European Union or in other countries.

Even though the “Bolar” exemption appears to be broader than the general research exemption, in particular the treatment of research tool cases is far from clear. There has not been a court decision in Germany about this.

As a starting point, it should be noted that the German “Bolar” exemption does not have a concept comparable to the 35 USC Sect. 271(e)(1) which requires that the use of the patented invention be reasonably related to the development and submission of information under a

Federal law which regulates the manufacture, use, or sale of drugs or veterinary biological products.

It is also important to note that the wording of the German “Bolar” exemption differs from the wording of the European directive 2001/83/EC. However, from a systematic point of view, the German law provision is the one that will be applied by the courts. The wording of the European directive will only come into play for the purpose of interpreting German law. As a principle of European law, national provisions that implement European directives have to be interpreted in accordance with the respective directive.

The broad wording of the German ‘Bolar’ exemption suggests that studies that use patented inventions as mere research tools fall within the German ‘Bolar’ exemption. On the other hand, there are many strong arguments that oppose an inclusion of patented research tools. The wording of the directive suggests that only patents and supplementary protection certificates for *medicinal products* are exempted from infringement. This excludes patents for research tools because research tools are usually no medicinal products. Moreover, from a systematic point of view, the “Bolar” provision seems to be specially geared to the typical “generics scenario”.

As compared to the directive, the wording of the German provision does not restrict the exemption to patents for medicinal products. From the plain wording, one could therefore conclude that research tools that are not medicinal products are generally included. However,

national implementations of EU directives must be interpreted in conformity with the directive. Whether they can be interpreted more broadly depends on whether the directive wants to achieve a minimum or a full harmonization. This might speak in favor of a narrow interpretation of the exemption. Additionally, in light of the disadvantages that an inclusion of research tools would cause for the owners of respective patents, it is conceivable that such an interpretation does not comply with Art. 30 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). In essence, defendants must be aware that the “Bolar” exemption will be construed narrowly in German patent litigation.

Statute of Limitations

All claims resulting from the infringement of a patent are subject to limitation.

Limitation Period

The period of limitation is generally three years. The period commences at the end of the year in which the relevant claim arose and the patent holder became aware of the circumstances giving rise to the claim and learned about the infringing entity. It also commences when the patent holder is unaware of these factors only through its own gross negligence.

Gross negligence is presumed if the patent holder did not engage in obvious considerations or disregarded facts that would have been obvious to the average person.

In addition, German civil law provides for maximum periods after which all claims resulting from the patent infringement lapse. Even if a patent holder had no knowledge of the infringer and of the circumstances giving rise to claims, the claims are no longer enforceable ten years after they arose.

Based on the concept of unjust enrichment, the patent holder can demand that the infringer surrender what it accrued from the use of the patent. This claim also expires ten years after it has arisen but is theoretically narrower than the traditional claim for damages. In practice, the differences are minor.

PRACTICE NOTE:

A German court will not consider the limitation of claims on its own motion. Rather, the defendant must expressly assert it. The defendant also bears the burden of proof regarding circumstances that justify the limitation period and thus must prove the patent holder's grossly negligent unawareness.

Awareness of Circumstances Giving Rise to the Claim

In order to determine an awareness of the circumstances giving rise to a claim, a court will focus on the patent holder. A licensee's knowledge also can be considered if the patent holder authorized the licensee to assert rights under the patent.

If the patent holder is a legal entity, the decisive factor is whether the corporate bodies authorized to represent the legal entity had knowledge of the circumstances giving rise to a claim.

Employees' or agents' knowledge can be a decisive factor, if they act for the patent holder without being the patent holder's representatives but with decision-making authority ("Wissensvertreter").

PRACTICE NOTE:

"Wissensvertreter" are persons who intentionally come into contact with relevant knowledge, for example, because specific tasks have been transferred to them for which this knowledge is important. Those individuals who just happen to become aware of certain circumstances but do not gain such awareness through the company's organizational measures are not considered "Wissensvertreter".

For example, a patent attorney's knowledge must be considered if they (or their law firm) was engaged by the patent holder to assert rights under the patent (but not only

as the patent holder's representative in the registration process).

Suspension and Restart of the Limitation Period

Suspending a limitation period is of great importance for the patent holders. Any period during which the limitation is suspended is not included in the limitation period. The suspension of the limitation occurs in particular during serious settlement negotiations, during legal proceedings, if the right to refuse performance exists and if force majeure occurs.

In some cases, a complete restart of the limitation period may occur. This is the case if the patent infringer issues a cease-and-desist undertaking, which is seen as an acknowledgment that restarts the limitation period.

PRACTICE NOTE:

A limitation period will only be suspended as far as the action is brought. For example, if the patent holder requests compensation for damages for a certain period of patent infringement, the limitation is only suspended with regards to the claims for this period. In all other regards the limitation period continues to run. The patent holder should consider claiming damages from the outset for the whole period of infringement in order to avoid the lapse of otherwise outstanding claims. This can be particularly relevant if the limitation period only runs for a few more months, since a decision in the first instance is usually reached around one year after an action is brought.



KEY FACTS

- ❖ There are various defenses available, the most important being disputing the infringing properties of the accused item.
- ❖ The defendant needs to prepare the defense very carefully and must often provide convincing documentary evidence as the burden of substantiation and proof is on them.
- ❖ The defendant is not bound to legal arguments brought forward in a co-pending invalidity case and vice versa. Therefore, defendants may argue a narrow scope of the patent in the infringement case, making it more likely that the accused item is not covered by the patent, and a broad scope of the patent in invalidity proceedings, making it more likely that novelty destroying prior art can be found.

Chapter Fourteen

Enforcement Proceedings

A court decision is worth nothing if it cannot be enforced. German court decisions can be enforced if they are final or provisionally enforceable. Provisional enforceability is a very mighty weapon for any plaintiff.

Provisional Enforceability

In their decisions, German courts always include a ruling on provisional enforceability, unless they rule in the last instance. This is regulated by statute.

Provisional enforcement can take place with or without paying a security, depending on the type of decision to be enforced. The courts have certain discretion only in case of summary proceedings.

Provisional enforceability can be very dangerous for the defendant. In particular, the provisional enforcement of first instance infringement verdicts can become unjustifiedly costly because these judgments are usually issued before the validity of the patent is determined. For the plaintiff, provisional enforceability is an asset, because it allows the plaintiff to enforce the patent quickly, which is necessary in many cases to protect the competitive advantage supposedly conferred by the patent.

WITHOUT SECURITY	WITH SECURITY
Default judgments	Infringement decisions of district courts
Sometimes preliminary decisions	Sometimes preliminary decisions
Appeal decisions of higher regional courts in infringement matters	Decisions of the Federal Patent Court in nullity proceedings with regards to costs

Table 8 – Decisions enforceable with and without security

Amount of Security

If provisional enforcement upon payment of security is permitted, the court determines the amount of security the plaintiff must provide before being allowed to proceed with enforcement. The security is meant to prevent damage to the other party (for example, if the enforced decision is annulled by the appeals court). The amount of the security should also be based on the amount of damages that may occur through enforcing the decision. In order to assess this potential damage, courts need information prior to the ruling.

Theoretically, the security amount can be adjusted later. However, recently patent infringement courts have required defendants to submit significant reasons to the court of the second instance why they could not claim

before the court of the first instance the imminent damages they claim now before the court of the second instance. This makes the adjustment of the security difficult once the first instance court has ruled on the amount of security.

If the parties do not substantiate the damages possibly incurred by the enforcement, the courts almost invariably fix the security at the same amount as the amount in dispute.

PRACTICE NOTE:

Often at this point, in practice an important decision must be made. Should the defendant explain to the court prior to the judgment that enforcing the judgment would cause significant damages?

In that case, the defendant would have to provide the court with detailed information on revenues affected by the lawsuit. The plaintiff would also receive this information.

If the defendant decides not to disclose this information, it should expect the court to determine a low security payment. This facilitates the enforcement, because plaintiffs can obtain smaller bonds more easily.

The strategy should be clarified early on, because it can take a long time to obtain information on the possible impact of enforcement. Once an enforceable decision exists, time is often short, and courts often do not accept subsequent evidence.

Requirements of Enforcement

The course of enforcement varies greatly depending on what kind of decision is to be enforced. All types of enforcement have in common three main conditions for enforcement:

- ❖ There must be a court decision.
- ❖ The decision must include an “order for enforcement”.
- ❖ The decision must have been served on the party against which it shall be enforced.

The “order for enforcement” is a mere formality. In practice, the court usually grants the order for enforcement within a few days. Service is also possible on short notice. The enforcing party’s lawyer serves the documents directly on the other party’s lawyer.

If enforcement is only permitted upon payment of security, this payment must be proven. Usually, this is done by the simultaneous service of a bank guarantee that complies with the requirements of Section 108 of the German Civil Code (§ 108 ZPO). This usually must be a written, irrevocable, unconditional and unlimited guarantee from a bank authorized to conduct business in Germany or the deposit of the appropriate value of money or bonds. Plaintiffs have started to ask the first instance court to order partial securities for each of the enforceable orders. This gives plaintiffs more flexibility in the

enforcement as they only have to provide security for those orders they actually want to enforce provisionally.

Banks usually issue this type of bank guarantee within a few days, subject to the appropriate business relationship and credit rating.

Usually, banks operate closely with counsel with regards to wording the bank guarantee. An example of such bank guarantee, which covers damages up to EUR 500,000 and which regards the enforcement of a claim for information, is given below. If the conditions for enforcement are met, the decision is enforceable.

EXAMPLE – LITIGATION BOND

In the legal dispute, the defendants have been ordered pursuant to section 2. of the judgment, case number X, of the [date] to provide the plaintiff with information.

The judgment is provisionally enforceable against payment of security in the amount of EUR 500,000.00. Security may be provided by a written, irrevocable, unconditional and unlimited guarantee of the undersigned bank.

That said, we hereby guarantee on behalf of the plaintiff that we are directly liable to the defendant under 1. up to the amount of

EUR 500,000.00 (in words: EURO five hundred thousand 00/100)

for all claims for damages which the defendant under 1. incurs through enforcement or through payment made in order to avoid enforcement in case of an annulment or amendment of the above-mentioned

The guarantee expires pursuant to Section 158 Para 2 of the German Civil Code (§ 158 Abs. 2 BGB) if the guarantee document is returned to us by the claimant or by a third party with the claimant's consent.

[Place], [date]

Enforcement of a Cease-and- Desist Order

A cease-and-desist order contained in the decision takes effect at this time and must be observed. From this time onwards, penalties arise for violations of the cease-and-

desist order, but penalties are not pronounced by a court on its own motion. If the complainant believes that a violation of the cease-and-desist order would be committed, they may submit an application to the same court that issued the cease-and-desist order. In the case of a district court judgment in the first instance, the same chamber of the district court decides on the question whether the act to which the complainant objects constitutes a violation of the cease-and-desist order, if the violation was committed culpably and what penalty is appropriate in that case.

Prior to the court's ruling, the defendant has an opportunity to make representations. The entire proceedings last between a few weeks and a few months. The court may make a decision following a hearing, but a hearing is not mandatory and rarely takes place.

Complex problems often emerge in enforcement proceedings. The question may arise as to whether an opposed distribution of infringing goods actually constitutes a violation of the cease-and-desist order. In many cases, defendants try to modify the infringing products so that they are no longer covered by the cease-and-desist order. In these cases, the court must decide on the scope of its cease-and-desist order and whether the new product is covered by said cease-and-desist order. Defendants expose themselves to substantial risks by acting in this way, since it is difficult to predict how the court will consider a modified product.

If the court finds that a culpable violation of the cease-and-desist order was committed, it will first impose an

administrative fine of up to EUR 250,000. For initial violations of moderate severity, administrative fines in the low five-figure range are common. Larger administrative fines are to be expected only if the defendant had accepted the violation or committed it willfully and drew substantial profits from it. This is because a defendant cannot generate a profit by violating a cease-and-desist order.

Administrative fines are paid to the German Treasury. They are not paid to benefit the plaintiff, whose claims remain unaffected. This means that in case of violations, the plaintiff may assert its own claims for (additional) damages. After the initial imposition of a fine, the plaintiff can continue to monitor the defendant's behavior.

If, in the plaintiff's view, the violator still does not comply with the court's cease-and-desist order, they may enforce their right by submitting a new application. In that case, the enforcement proceedings commence anew, and the court must conduct the same assessment as in the case described above. However, in the case of a repeated violation of the cease-and-desist order, the potential fine will be higher, because the court will assume that the initial fine has not convinced the violator to comply with the cease-and-desist order and that a higher fine is needed to make the violator comply.

If the violations are repeated several times, eventually the court will consider arresting the violator for disobedience of court orders. If the violator is a legal entity, the arrest will be enforced via its directors. However, in that case the enforcement order must have already been

addressed to the specifically named directors at an earlier point in time. If this becomes necessary, the court will pronounce the threat vis-à-vis the directors on a straightforward application of the injured party.

Enforcement of Other Orders

The enforcement of orders other than cease-and-desist orders depends on their type.

Rights to information are not enforced by measures of compliance but by “means of coercion”. The proceedings are similar to those regarding measures of compliance in case of a violation of a cease-and-desist order. However, the defendant can avoid a penalty payment or coercive detention if they carry out the required action in due time, i.e. prior to execution of the means of coercion.

