

PATENT NULLITY PROCEEDINGS

AND

COSTS FOR PATENT LITIGATION

IN GERMANY

**Overview of Proceedings,
and
Cost Estimates
of Court Fees and Representative Fees**

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1. OVERVIEW OF OPPOSITION, NULLITY AND INFRINGEMENT PROCEEDINGS

Unlike in most other countries, patent litigation (i.e. enforcing and challenging a patent) in Germany takes place in three strictly separated proceedings, i.e. in opposition, nullity and infringement proceedings. In order to successfully evaluate the market in Germany, having knowledge of the three proceedings is important for assessing the rights and risks of the patentee as well as of the potential infringer. This presentation is intended to provide an overview on the proceedings and to discuss the nullity proceedings in more detail and will also outline the cost estimates of patent litigation, i.e. of patent nullity and infringement proceedings.

1.1 Overview of Opposition and Nullity Proceedings

In Germany patent protection may be obtained in two ways:

- Based either on a national patent application filed at the German Patent and Trademark Office or filed as a patent cooperation treaty (PCT) application designating Germany, a *German national patent* may be granted as stipulated by the law¹.
- Additionally, it is possible to obtain patent protection in Germany by directly filing a European patent application with the European Patent Office (EPO) or by entering the European Phase for a PCT application designating EP before the EPO (Euro-PCT applications) and by designating Germany as one of the contracting states of the European Patent Convention (EPC).

¹ Patent Cooperation Treaty (**PCT**), German International Patent Agreement Law (Internationales Patentübereinkommen, **IntPatÜG**), and the German Patent Law (Patentgesetz, **PatG**).

1.1.1 Opposition proceedings

A national German patent as well as a granted European patent designating Germany will be effective in Germany when the mentioning of the grant of the German national or the European patent is published, provided the latter is properly validated (including filing a German translation in case the European patent is not granted in German).