This means in practice that the defendant can often delay providing information for a considerable length of time. The proceedings for the enforcement of the right to information are usually completed after a few weeks and end with the imposition of a penalty payment. Usually, several weeks pass again until the penalty payment is enforced.

In this interval, the defendant can still provide the desired information. Therefore, the defendant should compile that information immediately after receiving a negative judgment in order to be able to send it to the plaintiff as soon as possible after receiving an order for penalty payment.

According to the recent case law of the courts of first and second instance, the defendant cannot be forced to provide information or accounting in electronic form. However, if the information to be provided is extensive, the defendant must structure the information in the same manner that the court sets out in the operative part of the decision. Otherwise, the defendant risks to be considered in breach and a penalty payment can be ordered.

Enforcement of a Claim for Destruction

The enforcement of a claim for destruction takes place by involving a bailiff. On the basis of the judgment, the bailiff must determine independently which objects are suitable for enforcement and seize them from the infringer on the basis of these findings. In case of technically complex products, where the infringement is not easily visible, enforcement is often practically impossible, since the bailiff is not able to identify the infringing products.

The defendant is not obliged to support the bailiff in enforcing a claim for destruction in any way, including whether infringement has occurred and where infringing items may be found (for example, in a large warehouse). At the same time, a defendant's active removal of goods that are subject of enforcement may be unlawful and prosecuted as prevention of enforcement.

PRACTICE NOTE:

The defendant should normally not actively support the bailiff. Enforcement of a claim for destruction often can be partially prevented because the bailiff is not able to determine the infringing products. However, it is advisable for counsel to be present at the place of enforcement, since the active removal or concealment of assets that are subject to enforcement is subject to prosecution under the German Criminal Code and very exact advice may be required.

Right to Appeal

All decisions of the district court in enforcement proceedings may be appealed. In the appeal proceedings, the district court assesses again whether it wants to uphold, annul or confirm its decision. If the district court confirms its decision, it forwards the case to the higher regional court.

The higher regional court then decides under its own competence and based on its own assessment of the facts and the law on the imposition of measures of compliance such as administrative fine or arrest. It is not bound by the district court's findings and legal assessments. There is usually no further appeal of the appellate court's decision.

Decisions in the enforcement proceedings will be vacated if the decision on the merits is overturned (e.g. based on a declaration of invalidity in the Federal Patent Court) or if the plaintiff withdraws the infringement action, even if this happens based on a settlement.



KEY FACTS

- ❖ Non-final decisions are provisionally enforceable.
- ❖ The enforcing party must post a security bond if a security is ordered. This is normally the case in first instance decisions, whereas second instance decisions are generally enforceable without security.
- ❖ Cease-and-desist orders are not self-enforcing. The court will impose fines if the defendant continues to infringe and the plaintiff files a motion to fine.

Chapter Fifteen

Appeals

If a party has lost in the first instance, they may appeal to the higher regional court. An appeal on points of law from an appeals court's decision can be made to the Federal Court of Justice, if the appeals court or the Federal Court of Justice has admitted it (certiorari). The following explanation is intended to give a very coarse overview of the appeals in German procedural law.

The Appeal

Appeals are a very common measure in German civil law. Unlike in other jurisdictions, e.g. the UK, they are not seen as an extraordinary measure with an extraordinarily low prospect of success. When the stakes are sufficiently high, almost every case proceeds to the appeal level.

Appealable decisions

An appeal can be filed against any first instance decision and many second instance decisions. There is no requirement of leave to appeal for appeals against first instance decision. There is generally a requirement of leave to appeal if the appeal is filed against a second instance decision.

In most cases, the notice of appeal must be sent to the court of appeal. There are some exceptions, i.e. appeals against decisions in enforcement proceedings, where the notice of appeal must be filed with the first instance court. The same applies to ex-parte decisions in first instance summary proceedings.

It is important to note that interim decisions of the court, in particular decisions concerning procedural issues cannot be appealed in isolation but only together with the decision that puts an end to the proceedings at the relevant court instance.

Deadline to file appeal and court fee advance

Mostly, appeals must be made within a certain period of time. The deadline for an “ordinary” appeal against a first instance infringement court decision in principal proceedings is one month after the service of the decision. Appeals against other decisions must often be filed within two weeks. There is one notable exception: There is no deadline for appeals against ex-parte decisions in first instance summary proceedings.

If the deadline for the appeal has expired, the decision becomes final. There is usually only a very remote chance to get the proceedings reinstated, namely if the party who misses the deadline can prove that they missed it without fault.

The appellant must advance the fees for the appeal, based on the amount in dispute. The amount in dispute for purposes of appeals fees may be lower than the amount in

dispute determined in the first instance, especially if the appeal concerns only part of the dispute (for example, only one of several asserted claims).

Appeal reasons

The appeal must be substantiated within two months. It can be based on either: (1) errors of law in the judgment of the first instance that were a basis for the decision and (2) new facts that justify a different decision. Although appeals proceedings are not intended as a venue for hearing new facts and the appeals court bases its decision in principle on the facts that were presented at the first instance, the appeals court may take new facts into account (for example, if the factual findings of the district court were incorrect or incomplete).

The appeal reasons are usually not a mere reiteration of the arguments put forward in the first instance. The appellant must discuss any separate reason on which the decision under appeal is based and explain to the appeal court why they believe the first court's arguments are incorrect.

Questions of law can be fully reviewed. Under German law, the question of the interpretation of a patent claim is a question of law.

Procedure

Proceedings in courts of appeals are comparable to the proceedings of the court of first instance. They usually end after a hearing with the court's decision on the merits. Only

in exceptional cases is the dispute referred back to the court of the first instance.

The Appeal on Points of Law

An appeal of an appeals court judgment on points of law may be made to the Federal Court of Justice, the highest German civil court, only if either the court of appeals or the Federal Court of Justice has admitted it (certiorari).

This admission is not at the discretion of the courts. Rather, an appeal on points of law must be admitted if the case is of fundamental importance or if the development of the law or the assurance of uniform case law requires a decision by the Federal Court of Justice. In patent infringement disputes, appeals on points of law are much more common than, for example, decisions of the US Supreme Court in such matters. Approximately half of the patent cases brought before the Federal Court of Justice are appeals on points of law. The rest are mainly ordinary appeals in patent nullity cases.

If the lower court did not grant certiorari, the proceedings split into two parts. First, the Federal Court of Justice must deal with the appellant's application to obtain certiorari. The court decides about this application without an oral hearing. When the

PRACTICE NOTE:

Like the patent litigation chambers of the district courts, the specialized senates of the higher regional courts are staffed with three judges who have completed legal training but usually not a technical degree. Therefore, the submissions in the brief on appeal with regards to the art of the patent and the design of the infringing item should be as clear as possible and take into consideration that the judges often lack a technical background.

Similarly, the judges of the Federal Court of Justice often do not have a technical background, although this may have less of an impact, since appeals on points of law do not involve technical questions.

An appeal on a point of law must be litigated by a litigator admitted to the Federal Court of Justice. Currently, approximately 40 lawyers are admitted to the Federal Court of Justice, and only a few of them are experienced enough in the field of IP law to represent a patent appellant. It is therefore recommended to “reserve” the lawyer of choice early on before they are hired by the other side. Lawyers admitted to the Federal Court of Justice work in small boutiques, no more than two admitted lawyers may be employed in any such law firm.

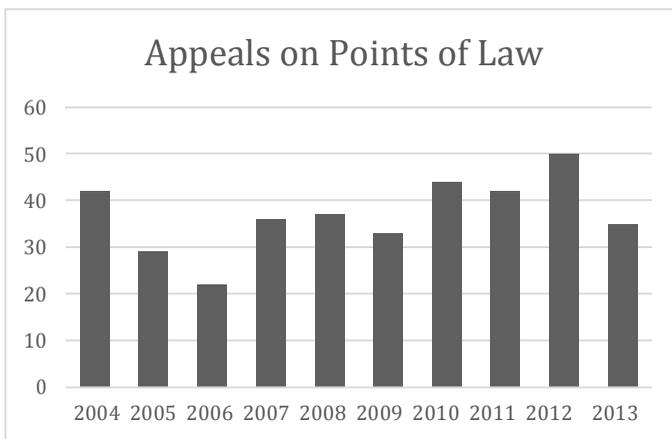


Chart 9 – Number of appeals on points of law brought to the FCJ

No appeal to the European Court of Justice

The European Court of Justice is not a regular appeals court. It only gets involved if a party, based on Sect. 267 TFEU, refers the case there for a preliminary decision on the application and interpretation of European law.

German patent law is only partially based on a European source of law. The remedies provided for in the German Patent Act are in part the result of the implementation of the European Enforcement Directive (EU directive 2004/48/EC). Moreover, competition law constraints can be found in the European law, in particular in Art. 101 and in Art. 102 TFEU and the block exemptions.

Despite this limited direct impact of European law on patent litigation, the role of the European Court of Justice

must not be underestimated. Unlike patent law, other fields of intellectual property law are significantly more harmonized on a European scale in the sense that they share a common foundation in EU law. For example, in the field of trade mark law, the Trade Mark Directive (EU directive 2008/95/EC) and the Regulation concerning the European Union Trade Mark (EU regulation 2868/95/EC) are in place and play an equally important role as the Enforcement Directive. The application of these laws regularly results in referrals to the European Court of Justice. The outcome of these referrals can have an impact on other fields of IP law, including patent law.



KEY FACTS

- ❖ First instance decisions can be appealed on questions of facts and questions of law.
- ❖ Second instance decisions can be appealed on questions of law if the second instance court gives leave to appeal or the Federal Court of Justice grants certiorari. Second instance decisions in invalidity cases cannot be appealed.
- ❖ The appeal against decisions of the first instance court starts a full new proceeding. Evidence can be taken on the appeal stage.
- ❖ The course of an ordinary appeal procedure is very similar to a first instance proceedings.

Chapter Sixteen

Nullity Proceedings

The importance of nullity proceedings for the defense cannot be overestimated. The procedural principles are similar to those of infringement proceedings, but some details are different. Nullity proceedings are lengthy and they can be costly.

Initiation of Proceedings

There is no pre-litigation stage for nullity proceedings before Germany's Federal Patent Court. Rather, nullity proceedings may be initiated immediately after the opposition period (nine months from the granting of the patent) expires by bringing the nullity action before the Federal Patent Court.

Anyone may initiate nullity proceedings during the term of protection of the patent. This differentiates nullity proceedings from infringement proceedings, where only the patent holder, an exclusive licensee or another authorized person can assert an infringement of the patent. The patent holder is always the defendant in nullity proceedings.

A nullity action may therefore be directed against a person other than the plaintiff in infringement proceedings, for example, if an exclusive licensee appears as a claimant in the infringement case. This can lead to complications during proceedings, if the plaintiff in the infringement proceedings does not want to have the statements of the defendant in nullity proceedings submitted against them.

The Senates

The six senates of the Federal Patent Court, which each have competence for patent nullity proceedings, consist of five judges each. Of these judges, three have received a technical training, and two have received a legal training. The workload is split between the senates according to IPC classes. The senates have particular experience in those fields of technology.

In nullity proceedings, the parties may be represented by a patent attorney (a specialized professional in Germany who is not a lawyer) and/or by a lawyer.

Content of Nullity Proceedings

A plaintiff in nullity proceedings must state a specific ground for nullity in the nullity action. Possible grounds for nullity are

- ❖ The subject matter of the patent is not patentable.

- ❖ The patent does not disclose the invention in such a clear and complete way to enable a person skilled in the art to implement it.
- ❖ The main content of the patent has been extracted from the descriptions, drawings, models, devices or appliances of another patent or from a process applied by another without consent (usurpation).
- ❖ The subject matter of the patent extends beyond the content of the application in the form in which it was initially submitted to the competent authority.

Each of these grounds for nullity represents an independent cause of action. This means that an independent nullity action can be brought based on each of these grounds. However, normally all grounds with a prospect for success are asserted collectively in one action.

The Federal Patent Court is subject to the principle of official examination (Amtsermittlungsgrundsatz). This means that the Federal Patent Court generally must assess the validity of the patent on its own motion, within the cause of action brought by the plaintiff. The Federal Patent Court usually relies on the plaintiff to presenting the relevant documents of the prior art to it, but may also include prior art, based on which the patent is declared void, in the proceedings on its own motion.

Service of the Nullity Action

The Federal Patent Court serves the action either on the defendant or on the patent attorney who is registered in the German Federal Patent Register. However, the action is only served if the plaintiff has paid an advance for the court costs that will be incurred in the first instance.

Patent Holder's Reaction

The period for filing a defense notice begins after the Federal Patent Court serves the action. During this period, the defendant must decide whether to submit a defense against the nullity action. If the defendant chooses not to file a defense, the court may rule on the matter solely based on the plaintiff's statement of claim.

Otherwise, the defendant lodges a defense notice and requests the granting of a period of a few months in order to file the detailed statement of defense. In the statement of defense, the patent owner will try to refute the arguments brought by the nullity plaintiff. The nullity proceedings are generally independent of the infringement proceedings, meaning that there is no legally binding effect or estoppel. The nullity defendant may pursue a claim construction that differs from the one in the infringement proceedings, as claim construction is a question of law that the court must assess. However, caution is necessary with regards to factual representations made in either the nullity or the infringement proceedings. Such factual representations

may result in a reversal of burden of proving, which may be unfavorable for the party who made these representations. Whereas it was initially up to the one party to substantiate and prove certain facts, this obligation may shift to the other party if that party made factual representations and subsequently tries to deny those facts.

German courts have not yet decided about a reversal of the burden of proving if there are different parties involved, e.g. if the exclusive licensee makes certain representations in the infringement suit and the patent owner makes inconsistent representations in the nullity suit. However, based on the contractual relationship of patent owner and licensee, an argument could be made that representations of the patent owner can be held against the exclusive licensee and vice versa.

Qualified Notice

Approximately six months before the hearing, the Federal Patent Court issues a “qualified notice” in which it evaluates the facts and arguments submitted by the parties to the nullity proceedings so far. Often, the plaintiff can deduce from this notice whether the action will have a chance of success.

The qualified notice is of paramount importance for the course of the infringement proceedings. A qualified notice that favors the defendant in the infringement proceedings does not guarantee a suspension of the infringement

proceedings, especially if the Federal Patent Court takes a different view on the interpretation of the patent. However, in most cases an infringement court will be convinced if the Federal Patent Court indicates its intention to declare the patent invalid. In that case, the infringement court will usually stay the infringement proceedings.

In the qualified notice, the Federal Patent Court usually sets the date for the hearing and a deadline for the parties to file additional written submissions. All written submissions filed after the deadline may be rejected as late.

The qualified notice is also very important for a limited defense of the patent and the filing of auxiliary claim sets. Recently, the Federal Court of Justice devoted various decisions to the question as to when a nullity defendant must file auxiliary claim sets, what constitutes sufficient reason to embark on an alternative defense of the patent or to file additional arguments and bring forward additional evidence. In all those decisions, the qualified notice takes up a leading part.

Hearing and Decision

Unlike the hearing in patent infringement proceedings, the hearing before the Federal Patent Court often extends to a whole day or even more than depending on the amount of auxiliary claims and on whether witnesses must be heard. As three of the five judges in the senates of the Federal Patent Court have a technical background, the court only

appoints technical experts in technically extraordinarily complex cases. The parties' influence on the appointment of an expert is very limited. However, if from a technical point of view the judges seem to turn into the wrong direction, a party may try to convince the court of the appointment of an expert by presenting a comprehensive expert opinion by an expert of good standing. It goes without saying that such expert opinion must be prepared in advance of the court hearing.

Usually, the court announces its decision immediately after the hearing. As in infringement proceedings, the decision can be a decision on the merits or any procedural decision, including a decision to take evidence or to simply continue the proceedings. In the vast majority of cases, the court issues a decision on the merits. It then often takes several months to receive the written grounds for the decision.

The losing party may appeal the Federal Patent Court's decision. The appeal must be made within one month after receiving the written grounds for the decision and no later than five months after the oral pronouncement of the decision. The losing party must then submit their grounds for appeal within three months after receiving the written grounds for the decision.

Appeals proceedings, which are conducted before the Federal Court of Justice, are the sole remedy in patent nullity proceedings.

The principle of official examination applies to proceedings before the Federal Patent Court. Unlike in infringement proceedings, the parties to appeals from patent nullity proceedings have no obligation to submit evidence, although they still retain the burden of proof for the facts they allege. If it is not possible for the Federal Court of Justice to establish a fact on its own initiative with reasonable effort, and if the party relying on the fact has not provided sufficient evidence to prove it unambiguously, that party will bear the consequences of the lack of evidence proving that fact.



KEY FACTS

- ❖ The infringer or a third party must initiate nullity proceedings separately from the infringement proceedings if the alleged infringer wishes to defend with the argument that the patent-at-issue is invalid.
- ❖ From a procedural side, nullity cases are less formal. In particular, most deadlines set by the court are not as strictly binding as the deadlines in infringement proceedings. This is due to the principle of “official examination”.
- ❖ The court issues a qualified notice approximately 4 to 6 months before the oral hearing. This qualified notice contains a very important interim assessment of the case and determines the further course of the proceedings.

Chapter Seventeen

Summary Proceedings

German procedural law provides for summary proceedings, which allow a party to receive a preliminary injunction easily and relatively quickly, often within a few weeks or even days.

Patent infringement disputes are technically complicated. Therefore, not every dispute can be solved in summary proceedings. The patent holder should think very carefully about whether to apply for a preliminary injunction because it can bear significant cost risks with regards to costs. If a preliminary injunction is enforced but later revoked, the plaintiff will be liable for any damages. Summary proceedings are the means of choice for the enforcement of claims for inspection of sites. Below, we will focus on the more incisive threat of preliminary injunctions.

Requirements of the Preliminary Injunction

A preliminary injunction requires two things. First, there must be an “injunction claim” (Verfügungsanspruch). This means that it must be clearly more likely than not that the plaintiff is entitled to the claimed right, such as a claim for a cease-and-desist order in the case of a patent infringement.

Second, there must be “grounds for injunction” (Verfügungsgrund). This includes that the matter is urgent

and that the legal validity of the asserted patent is sufficiently assured. Unlike in the main proceedings, the court cannot assume that the patent has been rightfully granted. Rather, the plaintiff in preliminary injunction proceedings must prove that there are no serious doubts as to the validity of the patent. In general, this requires the patent to have survived opposition or nullity proceedings without prejudice, even though some courts have lower requirements.

In exceptional cases, such as in the case of generics manufacturers, the courts have fewer requirements for the degree of certainty that the patent is valid.

Urgency in this context means that the injunction claim should be asserted not in the main proceedings but in preliminary injunction proceedings. The plaintiff's own conduct should not have given the impression that the matter is not urgent. Therefore, the German courts have established an emergency period of about six weeks. If the patent holder waits longer than those six weeks after learning of the alleged infringement before initiating legal proceedings, the matter may be considered as not urgent. In such a case, the plaintiff can only argue that it was not possible to assert the claim earlier, for example, because they could not identify the infringer in time or they could not establish the infringement with sufficient clarity. The urgency deadline starts only not before the patent is granted or the utility model is registered. If the injunction request shall be based on a utility model split-off a pending

patent application, the right owner must act without undue delay to get the utility model registered.

Recently, the courts have been less strict. The Düsseldorf Higher Regional Court has held that the patent owner may take any necessary measure to prepare for any counter-argument of the infringer before filing summary proceedings. However, he must proceed with this preparation without undue delay. There is also consensus that the patent owner may wait for the result of pending opposition or nullity proceedings before filing, in some cases even for the result of a pending appeal against a favorable first instance opposition or nullity decision. The Karlsruhe Higher Regional court has recently held that the patent owner may also wait for the outcome of parallel infringement proceedings against another infringer before filing the injunction request.

Petition for a Preliminary Injunction

Essentially, the petition for a preliminary injunction is similar to the statement of claim in the main proceedings. However, in some parts it needs to be more detailed. There is no time in summary proceedings to respond to the other party's written submissions and to convince the court little by little. Therefore, the petition should contain all relevant facts and arguments.

In principle, the petition must be so convincing that it can overcome any of the defendant's counter-arguments.

Therefore, preliminary injunction proceedings are best suited if the infringement of the patent is obvious and no serious defense is expected.

The petition must be submitted to a court of competent jurisdiction. The court does not immediately serve the petition on the other party but usually assesses, upon the plaintiff's request, whether the petition is likely to succeed.

PRACTICE NOTE

The facts regarding urgency should be documented as accurately as possible. If during the proceedings the question arises as to whether the patent holder has responded quickly enough, submitting a complete list stating when and why earlier legal action has not been appropriate can be very helpful.

However, the requirements are strict here. Some German courts expect the patent holder to submit a claim to court very quickly, even if the claim's prospect of success has not yet been clarified with absolute certainty.

Hearing

The court has the discretion to grant a preliminary injunction either with or without a hearing.

The statutory rule is that a hearing shall be held unless, in view of the urgency, an immediate decision is necessary. If the defendant is not domiciled in Germany, they should be given the opportunity to make a statement in the matter as according to the case law of the European Court of Justice and the German Federal Court of Justice preliminary injunctions cannot be enforced if the injunction was granted without the defendant having had the opportunity to submit a defense.

In practice, ex-parte injunctions are rare, with two exceptions. First, there are very clear-cut cases, e.g. cases of importation of clearly patent infringing medicinal products, which were seized by the customs. Second, the claimant might have requested a seizure. In such cases, the court will not schedule a hearing if otherwise there is a likelihood that the infringer hide the infringing goods and thereby save the goods from being seized.

PRACTICE NOTE

In some cases, a plaintiff can use preliminary injunction proceedings to get a first judicial assessment of the case. Experienced lawyers request the court not to serve their petitions on the other parties, if the court has reservations about granting a preliminary injunction without a hearing.

This gives the lawyer the opportunity to withdraw a petition if the court indicates any doubts. This keeps the plaintiff's legal costs low and usually does not allow the defendant to learn that a petition was filed, so the defendant cannot utilize a beneficial decision.

Subject-matter of summary proceedings

Not all remedies can be successfully enforced in preliminary injunction proceedings. German civil procedure law prohibits the anticipation of the decision in the main proceedings. This means that a preliminary decision must not create accomplished facts.

Therefore, summary proceedings are not intended to enforce damage claims since German courts do not view payment as urgent. Similarly, claims of recall and destruction cannot be enforced in summary proceedings

since they cannot be reversed. In practice, only injunctive relief, claims for submission and inspection and, in cases of obvious patent infringement, claims for information and accounting can be enforced in summary proceedings.

Liability for Enforcing Preliminary Decisions

Enforcing a preliminary injunction leads to cost risks. If a court later rules that the preliminary injunction should not have been granted, the patent holder who enforced the preliminary injunction must compensate the defendant for damages it incurred, which can be very large. In cases of valuable patents and related products, enforcing a cease-and-desist order often leads to a significant loss of sales, for which the patent holder must pay compensation.

In view of the damages potential, some courts have started to require the plaintiff to post sufficient security before enforcing a preliminary decision.

Protective writs

If the alleged infringer anticipates an injunction request, they may try to protect themselves by filing a protective writ, which is similar to a statement of defense except that it is not a reaction to a real lawsuit but to a potential one. In the protective writ, the alleged infringer tries to convince the court that in case of summary proceedings

- ❖ no injunction shall be issued;
- ❖ in the alternative, no ex-parte injunction shall be issued;
- ❖ in the alternative, the enforcement of any injunction shall be subject to a security deposit.

The protective writ should be filed with all first instance courts that potentially have jurisdiction, i.e. in most cases with all twelve first instance patent infringement courts.

Protective writs are a double-edged. On the one hand, if the defendant's case is strong, it can be very helpful to lower the risk of an unjustified injunction being issued by the court based on biased information in the injunction request. On the other and, if the defendant's case is weak, the court may consider a hearing unnecessary, meaning that a protective writ in a weak case can even accelerate the issuance of an injunction. Therefore, the decision to file a protective writ must be based on a thorough case-by-case analysis. In close cases, a viable option could be to file a protective writ that only covers a particular legal issue, e.g. the lack of urgency, and reserve one's argument concerning infringement and legal validity of the patent. In that case, if the court disagrees with the urgency argument, it will still have to consider that the defendant has not been heard on non-infringement and invalidity, yet. This decreases the risk of an ex-parte injunction.



KEY FACTS

- ❖ Summary proceedings are the means of choice to enforce claims for submission and inspection.
- ❖ They can also be used to enforce claims for injunctive relief and, in clear-cut cases, claims for information.
- ❖ The alleged infringer should consider thoroughly to file protective briefs.
- ❖ The enforcement of a preliminary decision bears a considerable risk of liability if the preliminary decision is overturned later.

Chapter Eighteen

Non-Practicing Entities

Non-practicing entities have hit Europe and, in particular, Germany. German patent law and the German code of procedure allow NPEs to enforce their alleged rights very efficiently. Not every NPE can be considered a patent troll. In fact, there is a large number of NPEs, such as e.g. universities and individual inventors, that must be respected exactly like operating companies, which are engaged in commercially exploiting their intellectual property rights.

For purposes of this chapter, NPEs means aggressively behaving companies that acquire patents as a venture with the goal of achieving the highest possible returns from those investments.

Characteristics of NPEs

In order to better understand the NPEs' approach and the danger they represent, one must take a closer look at their essential characteristics. The essential point is that NPEs are not active on the product market. They do not produce goods and – at least in a conventional sense – do not offer services. Less important but in most cases also characteristic is that many NPEs lack assets and research and development activities.

The main reason for the danger that NPEs present is their lack of own production and distribution activities. Since NPEs do not have to make their way on the product market, they do not see a need to comply with agreed market rules. Patent disputes between companies that actively sell on the products market can often be resolved on an equal footing and through business-focused settlements. Those companies are not interested in disputes that leave behind scorched earth. This does not apply to disputes involving NPEs. NPEs are always in the position of the claimant; they never have to defend their own products against the allegations of third parties.

As a result, NPEs have developed some problematic patterns. They often base their claims on dubious patents, the patent portfolios they use as weapons often are not even remotely comprehensible, they file lawsuits attacking standardized technologies for most companies have no alternative to using standardized technologies, such as e.g. in the telecommunication or wireless network sector. Furthermore, their strong position enables them to aggressively perform customs seizures or police raids at trade fairs, and to send warning letters to customers and enforce preliminary injunctions.