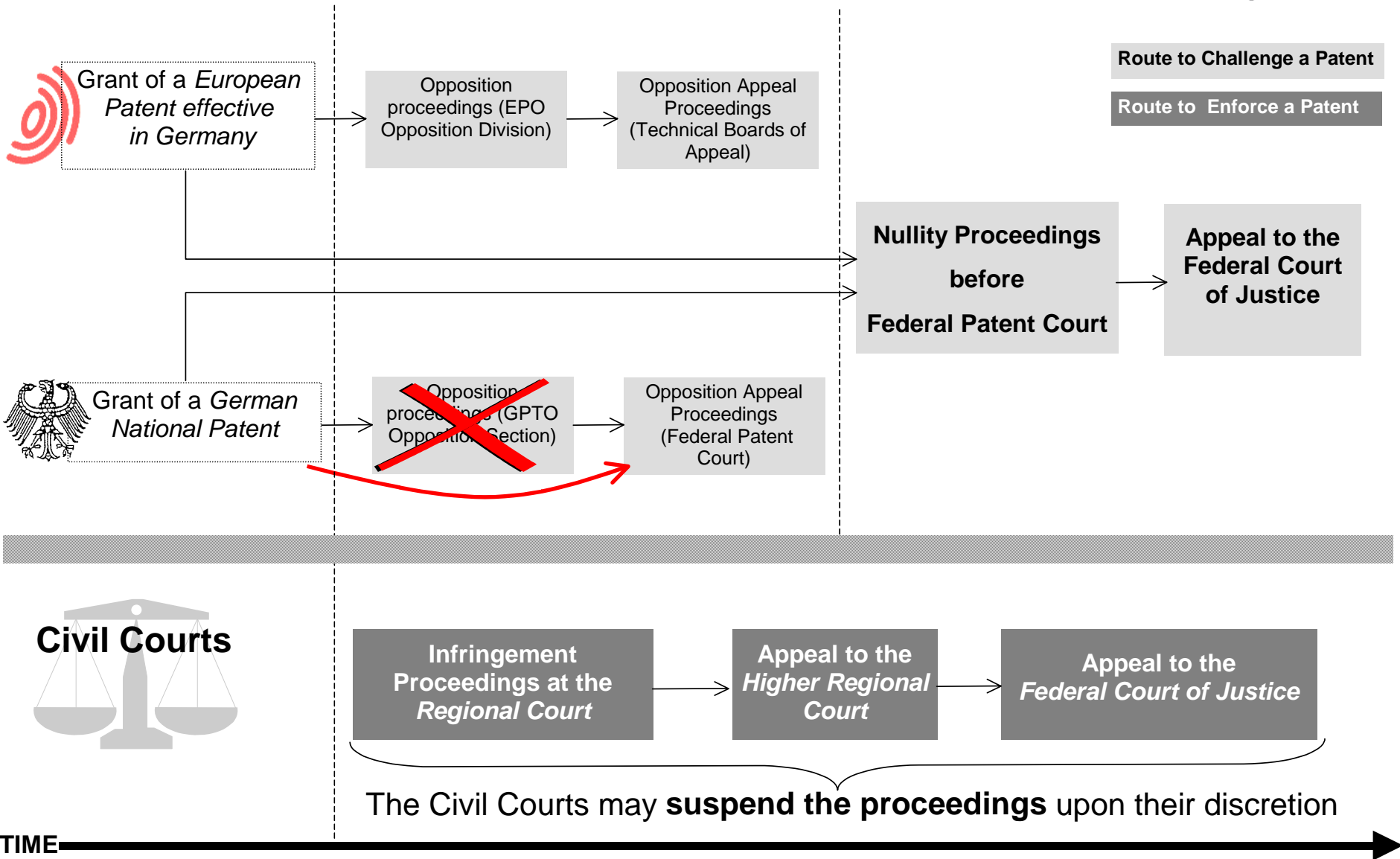
Upon publication of the grant of the German national patent basically any third party may file an opposition in order to request revocation of that patent. In case of a German national patent, the opposition must be filed within three months from the publication of the grant of the patent (cf. Section 59 PatG). Currently, due to an increased workload of the German Patent and Trademark Office (GPTO) the opposition proceedings will then take place directly before the Federal Patent Court (Bundespatentgericht, BPatG) in Munich. In this case there is no appeal on questions of both facts and law to the decision, but only an appeal on points of law (i.e. whether the Law was correctly applied) to the Federal Court of Justice (Bundesgerichtshof, BGH).

In the case of a European patent, the opposition proceedings are held at the EPO according to the regulations of the European Patent Convention (EPC) and the opposition must be filed within nine months from the publication of the mention of the grant of the patent (Art. 99 EPC). The decision of the Opposition Division may be subject to an appeal on questions of both facts and law to the EPO's Technical Board of Appeals.

Please note that a European patent effective in Germany cannot be challenged in opposition proceedings at the Federal Patent Court in Munich.

1.1.2 Nullity Proceedings

Once opposition proceedings have been terminated or after the opposition period has expired, the German part of a European patent as well as the German national patent may only be challenged in a national nullity proceedings before the Federal Patent Court (first instance, Section 81 PatG) which will be described in further detail in section 2.



One of the advantages of keeping the assessment of validity and infringement of a patent separated in nullity and infringement proceedings is that a party which considers a patent an obstacle to his business activities in Germany does not have to wait until he is sued for infringement in order to challenge the validity of that patent. Instead, this party may take the initiative and file a nullity action. Moreover, by separating the proceedings regarding validity and infringement, there is less danger to combine arguments regarding the validity of the patent with arguments regarding the infringement thereof. Furthermore, the Nullity Senates at the Federal Patent Court comprise two judges having juridical background and three judges having technical background thus being in a better position to assess the validity of the patent.

1.2 Overview of Infringement Proceedings

Patent protection is conferred to the patent from the publication of the grant of the German national patent (Section 58(1) PatG) and the publication of the mention of the grant of the European patent effective in Germany (Art. 97(4) EPC), respectively. In order to sue for patent infringement in Germany, the patentee or in some cases also the licensee needs to start infringement proceedings at a German Civil Court (Regional Court, Landgericht (LG), cf. page 3). Each Federal State in Germany has concentrated IP litigation before specialized Chambers at the Regional Courts and specialized Senates at the Higher Regional Court (Oberlandesgericht, OLG).

Contrary to, for example, the US Courts' practice, the German Civil Courts are bound to the validity of the patent and as a result, no matter whether the patent is valid or not, the judges of the infringement proceedings will deliver a decision as long as the patent is in force.

In order to avoid that a patentee may enforce an invalid patent, sometimes suspension of the infringement proceedings may be attained, provided that in the Civil Court's opinion the patent is likely to be revoked in parallel pending invalidation proceedings. For this purpose, arguments regarding the lack of validity of the patent in dispute are often submitted by the defendant in the infringement proceedings to show the likeliness of revocation of the patent in parallel opposition or nullity proceedings.

It is noteworthy that in general no file wrapper history estoppel applies, i.e. statements on file of the prosecution, opposition or nullity proceedings have no impact on the plaintiff's actions in the infringement proceedings in Germany. Moreover, in principle the plaintiff has the burden of proof in particular with respect to the question of infringement of the patent in dispute. No extensive discovery proceedings (such as the "saisie on contrefaçon" in France) are available in Germany.

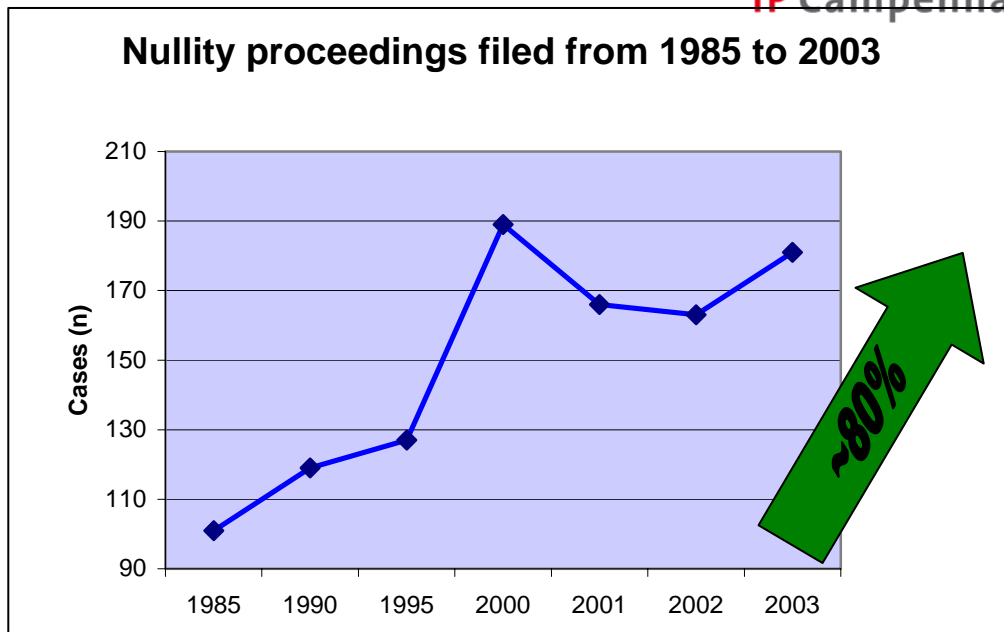
Once the Regional Court (Landgericht, LG) has issued a decision, an appeal on questions of both facts and law may be filed to the Higher Regional Court (Oberlandesgericht, OLG). However, due to recent amendments to the German Code of Civil Procedure (Zivilprozeßordnung, ZPO) new facts may be raised during the appeal procedures only to a limited extent. The decision of the Higher Regional Court may in turn be appealed to on points of law only to the Federal Court of Justice (Bundesgerichtshof, BGH).