Strategic Advantages for NPEs in Germany

Strategical reasons make Germany the most preferred patent litigation jurisdiction for NPEs in Europe. The most important reasons for this are:

- ❖ the bifurcation principle, which enables NPEs to enforce their patents without the need to thoroughly analyze the patent's validity,
- ❖ the fact that an order to cease and desist from any further infringing activities automatically follows the declaration of a patent's infringement,
- ❖ the reasonable financial risk that is associated with the costs of litigation and
- ❖ the uncomplicated enforceability of final decisions.

Claims for Injunctive Relief Based on SEPs

The situation for NPEs in Germany has become a little more difficult, especially in the field of SEPs. This development has been initiated by the European Commission which stated in several proceedings that the enforcement of claims for injunctive relief based on SEPs must be deemed an abuse of a dominant position in the market if that user of the technology seriously wants to obtain a license and to enter into respective negotiations to license the technology. Further details can be found in the Section on SEPs.

Automatism of Injunctive Relief

German law does not know the “four-factors-test”, as it is used in the US. Thus, for granting injunctive relief, it is irrelevant whether damage claims are sufficient to compensate for the infringement. It is also irrelevant, whether the infringement concerns a complex device as such or just a minor component. The injunctive relief will regularly affect the whole device.

Another problem concerns the enforcement of injunctions. A German court’s decision granting injunctive relief normally simply quotes the wording of the patent claim. Only recently, the Karlsruhe Higher Regional Court held that there was no need for the plaintiff to restrict the order sought to the specifically accused items. According to the standing case law of the Federal Court of Justice, the plaintiff may seek an order as broad as the patent claim. According to the court, such broad injunction request, in order to succeed, must be based on a risk of recurring or first-time infringement for all items covered by the potential order. However, the courts of instance do not apply this requirement very strictly.

This court practice makes it hard to define the scope of the court’s order. NPEs benefit from this circumstance and try to expand the decision’s scope of application during the enforcement proceedings as far as possible. Their strategy is to find a single infringing item and obtain an order covering the full breadth of the patent claim.

No Staggered Proceedings

Furthermore, there often is only one oral hearing in German patent infringement proceedings, which is followed by the court's decision just a few weeks later. The courts do not always provide the parties with clear information on their view of the alleged infringement, which is why the final decisions can often be surprising.

Thus, if the outcome of the proceedings is unfavorable to the defendant, the defendant normally has only very little time to make the necessary arrangements to avoid future infringements.

In these cases, the NPEs will try to take advantage of the defendant's weak position to reach a settlement under most favorable conditions.

Enforceability

Enforcing first instance decisions in Germany, such as injunctive relief or an order to provide information, is rather uncomplicated. In most cases, the security which must be provided prior to the enforcement will not suffice to protect the defendant from damages which are caused during the enforcement proceedings. In addition, many NPEs do not have sufficient recoverable assets to compensate for potential damages. Thus, it is often the defendant who will have to bear the risks of enforcement, and this which enables the NPEs to put pressure on them.

Defending Against NPEs

A successful defense against NPEs requires an elaborate strategy which takes into account these characteristics of NPEs. A successful anti-NPE-strategy may include a concerted behavior and an early invalidity attack of the NPE's patents. It cannot be overemphasized that timing is a critical factor. Due to the bifurcation principle and due to the fact that the duration of infringement and invalidity proceedings differ from each other, defendants often do not have enough time to fully exercise their rights.

Several US companies focus on organizing and pooling the defenses against NPEs, on analyzing NPEs' patent portfolios, on negotiating with NPEs and on acquiring and licensing NPE patents. A similar preventive defense strategy should also be established in Europe, as it enables a company to make all necessary arrangements before it is confronted with the respective infringement allegations by an NPE.

In this context, it is crucial for each company to avoid appearing as an easy target. Companies which have been identified as an easy target will certainly be confronted with repeated infringement allegations again and again from multiple NPEs.



KEY FACTS

- ❖ Non-practicing entities have become active in Europe, in particular in Germany.
- ❖ The German litigation system, in particular the separation principle, gives non-practicing entities a serious advantage.
- ❖ The defense against non-practicing entities requires an elaborate and far-sighted strategy including early attacks on the NPE's patents.
- ❖ The enforcement of SEPs will become more difficult for NPE due to the recent development in European competition law restricting the bargaining power of SEP owners.

Chapter Nineteen

UPC – Unified Patent Court

The Unified Patent Court (UPC) will lead to the first unified European patent jurisdiction, covering a market with around 500 million people. For the first time, there will be serious competition to the US as the main jurisdiction for litigating patents. The establishment of the UPC will have a significant impact on the patent litigation. It is unclear to what extent the dominance of the German courts will be affected.

Foreword - Brexit

By a very narrow margin, on June 23, 2016, people in the UK voted in favor of leaving the European Union. The impact of this decision is huge, and the new European patent system is not the most important issue on the Brexit agenda. However, it certainly is an important issue for any European patent litigator.

According to Article 89 UPC AGREEMENT, the Agreement shall enter into force on the first day of the fourth month after the deposit of the thirteenth instrument of ratification or accession in accordance with Article 84 UPC AGREEMENT, including the three member states in which the highest number of European patents had effect in

the year 2012. These three member states are Germany, the UK and France.

If the UK actually leaves the Union, which presently no-one can predict, it cannot stay a regular member state of the UPC AGREEMENT unless the UPC AGREEMENT is amended significantly. This consequence of Brexit is not completely understood. According to Article 20 UPC AGREEMENT, the UPC shall apply Union law in its entirety and shall respect its primacy. The primacy of Union law is exactly what will be abolished in the UK when Brexit comes. The UPC, as a court competent for the territory of the UK, cannot respect the primacy of the Union law in the UK, where this primacy will not exist any longer.

Certainly, the member states can ratify and put into force the new system before the UK leaves the EU. However, it is unlikely that Germany will lodge its ratification deed before the fate of the UK in the EU becomes clear. Therefore, the least we have to expect is that the UPC will come into existence with a considerable delay.

The next subchapters are based on the assumption that the system is introduced irrespective of Brexit.

The UPC on the Home Stretch

Traditionally, enforcing patent rights against alleged infringers in Europe has required pursuing patent infringement actions in each Member State of the European

Patent Convention (EPC). Although the substantive patent law in the EPC Member States is mostly harmonized, Member States have substantially different procedural laws. With the advent of the Unified Patent Court (UPC), patent owners will have an alternative simplified and more uniform system to pursue enforcement of their patents with unitary effect. Indeed, the UPC will potentially cover a market of about 500 million people who live in the UPC Member States, i.e., signatories of the UPC Agreement. No official start date for the new system has been announced, however, it was estimated to start sometime in January 2017. Things have become unclear recently with the UK voting to leave the European Union.

The new system will establish both a Unitary Patent and a Unified Patent Court system. The UPC will have its most important division, the Central Division, in Paris, with two branch offices in London (Life Sciences, provided Brexit does not come) and Munich (Mechanical Engineering), and several Local/Regional Divisions that will be located throughout the UPC Member States. All divisions will use the same rules of procedure and generally apply the same law.

A UPC decision will cover the territory of all UPC Member States. As the Unitary Patent will have unitary effect in all UPC Member States, it will be enforceable throughout Europe with a single action. A single court of appeal will be located in Luxemburg.

The implementation of the UPC has consumed several years of work by a vast number of experts and has now

reached the home stretch. The UPC Agreement has not yet been formally adopted, as some necessary national ratifications are still missing. Due to a recently signed protocol to the UPC Agreement parts of it can already be applied. This includes final decisions on the practical set-up of the Court, such as the recruitment of judges and implementation of IT systems. Despite Brexit, the UPC has started to become a reality, which promises to be a transformative change for patents in Europe.

Jurisdiction and the Opt-out Regime

The Unified Patent Court (UPC) will be a specialized court with exclusive jurisdiction for litigation relating to European patents and European patents with unitary effect (unitary patents) in all UPC member states.

In response to some patent owners having expressed reservations and fears about the UPC, the UPC Agreement provides for opt-out rules during an extendable seven-year transitional period.

The UPC will have the authority to decide disputes involving traditional European patents, new unitary patents and – as it stands today – supplementary protection certificates based on either of these types of patents.

The UPC will hear cases in its local and regional divisions involving actions for actual or threatened infringement and related defenses; counterclaims concerning licenses; actions for declaration of non-infringement; actions for

provisional and protective measures and injunctions; actions and counterclaims for revocation of patents; actions for declaration of invalidity of supplementary protection certificates (SPCs); and actions for damages or compensation derived from the provisional protection conferred by a published European patent application.

Before launch of the UPC, patent litigation must be conducted in the national courts of such states. Once the UPC is in force, a patent owner can elect that its European patent have unitary effect within one month after grant.

In non-UPC member states the national courts will retain jurisdiction over patent cases.

Once the UPC is launched, patent owners will be able to enforce a patent in all UPC member states with a single action. Alleged infringers will be exposed to greater damages from a single court decision because the relief, if awarded, damages or an injunction or both, will cover the territory comprising all UPC member states. On the other hand, defendants will have a more powerful defensive option in that a UPC decision invalidating a patent will have effect in all UPC member states. Patent owners often describe this as the all-eggs-in-one-basket problem. Importantly, UPC invalidity decisions will affect not only unitary patents but also European patents that are granted prior to or after launch of the UPC unless, in the latter cases, patent owners have opted out of the UPC's jurisdiction. Patent owners of traditional European patents may choose during a transitional period of seven years after launch of the UPC (transitional period) to file a lawsuit in a national

court instead of the UPC. The Administrative Committee of the UPC may decide to extend the transitional period for an additional seven years.

Also, during the transitional period, patent owners can elect to opt out their European patents from the jurisdiction of the UPC. There will be no for opting out. This option to opt out is designed for patent owners to avoid the all-eggs-in-one-basket problem. If the patent owner has successfully opted out, the patent cannot be attacked in the UPC. The only way for a challenger to invalidate such a patent would be to bring separate actions in all jurisdictions where the patent has national counterparts, which is obviously much more burdensome but with less risk of complete failure because of potential variations in national courts' findings.

Once a patent owner has elected unitary effect for its newly granted patent (after launch of the UPC), there will be no option to opt-out. A patent owner will not be able to opt out of UPC jurisdiction if litigation of a European patent has already been brought in the UPC. Importantly, an opt-out only takes effect once it is registered with the EPO. To avoid any risk that an action could be filed with the UPC on day one of the UPC's entry into force, patent owners can request to opt out before such date in order that the opt-out is effective on day one of the UPC.

A patent owner can withdraw the opt-out from UPC jurisdiction. Again, there will be no fee. The patent owner must withdraw the opt-out before any litigation in a national court has been brought. The rationale behind this rule is that patent owners shall not be given the opportunity

to litigate a patent under the UPC system if they had already tried to litigate it in a national court.

The European Union rules governing the jurisdiction of courts in civil and commercial matters (Brussels I recast) are also applicable to the UPC. Regardless of where an alleged infringer may be based, the local or regional division of the UPC will have jurisdiction based on the location of the allegedly infringing action or where the alleged harm can be shown. In principle, infringement actions are brought at a local or regional division where the actual or threatened infringement has occurred or may occur, or where the defendant is based (so long as the defendant is based within the territory of the UPC). A stand-alone invalidity action will be heard by the central division of the respective technology sector in Paris (all technologies except life sciences and mechanical engineering), London (life sciences) or Munich (mechanical engineering). Invalidity counterclaims may be heard either by the local/regional division where the infringement case is filed or, if the infringement court refers a case, by the central division.

Important strategic decisions in advance of the launch of the UPC should be made by patent owners, particularly whether or not to opt out of the UPC during the transitional period.

The Role of the European Union Court of Justice

The UPC consists of two bodies. First, there is the Court of First Instance comprising the local/regional divisions in the member states and the central division in Paris with branches in London and Munich. Generally speaking, the Court of First Instance will be competent for all patent cases based on European Patents in the future. Second, there is the Court of Appeal in Luxemburg. The Court of Appeal will be competent for all appeals against decisions and orders of the first instance court. Appeals can be based on questions of law and matters of fact. There will not be another appellate court above the UPC's appeal court.

In that context, the role of the European Court of Justice (ECJ) is of interest. First, it should be pointed out that the ECJ is no part of the UPC system and does not assume any responsibilities or competences under the UPC agreement. Under European constitutional law, the ECJ can only serve the UPC with so-called preliminary rulings under Article 267 of the Treaty on the Functioning of the European Union (TFEU). This means that decisions of the UPC cannot be appealed to the ECJ. The ECJ will only be involved if the UPC's first instance court or the UPC's appeal court decides to request such preliminary decision at the ECJ. The scope of such possible requests and thereby the future role of the ECJ in the development of substantive European patent law was hotly debated during discussion of the Agreement on the Unified Patent Court (UPCAgreement).

Many practitioners felt that the ECJ should be kept out as the ECJ's involvement in questions of substantive patent law

might conflict with one of the UPC's most important goals, namely, to provide a streamlined and efficient procedure to enforce European patents. Not only could the consultation of the ECJ delay the procedure of patent enforcement, many practitioners believed that the ECJ might lack the expertise to decide critical questions of substantive patent law such as questions of direct and indirect patent infringement.

For these reasons, in an attempt to reduce the ECJ's influence on the UPC's operations, the substantive patent law provisions were removed from Regulation 1215/2012 and inserted into the UPC Agreement. As the UPC Agreement is an agreement concluded under international law external of the European Union, the ECJ would not have the competence to authoritatively interpret the UPC Agreement. However, this attempt to deprive the ECJ of its competence in patent cases appears to have failed.

In order to comply with European constitutional law, the UPC had to be established as a court "common to the participating member states". As a result, the UPC is bound by the same Union law obligations as any other court of the EU member states. The removal of the substantive patent law provisions from Regulation 1215/2012 has therefore not achieved its goal to prevent the ECJ from issuing preliminary rulings in patent cases in the future. The position of the UPC as a court common to the participating member states imposes on the UPC the duty to apply Union law in its entirety and to respect its primacy as well as, particularly important, the duty to cooperate with the ECJ in

the framework of the preliminary ruling procedure and to treat the ECJ's decisions as binding. This is confirmed in Articles 20 and 21 of the UPC Agreement.

In practice, this will mean that under Article 267 TFEU and Article 21 UPC Agreement the UPC will make requests to the ECJ for preliminary rulings in a broad range of cases. According to Article 267 TFEU the ECJ issues preliminary rulings concerning (i) the interpretation of the EU Treaties including rules concerning the free movement of goods and services, and (ii) the validity and interpretation of acts of the institutions, bodies, offices or agencies of the Union including all kinds of EU directives and regulations.

The ECJ may rule in such cases on issues involving EU fundamental rights laid down in the Charter of Fundamental Rights, the remedies provided under the EU enforcement directive, the rules on medicinal products including the Bolar exemption and others. There is still an ongoing discussion whether the UPC Agreement itself can be considered as Union law for the purpose of Article 267 TFEU. In that event, the interpretation of the entire UPC Agreement, i.e. each provision of the UPC Agreement, could theoretically be the subject to the ECJ's preliminary rulings.

The ECJ will neither be a court of "third instance" in UPC proceedings, nor will it have the authoritative power to rule directly on acts of the European Patent Office. However, there is no doubt that the ECJ's indirect influence as guardian of European Union law will make itself felt as soon

as it hears the first cases referred to it for preliminary rulings.

Patent Infringement

The UPC Agreement will not only establish a centralized and uniform procedure to enforce European patents, but there will also be a new unified framework of European substantive patent law. The substantive laws are codified in the UPC Agreement in several articles though the UPC Agreement does not provide an exhaustive set of substantive law rules. The UPC Agreement (UPCA) only addresses some fundamental questions of substantive law such as direct infringement (Article 25 UPCA) and indirect infringement (Article 26 UPCA), limitations of the patent's effect including private use and trial exemptions (Article 27 UPCA), prior use rights (Article 28 UPCA) and patent exhaustion (Article 29 UPCA).

In instances where the UPC Agreement does not contain substantive law provisions, other sources of law will apply, in particular the law of the European Union, the European Patent Convention (EPC) addressing questions of patentability, other international agreements applicable to patents and binding on all the contracting member states and national law.

In this issue of the FCBA newsletter, we will focus on the provisions covering direct and indirect patent infringement.

Direct infringement is addressed in Article 25 UPCA which provides that a European patent within the UPC system gives its proprietor the right to prevent any third party not having his consent from

- ❖ making, offering, placing on the market or using a product which is the subject-matter of the patent, or importing or storing the product for those purposes;
- ❖ using a process which is the subject-matter of the patent or, where the third party knows, or should have known, that the use of the process is prohibited without the consent of the patent proprietor, offering the process for use within the territory of the Contracting Member States in which that patent has effect;
- ❖ offering, placing on the market, using, or importing or storing for those purposes a product obtained directly by a process which is the subject-matter of the patent.

This scope of the patent's effect is largely similar to the national provisions in most EU member states. However, there are two important points to note:

First, contrary to the legal situation today, under the UPC Agreement one can base an infringement action on infringing activities spanning the territories of several contracting member states. While it was possible under the

old framework to bring an infringement action based on infringing activities in several member states, as soon as the defendant challenged validity of the patent in one or several member states, the court had to split the proceedings and partly refer them to courts of other member states. Thus, it was practically impossible to obtain a pan-European injunction or a pan-European decision on damages. This will be different under the UPC Agreement.

Second, even though the patent acts in most EU member states contain provisions similar to Article 25 UPCA, there have been considerable inconsistencies in the court decisions. One of the most important effects of the UPC will be the unification of these national practices through the unified court system. This may result in a more homogenous approach to a number of legal issues including the definition of offering, the requirements of domestic use of a process, questions of claim construction and determination of the patent's scope, to name just a few.

In particular, the unification of court practice might lead to a convergence of the doctrines of equivalents in the UK and Germany. While there is no mentioning of equivalent infringement in the UPC Agreement, this does not mean an abolition of the doctrine of equivalents under the UPC Agreement. The doctrine of equivalents is, as a rule, accepted throughout all European jurisdictions and stipulated in the Protocol on the Interpretation of Article 69 EPC. The major European jurisdictions courts have established requirements for equivalent infringement. In

practice today, there are jurisdictions like Germany with a traditionally broader approach to equivalents. There are also jurisdictions, like the United Kingdom, where equivalent infringement seems to have been significantly limited – even though often UK courts counterbalance this narrower approach with a broader, what is called purposive claim construction in the first place. The UPC may level out these differences and, thus, make questions of patent infringement more easily predictable on a European scale.

Indirect (or contributory) infringement is covered by Article 26 UPCA. While the working of Article 26 UPCA is rather complicated, it prohibits in relevant part a third party from supplying or offering to supply any (unlicensed) person with means, relating to an essential element of that invention, for putting it into effect therein, when the third party knows, or should have known, that those means are suitable and intended for putting that invention into effect. There is an exemption for staple commercial products. To those, Article 26 UPC will not apply, except where the third party induces the person supplied to perform an act of direct infringement. There is no requirement that direct infringement occurs.

This rule of indirect infringement is very similar to what has already been the law in most EU member states. In a number of European countries, the supplied means must explicitly relate to an essential element of the invention. The UPC Agreement has upheld this requirement even though it is in many cases very hard to assess. A common definition

provides that the means have to be suited to cooperate functionally with one or more features of the patent claim to realize the protected inventive idea. A feature of the invention is not necessarily essential just because it is part of the patent claim. For example, a feature is not essential if it does not contribute to the results of the invention. The element has to be functional like a “gearwheel in a gearbox” and it is not sufficient if the element is only an “object” of the invention or of a method protected by the patent.

An important modification to indirect infringement will be introduced by the UPC Agreement pertaining to pan-European coverage. Most current national rules required a double domestic nexus meaning that (1) the means relating to an essential element of the invention had to be supplied to the territory where the patent was enforced and (2) the means had to be supplied for the purpose of using them in an act of direct infringement in the same territory. This double domestic nexus will not be required anymore. Instead, it will turn into a “double UPC territory nexus”. The supply into the territory of any of the contracting UPC member states for using the invention in any of the member states will be sufficient to establish infringement.

Finally, we note that the UPC Agreement does not contain express provisions on induced infringement. However, induced infringement will continue to exist. It will generally fall under aiding and abetting or incitement to infringement. In many cases, acts of induced infringement

will also be covered by the definition of indirect infringement.

Defenses

The UPC Agreement recognizes a number of defenses against alleged patent infringement. These include defenses based on statute of limitation (Article 72 UPCA), activities exempted from infringement (Article 27 UPCA), prior use rights (Article 28 UPCA), exhaustion (Article 29 UPCA) and lack of validity (Article 33 (3) UPCA), to name the most important ones.

Statute of limitation

According to Article 72 UPCA, without prejudice to the national law applicable, actions relating to all forms of financial compensation may not be brought more than five years after the date on which the applicant became aware, or had reasonable grounds to become aware, of the last fact justifying the action. This will not bar the case for continuing infringement. Unlike in US patent law, there is no marking requirement.

Activities exempted from infringement

Article 27 UPCA addresses several limitations of the European patent's effect. Similar provisions can be found in most of the national patent laws of the EU member states. Conduct that falls within one of these limitations will not

infringe the patent. According to Article 27 UPCA, a patent holder's rights will not extend to

- ❖ acts done privately and for non-commercial purposes [private use exemption];
- ❖ acts done for experimental purposes relating to the subject-matter of the patented invention [general research exemption];
- ❖ the use of biological material for the purpose of breeding, or discovering and developing other plant varieties;
- ❖ the acts allowed pursuant to Article 13(6) of Directive 2001/82/EC or Article 10(6) of Directive 2001/83/EC in respect of any patent covering the product within the meaning of either of those directives [market approval privilege/Bolar exemption];
- ❖ the extemporaneous preparation by a pharmacy, for individual cases, of a medicine in accordance with a medical prescription or acts concerning the medicine so prepared.

Letters (f) to (l) of Article 27 UPCA provide additional exemptions from the patent's effect regarding specific uses of patented inventions in certain situations. However, the practical significance of these provisions is low. The most important defenses will be the private use exemption, the

general research exemption and the so-called Bolar exemption.

The private use as well as the general research exemption have existed in the national laws of the member states for a very long time. Their wording, scope and interpretation does not differ significantly among the various jurisdictions. The private use exemption requires that the patented invention is being used both privately and for non-commercial purposes. In practice, the distinction between acts done privately and acts done for non-commercial purposes will not become very important. The private use exemption will cover all acts that have no association to any business activity including charitable activities. Even though the patent will not cover the private use of the invention, supplying or offering to supply a person with means relating to an essential element of that invention in a non-private context may amount to an indirect infringement even if this person is covered by the private use exemption.

The general research exemption will require that use of the invention serves experimental purposes relating to the subject-matter of the patented invention, i.e. that the use of the patented invention is directed at gaining insights into the invention itself. The use of the invention as a research tool will not be exempted under the general search exemption.

The rule of law is less clear with the Bolar exemption. Article 10(6) of the EU Directive 2001/83/EC which

provides that conducting the necessary studies and trials to obtain an authorization to market a generic drug shall not be regarded as infringing patent rights or to supplementary protection certificates for medicinal products. However, the UPC Agreement's Bolar exemption has a very narrow wording. It will only cover "acts allowed ... in respect of any patent covering the product". The member states have adopted national Bolar provisions in implementing Article 10(6). However, the implementations differ considerably. In Germany, research tools will not fall under this exemption, while Belgium and perhaps in the UK have a contrary rule. It is unclear whether the Bolar exemption will cover the supply of patented material by a third party for a privileged purpose. The narrow wording of the Bolar exemption and Article 26(3) UPCA apparently speak against it. According to Article 26(3), a person privileged under the Bolar exemption must not be considered as entitled to exploit the invention for the purpose of assessing indirect use of the invention. Therefore, under Article 26(3) UPCA, any person who supplies another person with means relating to an essential element of the invention infringes the patent indirectly even if the supplied person is entitled to use the invention under the Bolar exemption.

Prior use right

According to Article 28 UPCA, any person who, if a national patent had been granted in respect of the invention, would have had, in a Contracting Member State, a right based on prior use of that invention, will enjoy in that Contracting Member State the same rights in respect of a

patent for the same invention. This means that a prior use defense will only be successful for those member states where the defendant would have a prior use right under the national law and in relation to a “fictive” national patent. Thus, there will be no pan-European defense based on prior use of the patented invention.

Even though the national provisions concerning prior use rights share a certain common basis, the specific requirements may diverge from one jurisdiction to another. This will not change with the UPC’s advent.

Most legal systems within the EU have established two requirements of a successful prior use defense. First, the defendant must have been in “possession of the invention” prior to the filing date or the priority date, which means he must have had complete knowledge of the technical teaching in a way that enables him to carry out the invention. This knowledge must have been acquired in good faith. Secondly, a commercial use or serious necessary preparations for a commercial use of an embodiment covered by the patent must have taken place in the territory of the respective member state before the filing or priority date. A mere experimental use, e.g. in the course of medicinal trials, will usually not be sufficient. French law does theoretically not require a commercial exploitation or corresponding preparations. However, in order to prove the possession of the invention, practicing the invention will in practice still be necessary in France.

The scope of a prior use right may also differ. In some member states, e.g. the UK, the prior user must not extend his use of the patent compared to the use or preparations made prior to filing date of the patent. In other member states, e.g. Germany, the user may also moderately adjust or alter the embodiment of his prior use in light of the ongoing technical developments.

In practice, irrespective of the chosen venue the UPC judges will have to assess the prior use defense under all national laws that come into consideration, which may complicate the application of the law considerably. An injunction will need to exclude the territories where prior use rights exist according to the applicable national law.

Patent exhaustion

Article 29 UPCA codifies the exhaustion principle. EU-wide exhaustion of patent rights is a defense also known and practiced in the national jurisdictions of the member states. When the patent owner or a third person with his consent places a product covered by the patent on the market in the EU/EEC, the patent owner loses the right to assert his patent with regard to this very product. Article 29 UPCA does not provide further details. In particular, it does not clarify whether exhaustion of method claims will be possible under the UPC Agreement. Moreover, it does not state whether placing components on the market will trigger exhaustion of patent claims concerning more complex devices containing these components. The wording of Article 29 UPCA suggests a narrow application

of the exhaustion principle, similar to the practice of the German courts. It is unlikely that the UPC will adopt the relatively broad approach of the US courts in the aftermath of the Supreme Court's decision in *Quanta v. LGE*.