2. NULLITY PROCEEDINGS

2.1 Incidence of Nullity Proceedings at the Federal Patent Court

The steady increase in the number of patents in force in Germany in the last decade has also led to a steep rise in the number of nullity proceedings filed which increased by nearly 80% from 101 (1985) to 181 (2003) which reflects the increasing economic significance of nullity proceedings (cf. following diagram).

Even though it is estimated that only 1% of the patents granted are subjected to nullity proceedings, about the same percentage of patents granted are enforced in infringement proceedings. Accordingly, it is reasonable to speculate that among the patents protecting products and processes of economic value a relatively large fraction will be attacked in nullity proceedings.



2.2 Estimated Duration of Nullity Proceedings (1st and 2nd instance)

The average duration of nullity proceedings at the Federal Patent Court (first instance) at present is about 18 months², provided that no hearing of evidence is scheduled.

The appeal proceedings usually last approximately 24 to 36 months. As a result, the total length of nullity proceedings in two instances generally accounts to approximately three to four years³. For comparison, from 1980 to 1995 the average duration of the opposition proceedings at the EPO was 1.9 years (first instance) and 2.1 years for the appeal proceedings, totaling 4 years for two instances.

Infringement proceedings, on the other hand, are handled by the German Civil Courts and the judges of these Courts have legal background. Notably, neither nullity nor infringement proceedings are jury trials.

2.3 Procedural Requirements of Nullity Proceedings

The legal basis for nullity proceedings and appeal proceedings is stipulated in Sections 81 to 99 and 110 to 121 PatG, Art. 138 EPC, Art. II Section 6 IntPatÜG.

² Source: Annual report 2003 of the Federal Patent Court.

³ Source: Annual reports 1998 to 2002 of the Federal Patent Court.

2.3.1 Object of Nullity Proceedings

It is the object of nullity proceedings to determine whether or not the challenged patent is to be revoked *in toto* or whether it is to be revoked in part. Nullity proceedings are *inter alia* admissible for

- (i) German national patents,
- (ii) European patents effective in Germany, and
- (iii) German supplementary protection certificates (SPC) issued for patents covering pharmaceuticals and agrochemical products.

2.3.2 Parties to the Nullity Proceedings

Nullity proceedings are a popular action which essentially may be filed by any person or legal entity. In the case of nullity proceedings founded on unlawful deprivation, however, only the infringed person is authorized to sue for nullity (Section 81(3) PatG).

The nullity action must be directed against the person or legal entity registered as the patentee in the patent register (Section 81(1) PatG). This provision applies no matter whether or not that person actually owns the patent. If the actual patentee differs from the registered one, upon request and submission of evidence (e.g. in support of a transfer of the ownership of the patent) the Court may change the defendant from the registered patentee to the actual patentee, if deemed pertinent.

Subject to the provisions of the German Code of Civil Procedure (Zivilprozeßordnung, ZPO), which is also applicable to the nullity proceedings, a third party may join pending nullity proceedings either on the side of the nullity plaintiff or the nullity defendant as a "side intervenient" (German: "Nebenintervenient"), provided that the "side intervenient" has a legal interest⁴ that the party he is joining is prevailing in the nullity proceedings.

⁴ In nullity proceedings a legal interest is given only if a relationship (e.g. a license contract; a warning letter for infringement) between the side intervenient and the plaintiff or between the side intervenient and the defendant (patentee) is given with respect to the patent in dispute; moreover, such relationship needs to be affected in some way by the outcome of the nullity proceedings..

2.3.3 When May Nullity Proceedings Be Filed?

In order for the nullity proceedings to be admissible, it is further required that no opposition proceedings against the patent is pending and that no opposition against that patent may still be filed (Section 81(2) PatG). Even if the Board of Appeals of the EPO remits the case for further prosecution to the Opposition Division (Art. 111 (2) EPC), the nullity action may not be filed as long as the opposition proceedings has not been closed. However, once the above conditions are met the nullity proceedings may basically be entered anytime, under specific circumstances even after the patent has expired, been renounced or revoked. In case the nullity action is filed after the patent ceased to exist, the nullity action is admissible, provided that the plaintiff demonstrates a legal interest in the revocation of the patent such as being sued by the patentee for acts of infringement on the patent before the patent ceased to exist.