Lack of validity

Under the UPC Agreement, it will be possible to challenge the validity of a patent as a defense in infringement proceedings. While this is in line with some European jurisdictions today, e.g. the UK, there are some other jurisdictions, e.g. Germany, that strictly bifurcate infringement and validity proceedings, which means that an alleged infringer cannot defend with the argument that the patent is invalid. The UPC's local and regional divisions can at their discretion refer a nullity counterclaim to the central division and separately decide on the infringement. We will focus on the fate of bifurcation under the UPC Agreement the subchapter.

The UPC Agreement does not name grounds for invalidity but refers in Article 65(2) in particular to Article 138(1) of the European Patent Convention, which enumerates the grounds for invalidity, namely lack of patentability (including lack of patentable subject matter, lack of novelty, lack of inventiveness and lack of industrial applicability), lack of enabling disclosure, added subject matter, extension of the protection conferred by the patent or lack of the patent owner's entitlement under Article 60 EPC.

Injunctions

The UPC will have the power to grant remedies if a patent infringement is established. These include permanent and preliminary injunctions, damages/compensation and several other measures, such as the recall and/or removal of infringing products from the channels of commerce, their destruction, or the communication of information regarding the infringing goods, e.g. an account of profits. Even though the enforcement of IP rights in the EU has a common basis in the EU directive 2004/48/EC (the so-called “Enforcement Directive”), the national rules and practices of the UPC Member States are manifold. To begin with, we will address the permanent and preliminary injunctions as provided in Articles 63 and 62 UPCA.

Permanent injunctions

A permanent injunction prohibiting future infringing activities is the most incisive remedy in cases of patent infringement. Article 63(1) UPCA provides that where a decision is taken finding an infringement of a patent, the Court may grant an injunction against the infringer aimed at prohibiting the continuation of the infringement.

The wording “may grant” suggests that the UPC will have discretion as to whether or not to grant injunctive relief.

The position under German law has always been favorable to the plaintiff. The German courts’ power to grant injunctions has not been limited by considerations of

proportionality. Under German law, an injunction will be granted when an infringement has been found, regardless of whether an injunction strikes the infringer hard, or whether the patent holder has a legitimate interest in an injunction as such. German courts withhold an injunction only in truly exceptional cases. As a result of this practice, non-practicing entities have regularly obtained injunctions even though they are no market participants and do therefore not have a genuine interest in protecting their monopoly right – quite the opposite, they have an interest that the invention is being used which enables them to claim royalties or damages. This is a decisive reason why many NPEs choose to enforce their patent rights in Germany.

The practice of the French and Dutch courts is similar to the German practice. So far, courts have refused permanent injunctions only in exceptional cases.

The UK practice has been less favorable to plaintiffs. Injunctions are an equitable remedy in the UK, which means that an injunction is not an imperative consequence of a finding of infringement. Rather, UK courts can exercise their discretion to refuse an injunction and instead grant damages based on an injunctions' (grossly) disproportionate impact on the infringer. We note that the granting of an injunction is still the usual consequence of patent infringement in the UK. As Justice Arnold put it in his judgment in *HTC v Nokia*, "the burden on the party seeking to show that the injunction would be disproportionate is a

heavy one". However, in particular in cases involving NPEs, the UK practice appears more flexible.

The practice of all national courts in the Member States differs considerably from the US position, where the court may only grant an injunction if the case passes the proportionality test laid down by the US Supreme Court in its eBay-decision in 2006. Therefore, we do not expect the UPC to adopt a position similar to the US.

Recent discussions in legal literature suggest that the UPC might make very limited use of its discretion. It is the unanimous opinion that the right to an injunction is the core of the patent since it is the patent owner's exclusive right to bar third parties from using the invention (cf. Article 25 UPCA ff.). The Legal Group of the UPC Preparatory Committee concluded from Article 25 UPC that the UPC will use its discretion only in exceptional circumstances. Previously, in its 16th draft, Rule 118.2 of the UPC Rules of Procedure stated that the UPC had discretion to order damages and/or compensation instead of other measures when the infringer acted unintentionally and without negligence, the execution of other measures would cause him disproportionate harm, and monetary relief appeared to be reasonably satisfactory. Rule 118.2 of the draft UPC Rules of Procedure was deleted recently. This deletion does not necessarily affect the interpretation of Article 63 UPCA. However, it clearly shows a tendency towards a more generous issuance of injunctions.

Ultimately, the UPC will presumably not issue injunctions as invariably as German courts do. The clear wording of Article 63 UPCA opens the UPC's discretion. Therefore, the defense of disproportionality against an injunction will be more likely to succeed than under German national law.

Another issue concerning the interpretation of Article 63 UPCA is whether the UPC will be able to grant permanent injunctions in cases of mere imminent patent infringement. The wording is not quite clear on that point, as it addresses injunctions aimed at prohibiting the continuation of the infringement. However, there are convincing arguments to grant injunctions in such cases, too. Some authors derive the availability of injunctive relief in such cases from the context with Article 61 UPCA. According to Article 61 UPCA, the court may grant a freezing order before the commencement of main proceedings if the claimant establishes an imminent patent infringement. In the subsequent main proceedings, an injunction will be the logical follow-up. Also, permanent injunctions in cases of imminent infringement are common in several Member States such as Germany and the UK. There is no indication that the authors of the UPC Agreement were inclined to change this practice.

Article 63 UPCA also allows the UPC to impose an injunction on an intermediary whose services are being used by a third party to infringe a patent. Shipping companies and couriers could be such intermediaries.

Preliminary injunctions

The UPC's power to order preliminary injunctions is governed by Article 62(1) UPCA, according to which the UPC may order a provisional injunction intended to prevent any imminent infringement or prohibit the continuation of an alleged infringement. Article 62(2) UPCA expressly gives the UPC the discretion to weigh up the interests of the parties and in particular to take into account the potential harm for either of the parties resulting from the granting or the refusal of the injunction. This parallels the practice in the Member States, where the courts have a much wider discretion with preliminary injunctions than with permanent injunctions.

Today, the Member States pursue different approaches when it comes to preliminary injunctions. In the UK, for example, the courts tend to put more weight on the parties' mutual interests and the potential harm to the patent owner than the likelihood of infringement and validity. German courts put strong emphasis on the questions of infringement and validity of the patent. According to established German court practice a preliminary injunction only issues if the validity of the patent is not contested or sufficiently assured. In general, this requires that the patent has already survived opposition or nullity proceedings. The notorious bifurcation principle, thus, does not play any role in German preliminary injunction proceedings. Also, in Germany, urgency is a mandatory prerequisite of any preliminary injunction, which requires the claimant to act quickly upon knowledge of the potential infringement,

usually within about six weeks. In other member states, for instance in the UK, the claimant's dilatory action is only factored in when the court exercises its discretion.

The UPC will consider all these factors known from the Member States' national court practice. According to rule 211 of the 18th draft of the UPC Rules of Procedure, the court may require the claimant to provide reasonable evidence to satisfy the court with a sufficient degree of certainty that the patent is valid and infringed. Also, the Court shall have regard to any unreasonable delay in seeking provisional measures.

Preliminary injunction proceedings can be commenced before and independent from main proceedings. As a general principle laid down in Article 56(2) UPCA, the Court shall take due account of the interest of the parties and shall, before making an order, give any party the opportunity to be heard. In light of this, there will usually be a hearing. If claimants desire an ex-parte decision, they will have to offer very compelling reasons. The UPC will be allowed to order preliminary injunctions ex-parte in cases of acute urgency, especially in cases where any delay would cause irreparable harm to the patent holder, Articles 62(5), 60(5) UPCA. Such a situation is for example conceivable when the defendant is based outside Europe and a considerable delay is likely to occur due to necessary translations.

Damages and Compensation

In the UPC Member States, an injunction is usually accompanied by a damages award. Under the UPC, this will not change. The UPC will have the power to award damages or compensation when it has found a patent infringement (Article 68 UPCA) or an unauthorized use of an invention claimed by a published EP application (Article 32(1) (f) UPCA).

Article 68 UPCA grants the UPC the power to award damages when it has found a patent infringement. The wording of Article 68 UPCA is similar to that of Article 13 of the Enforcement Directive. However, the practice in the UPC Member States is not fully harmonized. This is especially true with respect to the assessment of damages.

Deliberate or negligent infringement

Where an infringer acted deliberately or with negligence, Article 68(1) to (3) UPCA will apply. According to Article 68(1) UPCA, the UPC shall, at the request of the injured party, order the infringer who knowingly, or with reasonable grounds to know, engaged in a patent infringing activity, to pay the injured party damages appropriate to the harm actually suffered by that party as a result of the infringement.

Even though Article 54 UPCA basically provides that every party has to prove the facts on which it relies, the UPC will likely assume fault on the part of the infringer in the

majority of cases. This would correspond to the practice in the UPC Member States where proof of fault is either not required, e.g. in the UK and France, or where fault is implied by the illegitimate use of the patented invention, e.g. in Germany. Even in jurisdictions where a damage claim requires intentional or at least negligent infringement, defendants rarely defend successfully with the argument that they acted neither intentionally nor negligently. German courts, for example, expect companies to inform themselves about third parties' IP rights that might relate to their area of business activity. The standard adopted by the German courts is high. It applies to manufacturers as well as distributors. The situation is similar in the UK. According to the UK Patents Act, damages shall not be awarded against a defendant who proves that he was unaware and had no reasonable grounds for supposing that the patent existed at the date of the infringement. However, the burden of proof is high and this defense only rarely succeeds.

A current issue in Germany is whether a director can be held personally liable for the patent infringement of his company just because he is its director, or whether it needs to be established that he was personally involved in the infringement, e.g. by giving instructions or deliberately ignoring patent infringing conduct of the company. Recently, German courts have held directors liable for patent infringement without requiring the demonstration of their personal involvement. This is not the case in other Member States. Especially in France and in the Netherlands, it is uncommon and difficult to sue company directors

personally. The German practice also differs from the practice in the U.S., where the concept of corporate separateness requires piercing the corporate veil before liability can be alleged against directors. We assume that the UPC will generally adopt a stricter standard than German courts.

Determination of the amount of damages and compensation

According to Article 68(2) UPCA, damages are supposed to be compensatory. This means that the injured party shall, to the extent possible, be placed in the position it would have been in but for the infringement. In addition, the infringer shall not benefit from the infringement. There will be no punitive damages available at the UPC. Unlike US courts, the UPC will not have the power to award enhanced damages for willful infringement. These principles are consistent with the current legal situation in Europe.

Article 68(3) UPCA provides a general framework for measuring the amount of damages. In this respect, it parallels Article 13 of the Enforcement Directive. When the UPC sets the damages,

- ❖ it shall take into account all appropriate aspects, such as the negative economic consequences, including lost profits, which the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice

caused to the injured party by the infringement;
or

- ❖ as an alternative to the above point, it may, in appropriate cases, set the damages as a lump sum on the basis of elements such as at least the amount of the royalties or fees which would have been due if the infringer had requested authorization to use the patent in question.

The wording of Article 68(3) lit. (a) suggests one single method for determining damages where both the claimant's lost profits and the infringer's unfair profits are taken into account. However, the determination based on the infringer's profits could also be treated as a separate calculation method. This has been the longstanding practice in several Member States such as Germany or the UK. The national courts have always regarded these methods as compatible with the Enforcement Directive. Compensation for lost profits on the one hand, and recovering the infringer's unfair profits on the other hand, are mutually exclusive and cannot be accumulated or combined both in Germany and the UK. Unlike in Germany, an "account of profits" is a so-called equitable remedy in the UK. This means that the court can refuse to award an "account of profits" at its discretion, namely when it would make for an unjust result. In France, it was originally not possible to recover the infringer's profits. After the implementation of the Enforcement Directive into the French Intellectual Property Code, French courts started to determine the

amount of damages on the basis of the profits made by the infringer. Due to this practice in the Member States, Article 68(3) lit. (a) will likely be interpreted as offering two distinct ways of setting damages in contrast to the US where infringer's profits are only available for infringement of a design patent.

In connection with the infringer's profits, it is important to note that Article 68(3) lit. (a) speaks of "unfair" profits. Only profits that are attributable to the infringement can be unfair, whereas profits that are due to other factors such as a good marketing strategy are "fair" and therefore not recoverable. This differentiation will make it quite difficult to determine the recoverable amount of the infringer's profits, as can for example be seen from damages cases at German courts.

As an alternative way to set the damages, Article 68(3) lit. (b) describes what is called "license analogy" in Germany. This means that damages can be paid in the form of a lump sum that corresponds to at least a reasonable royalty the parties would have agreed upon prior to the infringement. The scope and the duration of the unlawful use of the invention will have to be considered when setting what is reasonable in the individual case. The wording "at least" allows the UPC to also consider advantages the infringer had compared to contractual licensees, so that it might increase the amount of the lump sum accordingly.

Another question is whether the claimant will be entitled to choose how the court shall set the damages. Germany is

most liberal in this respect. The claimant can principally choose one of the three methods German law provides. He can even elect to be paid a reasonable royalty if he had not been willing to license his patent at the prior request of the infringer. Claimants in the UK may also elect to either be paid damages or an “account of profits”. However, the awarding of an “account of profits” lies in the discretion of the court. In France, the practice so far has been that claimants who work their invention themselves can claim damages for their actual loss including their lost profits, whereas others are entitled to a reasonable royalty. They do not have a right to choose. Whether the UPC will allow the injured party to choose is not obvious from Article 68 UPCA although Rule 131.2 (a) of the Rules of Procedure implies a right to choose.

Innocent infringement

As Article 68(1) UPCA uses the term “shall”, the UPC will not have discretion as to whether to award damages. This will be different in cases where the infringer did not act knowingly or with reasonable grounds to know. In those cases, Article 68(4) UPCA applies. According to this provision, the UPC “may” order the recovery of the infringer’s profits or the payment of compensation in such cases. Due to the difficulties defendants currently have when trying to prove their innocence before the national courts, we believe that this provision will be of minor importance in practice. Article 68(4) UPCA is similar to the legal concept of “unjust enrichment”, which is well-known in the national laws of several Member States.

Other damage claims

Damages will in principle also be available against contributory infringers. It is not obvious how the UPC will handle such cases. It might for example either hold contributory infringers liable only to an amount proportionate to their contribution, or – jointly and severally with the direct infringer – for the whole harm caused by the subsequent direct infringement as is done in the US. It might also, as for example current German patent law does, require that a direct infringement actually has been committed by the use of the means supplied. This would be similar to the situation in the US where direct infringement has traditionally been required for any indirect (e.g. induced or contributory) infringement – as was recently affirmed by the Supreme Court in *Akamai*.

In cases of mere imminent patent infringement, the patent holder will naturally not have suffered any harm yet. Consequently, he will not have a claim for damages.

The statute of limitation for actions relating to financial compensation will be five years from the date on which the applicant became aware of the last fact justifying the action, or had reasonable grounds to become aware of it, Article 72 UPCA.

Pre-grant infringement

Article 32(1) (f) UPCA confers the UPC the competence for actions for compensation for the use of a published European patent. However, there is no legal basis for such a

claim in the substantive law of the UPC AGREEMENT. Some authors therefore expect the UPC to apply the respective national law and determine this compensation claim country by country. Pursuant to Article 67 of the European Patent Convention, most national laws do not grant such compensation until a translation of the claims in its official language has been made available to the public or communicated to the person using the invention.

Other remedies

Alongside injunctions and damages, the UPC may order various other remedies. These include corrective measures according to Article 64 UPCA, the order to communicate information according to Article 67 UPCA and the publication of decisions according to Article 80 UPCA.

Most of these remedies are already known from the national statutory or case law of the member states. With the exception of the declaration of infringement in Article 64(2)(a) UPCA, the national laws must provide such remedies according to the Enforcement Directive.

Corrective measures

Without prejudice to any damages due to the injured party by reason of the infringement, and without compensation of any sort, the UPC may order according to Article 64(1) UPCA that appropriate measures be taken with regard to products found to be infringing a patent and, in appropriate cases, with regard to materials and implements principally used in the creation or manufacture of those products.

According to the clear wording (“may”) of Article 64(1) UPCA, the court has a discretion to order such measures. In practice, the court will use this discretion by considering the need for proportionality between the seriousness of the infringement and the remedies to be ordered, the willingness of the infringer to convert the materials into a

non-infringing state, as well as the interests of third parties, as required by Article 64(4) UPCA.

Article 64(4) UPCA appears to deviate from the current German approach. Under German law, lack of proportionality is a reason to deny a corrective measure. In practice, the burden of proving disproportionality is on the infringer, who has to show and prove that a certain measure has a more severe impact on him than what is just and reasonable. Under Article 64 UPCA, the court will always have to exercise its discretion *ex officio*. If the court takes this obligation seriously, this will exclude an automatism of corrective measures, contrary to the habitual practice in Germany.

Article 64(2) UPCA contains a non-exhaustive list of corrective measures. Among the measures available, the court may only choose measures actually sought by the plaintiff. The court does not have the power to order a corrective measure that the plaintiff has not requested. Such a broad procedural discretion would be untypical for civil proceedings in Europe where the claimant can usually only get what he specifically asks for. Of course, if the claimant request too broad a measure, the court may grant a narrower measure provided that this narrower measure is comprised by the broad request. The system of corrective measures is generally not structured hierarchically. Therefore, as a precaution, the claimant is well advised to request auxiliary measures in the alternative for the event that the court denies the primarily requested measure.

Below, we will discuss the concrete corrective measures provided by Article 64(2) UPCA. Some of these remedies (e.g., recalls and destruction) are beyond those typically available in district court litigation. It is unlikely that the court will develop a strict set of criteria for ordering such remedies. In particular, the court will most likely not adopt anything similar to a US-style four factors *eBay* test. Rather, the court's broad discretion will result in an unrestricted weighting of the parties' positions, in particular the impact of the decision on them and the seriousness of the infringement. As the Enforcement Directive demands effective protection of the right owner, the court will typically decide to order such measures, though the UPC Agreement gives the court more leeway to consider the defendant's interests compared to the current legal situation in Germany.

Declaration of infringement

The remedy of declaration of infringement neither stems from the Enforcement Directive nor is it popular in any of the major European patent litigation jurisdictions. A declaration of infringement as a corrective measure seems to be a novel remedy, even though it is conceivable under current German procedural law as well.

It is not clear from the text of Article 64(2)(a) UPCA whether the declaration of infringement is supposed to be a proper remedy or rather just gives the court the power to issue a declaratory decision. Certainly, Article 64(2)(a) is no basis to order the infringer to declare that his products

infringe the patent-in-suit. Such an order would violate the infringer's freedom of opinion and his freedom of speech.

It is our understanding that a declaration of infringement will be relevant if an injunction is no appropriate measure, either because it is disproportional or because other reasons exclude injunctive relief, as for instance when the patent has expired or the infringer has taken a license in the meantime. In these cases, the declaration of infringement still has a corrective value. The claimant can use the declaration to prove to his business partners that the infringer's products violated his right.

Recalling the products from the channels of commerce

Recalling the products is a common measure in European IP law. The defendant is usually ordered by the court to pull the goods back from its customers (wholesalers, distributors, retailers etc.). However, the scope of this remedy is not entirely clear. In particular, there has been some debate in Germany whether the channels of commerce extend to end users who, for example, use an infringing machine in their production facilities without any intent to resell the machine. The Enforcement Directive does not clearly support such a broad reading. However, German courts and scholars have mostly held that the channels of commerce comprise any commercial purchaser, no matter whether he bought the product directly from the infringer and whether he intends to resell the product. In any event, an order to recall the products from the channels

of commerce will usually be accompanied by a destruction order or an order to remove the infringing property.

Depriving the product of its infringing property

Compared to the destruction of the infringing goods depriving the product of its infringing property is the less incisive remedy. It amounts to a modification of the infringing product or its partial destruction. This remedy is a characteristic example for the principle of proportionality. In many cases, the complete destruction of the goods will not be necessary in order to prevent further infringement. In such cases, national courts have ordered a partial destruction or modification of the infringing goods, e.g. the de-installation of an infringing software component from a computer. We assume that the UPC will take the same approach.

Definitively removing the products from the channels of commerce

The definitive removal of the products from the channels of commerce is closely related to the recall. In German court practice, no distinction is made between both measures. Some member states consider the recall to be a provisional measure whereas the definitive removal is not.

Destruction of the products and/or of the materials and implements concerned

The destruction of the products and/or of the materials and implements concerned is a remedy introduced into all

EU member states through the Enforcement directive. It is important to note that an indirect (or contributory) infringer cannot be ordered to destroy his products. Article 26 UPCA, covering the indirect use of the invention, does not prohibit the offering and supply of contributorily infringing products outside the territorial scope of the European patent and/or for non-infringing purposes. As there will always be a possible use for the products outside the territory of the European patent, destruction of such goods must not be ordered.

Information

Article 67 UPCA gives the claimant a remedy to help him identify the scope of the infringement and possible further infringers. As the means of discovery will be very limited in the UPC, the claimant has to rely on the enforcement of his information claim in order to identify other infringers and to calculate his damages.

The court may order an infringer to inform the applicant of: (a) the origin and distribution channels of the infringing products or processes; (b) the quantities produced, manufactured, delivered, received or ordered, as well as the price obtained for the infringing products; and (c) the identity of any third person involved in the production or distribution of the infringing products or in the use of the infringing process, Article 67(1) UPCA. According to Article 67(2) UPCA, the court may issue an information order also against third parties if they (a) were found in the possession of the infringing products on a commercial scale or to be

using an infringing process on a commercial scale; (b) were found to be providing on a commercial scale services used in infringing activities; or (c) were indicated by a person referred to in (a) or (b) as being involved in the production, manufacture or distribution of the infringing products or processes or in the provision of the services.

Publication of decisions

Finally, according to Article 80 UPCA, the court may order, at the expense of the infringer, appropriate measures for the dissemination of information concerning the court's decision, including displaying the decision and publishing it in full or in part in public media.

Unlike Article 64 UPCA, Article 80 UPCA does not state expressly that the UPC has to consider the proportionality of a publication. However, since the court has discretion, it probably will follow proportionality. German and UK courts only order this remedy if the claimant can show that he has a legitimate interest in the publication of the decision. This is rarely the case.

Bifurcation in the UPC

The principle of bifurcation (often also called separation principle) is a peculiarity of patent litigation proceedings practiced in some countries, most prominently in Germany and emerging in the US. The bifurcation principle stipulates that questions of infringement and questions of patent validity will be answered by different authorities. For a better understanding of the concept of bifurcation and the options under the UPC, we will summarize the current situation in Germany first.

Current situation in Germany

In Germany, at the first instance the district courts have jurisdiction for infringement issues. Another court, the Federal Patent Court, has the exclusive jurisdiction for issues of validity at the first instance. In infringement proceedings, the invalidity of a patent is not a suitable defense. This means that, unlike in most other jurisdictions, a defendant cannot claim as a defense that the patent, upon which the claim is made, is invalid or should be declared invalid. The defendant must pursue the invalidation of the patent with a separate revocation action in the Federal Patent Court.

This allows a plaintiff to enter infringement proceedings with a dubious patent in the hope of a rapid judgment at the first instance and then use that judgment to exert considerable pressure on the defendant. As non-final first instance judgements can be enforced very easily, the defendant may even be forced to agree to a settlement on

unfavorable conditions. For defendants, the main problem is not the bifurcation principle itself but the currently overlong duration of proceedings at the German Federal Patent Court and the reluctance of German infringement courts to suspend infringement proceedings.

Infringement courts have the discretion to suspend infringement proceedings while awaiting the outcome of a revocation proceeding, though they rarely exercise this option. Courts suspend only around 10% of infringement proceedings, even though revocation actions are brought in approximately 50% of the infringement proceedings. At the same time, the chances of success in revocation proceedings are extremely high. In nearly 80% of these cases, patents are declared invalid or partially invalid. Thus, infringement courts frequently rule on infringement proceedings only to have the underlying patent later declared invalid. These infringement decisions are enforceable. If the infringement decision is final or if it was issued by a second instance court, there is not even a requirement to post a bond before enforcing it.

The low suspension rate is itself not alarming. However, combined with the long duration of proceedings in the Federal Patent Court, this gives patent owners a systemic advantage in enforcing their rights. Recently, the courts' reluctance to suspend infringement proceedings has been criticized, and some judges have started to take into account defendants' problems in obtaining a timely decision from the Federal Patent Court. However, there has not been a significant change in the courts' practice, in particular in the

most important courts in Düsseldorf, Mannheim and Munich.

Apart from these obvious disadvantages of the bifurcated system for defendants, it offers additional strategic options for both sides based on the fact that two separate courts have to rule about different, yet interweaved aspects of the same patent if the patent's validity is contested.

The situation under the UPC

The situation will change under the UPC. The Central Division will be competent to rule on isolated invalidity actions. However, if the defendant files a revocation action as a counterclaim to an infringement action, he will file it before the relevant Local or Regional Division, i.e. before the Local or Regional division where the infringement case is pending. In such a case, the Local or Regional Division may at its discretion:

- ❖ proceed with the infringement case and the revocation action and choose to bring in a technical judge; or
- ❖ refer the invalidity action to the Central Division and either suspend or proceed with the revocation proceedings; or
- ❖ with the consent of the parties, refer the whole case for decision by the Central Division.

These rules demonstrate a very important difference from the current German system. Even though the

infringement court of first instance will only consider the question of validity if the defendant has counterclaimed for invalidity, there is no strict bifurcation. The same court may decide on the infringement of the patent and on the patent's validity.

There is no consensus as to how the UPC's Local and Regional Divisions will make use of the discretion provided by the UPC Agreement. Recently, Prof. Meier-Beck, the presiding judge of the patent panel at the German Federal Court of Justice noted that the bifurcated system practiced in Germany will most likely not be the role model for the UPC Agreement.

One of the main arguments for bifurcation in the current German system is the different composition of the bench in patent infringement and in revocation proceedings. Whereas in patent infringement proceedings three legally qualified judges without technical expertise hear the case, in revocation proceedings five judges sit, including three judges with a technical education and two legally qualified judges. According to Prof. Meier-Beck, the assessment of the patent's validity is usually more on the technical side than the assessment of the infringement situation and the remedies following from it. Therefore, German infringement courts, due to their lack of technically qualified judges, naturally preferred not to get involved in questions of patent validity.

This will be different in the UPC. According to Article 8(3) UPCA, any panel of a Local Division shall sit in a composition of three legally qualified judges. According to

Article 33(3) UPCA, if they proceed with both the action for infringement and with the counterclaim for revocation, these three judges will request the President of the Court of First Instance to allocate from the Pool of Judges in accordance with Article 18(3) UPCA a fourth judge, namely a technically qualified judge with qualifications and experience in the field of technology concerned. This fourth judge will bring in the necessary technical expertise. The composition of the Central Division, to which the Local Division may refer the revocation case, is very similar. According to Article 8(6) UPCA, any panel of the Central Division shall sit in a composition of two legally qualified judges and one technically qualified judge allocated from the Pool of Judges in accordance with Article 18(3) UPCA with qualifications and experience in the field of technology concerned. In terms of technical expertise, the Local Division and the Central Division are therefore equally well equipped. Thus, there is no need to refer cases to another court or to another division of the same court, unlike under German law where the Federal Patent Court offers significantly greater technical expertise and is therefore better suited to decide about the revocation of a patent.

Bifurcation has been one of the most prominent features of German patent litigation system setting the German system apart from all other European patent litigation jurisdictions as a favor plaintiff-friendly system. It is safe to say that the other major European patent litigation jurisdictions have been considering the German bifurcated system a preferential treatment of plaintiffs that is hard to justify. Within the new unified court system, the German

judges will find it difficult to maintain their position and to continue bifurcating cases. The UPC Agreement makes bifurcation a theoretical option. In practice, the court will most likely use this theoretical option rarely.

To fully exploit the German bifurcated system, patent owners may be inclined to opt out from the UPC's jurisdiction during the seven years transitional period. They may also change their general patent strategy and, at least for some inventions, file additional national applications in Germany. Such national patent rights will continue to be treated under the traditional German bifurcated system as the UPC does not have jurisdiction for them.



Glossary

<p>Actual damages</p>	<p>One of the three ways to calculate damages. When the infringed party is able to calculate the actual damage they incurred, they can claim this amount as damages in case of a culpable violation of their rights. In practice, this damage calculation method is rarely used.</p>
<p>Advance Payment of Court Fees</p>	<p>In court proceedings, the plaintiff has to make an advance payment of the relevant court fees. When an action is brought, the statement of claim shall not be served to the defendant prior to the advance payment of court fees. The amount of fees depends on the amount in dispute.</p>
<p>Amount in dispute</p>	<p>The amount in dispute numbers the value of the matter over which the parties are litigating. The court determines the amount in dispute at its discretion. It is relevant for the calculation of lawyer's fees and court costs. Moreover, it is important for the subject-matter competence of the court and the admissibility of remedies.</p>
<p>Appeal</p>	<p>Appeal is the remedy that is usually possible against the decisions of first instance courts. In civil proceedings the appeal is, as a general rule, only admissible if the value of the losing party's complaint is higher than EUR 600. An appeal can normally be based on questions of fact and questions of law.</p>
<p>Appeal on points of law</p>	<p>The appeal on points of law can be based on the assertion that the law was not applied correctly in the proceedings of the lower court. In civil matters the appeal on points of law is usually admissible against appeal decisions of higher regional courts.</p>

Appeal (EPO)	Proceedings with which a decision of the Examining Division, the Opposition Division or the Legal Division of the European Patent Office (EPO) can be appealed by a party to the proceedings which is adversely affected by the decision in question. Appeals are decided by the EPO's independent Boards of Appeal.
Application Date	The application date is the date when the patent application was filed. It is the relevant date for calculating the lifetime of the patent (20 years).
Bifurcation	Bifurcation is a principle of German patent law according to which the infringement of the patent and the validity of the patent are evaluated by different courts. The procedural and strategic effect is immense.
Cease-and-Desist- Letter	The cease-and-desist letter is the formal out-of-court confrontation with infringement allegations with the request to stop and refrain from the infringement in the future.
Customs Seizure	Customs seizures are a popular measure to establish a patent infringing activity and seize patent infringing goods.
Central Division	The Central Division is a part of the Unified Patent Court with offices in Paris, London and Munich. Under the UPC agreement, the Central Division will gain important competences, inter alia for decisions about the validity of European Patents.
Compulsory License	The compulsory license defense is used in patent infringement proceedings in order to assert a claim for a license. If the defendant is entitled to a license and if the plaintiff has withheld the license, the enforcement of the patent is an abuse of rights.

Contributory Infringement	The term “contributory infringement” describes a situation where only a means is delivered or offered for putting the invention into practice. The delivery of the means creates the threat that the person who acquired this means infringes the patent by use of the means. Contributory Infringement is present if the means refers to an essential element of the invention.
Default judgment	A default judgment is issued if one party fails to appear in the hearing or if the defendant fails to notify the court of his intention to defend the case. The default judgment can be appealed. The appeal leads to a reinstatement of the proceedings.
Defense notice	The presiding judge can instruct the defendant, in serving the complaint upon him, that should the defendant wish to defend against the complaint, he should notify the court of this fact within a statutory period of two weeks after the statement of claim has been served on him.
District court	The district court is an ordinary court. It stands between the local court and the higher regional court. In patent infringement proceedings it is the court of first instance. There is a statutory obligation to be represented by a lawyer.
Equivalent Infringement	The “doctrine of equivalents” also refers to the scope of the patent. It goes beyond literal infringement and under certain circumstances covers a technical solution even though it does not provide all features of the patent claim but uses certain means of exchange. The textbook example is the use of a “screw” even though the patent claim uses the feature “nail”. Whether such a solution may be considered an equivalent and as such covered by the patent depends on the details of the case.
EPO Board of Appeal	The EPO Board of Appeal decides on appeals, including appeals, which are directed against decisions of the EPO Opposition Division.

EPO Enlarged Board of Appeal	The EPO Enlarged Board of Appeal deals with legal questions of fundamental importance concerning the European Patent Convention, and ensures a uniform application of the law. Besides, it is competent to review Board of Appeal decisions in cases of procedural errors.
EPO Opposition Division	The EPO Opposition Division decides on oppositions against the grant of a patent.
European Patent Office (EPO)	The European Patent Office (EPO) offers inventors a unified application procedure with which they can acquire patent protection in up to 38 European states. It is the executive institution of the European Patent Organization.
Exhaustion	The principle of exhaustion implies that a proprietary rights owner cannot invoke their IP right concerning a specific product once the product in question has been placed on the market with the rights holder's consent.
Federal Court of Justice (FCJ)	The Federal Court of Justice (FCJ) is the highest federal court for criminal and civil matters. The FCJ is based in Karlsruhe.
First hearing	An Advance First Hearing is one of two possibilities to prepare for the main hearing in civil proceedings. The judge can arrange for a (advance) first hearing according to Section 272 Para 2 of the German Code of Civil Procedure. In practice, this hearing takes the form of a case management conference.
FRAND (declaration)	A FRAND declaration is the voluntary statement of the holder of a standard essential patent or a similarly broad IP right to grant every interested party a license on fair, reasonable and non-discriminatory (FRAND) terms. This shall enable the access to a (technical) standard without jeopardizing the patent's acceptance. A proprietary rights holder can be compelled to make a FRAND statement or to grant a FRAND license if they have a dominant position in the market, which they would otherwise abuse.

Ground for injunction	The ground for injunction is the second requirement of a preliminary injunction. This includes that the matter is urgent and that the legal validity of the asserted patent is sufficiently assured.
Infringer's profit	One of three possible ways of damage calculation is the calculation on the basis of the infringer's profits. The patent owner has a claim to collect the infringer's profits, which can be attributed to the infringement of the patent. In practice, the evaluation of the causal share is often hotly discussed. Also, the question arises regularly of which costs can be deducted from the turnover in order to calculate profits.
Infringement courts	Infringement courts are the twelve district courts in first instance, twelve higher regional courts in second instance and the Federal Court of Justice in third instance.
Injunction claim	An injunction claim is one requirement for the issuance of a preliminary injunction. The plaintiff needs to present the facts that support their claims on the merits, e.g. the infringement of their patent right. The injunction claim has to be distinguished from the ground for injunction, which is the other major requirement for the issuance of a preliminary injunction.
License analogy	One of the three ways to calculate damages. Damage calculation by way of the license analogy means to ascertain which license fee would have been adequate for the specific product, if the infringer had acquired such a license. This method is very common in practice.
Literal infringement	The term "literal" refers to the scope of the patent. As a general rule, a patent covers all technical solutions that use all features of a particular patent claim. This basic variant of patent infringement is called literal infringement.

Local and Regional Division	The Local/Regional Division is a part of the Unified Patent Court. Local and Regional Divisions are established in the member states and generally serve as the first instance courts for patent infringement cases. The difference between Local and Regional Divisions is that Local Divisions are established within one member state whereas Regional Divisions are established by at least two member states jointly.
Notice for Production of Legitimacy Claim	A notice for production of legitimacy claim can be sent to a potential infringer prior to or instead of a cease-and-desist letter in order to find out the reasons based on which the alleged infringer feels entitled to use the protected invention.
NPE	NPEs are so-called non-practicing entities, i.e. companies that are not active on the product market. In many cases, NPEs are patent assertion entities. Litigation with such NPEs requires the observation of particular legal and strategic peculiarities.
Opposition	The opposition is a means to have the patent office review its decision to grant the patent. It is possible to file opposition against German and European patents within a deadline of nine months from the date of publication of grant.
Patent	A patent is the right granted by the state or a supranational organization like the European Patent Office as a reward for the disclosure of an invention. In some jurisdictions, there is a smaller brother of the patent, a so-called utility model. The information given in this brochure also applies to utility models except where stated otherwise.
Patent Claim	A patent usually comprises more than one patent claim. A patent claim defines which invention is protected on the basis of features. Patent claims can cover different forms of inventions including device claims and method claims.

Preliminary Injunction	A preliminary injunction is a preliminary decision of the infringement court based on summary proceedings. The preliminary injunction usually comprises a court order to cease and desist from further infringement of the patent, including the marketing of patent protected products and the use of patent protected methods.
Priority Date	Priority date is the date when the application was filed or the date when an earlier application was filed whose priority is claimed. The priority date is decisive for the definition of the relevant prior art for the assessment of novelty and inventive steps.
Protective Writ	A protective writ is a means to defend against a threatened injunction filed before a request for a preliminary injunction to all courts where the plaintiff might file his request. It serves the purpose of informing the court about the defendant's view of the case and prevent that an ex-parte injunction issues.
Provisional enforceability	Decisions that are not final are usually declared provisionally enforceable against security or without security. Provisional enforceability is a very mighty tool for the plaintiff.
Qualified notice	The qualified notice is regulated by Section 83 of the German Patent Act. With the qualified notice the German Federal Patent Court shall reveal the actual basis of the decision to be made as early as possible so that the parties can prepare themselves accordingly and bring their further pleading in line with the court's statements.
Rejoinder	The rejoinder is the defendant's response to the plaintiff's reply.
Reply	Reply is the plaintiff's response to the defendant's statement of defense.

Restitution proceedings	In German civil proceedings, the action for restitution is a subcategory of the action for retrial of the case; the other subcategory is the nullity action. The retrial of the case aims at eradicating a final judgment und inducing a new decision.
Right of Prior Use	A right of prior use is a limitation of the patent right. The patent cannot be asserted against persons who, at the time of filing the patent application, were in possession of the invention and had made the necessary arrangements to use the invention. The right of prior use is limited to the embodiments that were in use or concretely envisaged at the time of filing of the patent application.
Right to submission and inspection	The right to submission and inspection gives the patent holder the right to request the submission of deeds or certificates, or documents relating to banking, finance or trade, or to inspect the subject of an action. The patent holder gets the opportunity to clarify the facts of the patent infringement, which up to that point was only an assumption, and to secure evidence to prove the patent infringement.
Saisie contrefaçon	Saisie contrefaçon is a special interim backup procedure in France, which provides the discovery and seizure of evidence for later patent infringement proceedings.
Scope of Protection	The scope of protection defines what protection is conferred by the patent and includes protection from literal infringement, contributory infringement, equivalent infringement and participation in third parties' infringing acts.
Security for legal costs	Security for legal costs must be provided by foreign plaintiffs that do not reside in the EU or other contracting states at the defendant's request in order to secure a possible reimbursement claim for costs. The rationale behind this provision is the considerable difficulty to enforce cost reimbursement claims abroad.

SEP	SEP are standard essential patents, i.e. patents that must for technical reasons be used in order to practice a particular industry standard.
Statute of Limitation	The statute of limitation is important in particular with regards to damage claims. Those become usually time-barred at the end of a three-year period. However, there are claims for unjust enrichment that can go back ten years.
Suspension of Proceedings	Suspension of proceedings means the delay of proceedings due to the order of a court. In patent infringement proceedings this institute comes into consideration if parallel nullity proceedings that concern the patent are pending.
Unified Patent Court	The Unified Patent Court is a European Court that will be established on the basis of the Agreement on the Unified Patent Court. It will have jurisdiction about European Patents and decide on infringement and validity.
Written preliminary proceedings	After the commencement of an action the court decides whether to arrange for a first hearing or conduct written preliminary proceedings. If it decides to enter into written preliminary proceedings the defendant has to notify the court as to whether they wish to defend against the claim within a statutory deadline of two weeks. After the defense notice, the court determines a deadline for the statement of defense.
ZGR	ZGR is the name of the IP Rights Department of German Customs; it is the competent authority for customs seizures.

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