2.3.4 Other Procedural Requirements

It is also required that the nullity action is filed in German language, even if the language of the prosecution proceedings of the European patent effective in Germany, which is to be subjected to the nullity proceedings, was not German.

Moreover, the nullity action must indicate the grounds of nullity and the facts and evidence in support of the requests (Section 81(5) PatG). In respect to the grounds of nullity please refer to Point 2.5 below.

Since nullity proceedings are contradictory proceedings ruled by the principle of party disposition, the subject matter in dispute is basically determined by the requests of the parties rather than being at the disposition of the Court. However, if the plaintiff e.g. failed to attack an independent claim of the granted patent in his filed nullity action, the Court may include that omitted independent claim into the proceedings, if the defendant agrees or if the Court considers it helpful (Section 263 ZPO). By the same reason, once the nullity action has been filed, later during the proceedings the plaintiff may only raise a new ground of nullity which has not been included in the filed nullity action if the defendant agrees or if the Court considers such enlargement of the action to be pertinent (Section 263 ZPO). Therefore, unless there are strategic

reasons⁵ for limiting the attack of a patent, in general the plaintiff will likely include all of the granted claims into the nullity action and base his attack on all possible grounds of nullity - with the exception of the unlawful deprivation which is only raised when there is evidence for the deprivation.

Finally, after the nullity action was filed, the Court determines a provisional court fee on the basis of a provisional value in dispute and invites the plaintiff to make an advance payment calculated on the basis of the provisional court fee. Payment of the fee is not a prerequisite for the admissibility of the nullity action but for the action to be subjudice. Accordingly, as long as the fee has not been paid, the action will not be delivered to the defendant. In case no fee was paid, at some point the Court will remind the plaintiff and set a time limit for payment of the fee. After the expiration of the time limit set, if the court fee has not been duly paid, the action is considered as having not been filed.

In some cases a contractual relationship between plaintiff and defendant may be a bar for the nullity action to be admissible. For example under certain circumstances a nullity action is not admissible when filed by an exclusive licensee. By the same reason contractual non-contest agreements and certain (formerly) employed inventors-employer relationships may also result in a lack of admissibility of the nullity action.

2.4 Furnishing Security for Costs of the Proceedings

In order to protect the defendant, in the nullity proceedings as well as in the infringement proceedings upon request by the defendant the plaintiff has to furnish security for the costs of the proceedings, if his general residence lies outside the European Community, as stipulated by the law (Sections 81(7), 139 PatG, 110 ZPO).

Some countries e.g. Japan, the Russian Federation, and Switzerland have concluded bilateral agreements with Germany exempting their residents from this duty. Residents of e.g. the United States of America, China, Canada and Korea, on the other hand, are currently not exempted from the duty to furnish security of costs. These costs are determined by the Court and have to be paid within a time limit set

⁵ Such as the connected cost risk or a hindrance by/infringement of only part of the claims.

by the Court. Instead of payment of the security costs a bank warranty of an accredited German Bank may be furnished as a security.

2.5 Grounds for Revoking a Patent in Nullity Proceedings

With the exception of nullity proceedings dealing with supplementary protection certificates (SPC) which are not dealt with in this paper, the grounds of nullity that may be raised to challenge a patent in nullity proceedings are limited to the following catalogue (Sections 21, 22, 81 PatG; Art. 138 EPC and Art. II Section 6 IntPatÜG):

Grounds of Nullity:

Lack of patentability

Lack of enabling disclosure

Unlawful deprivation

Inadmissible amendment of the claims

Inadmissible broadening of the scope of the patent

Lack of patentability (Sections 22 and 21(1) no.1 PatG; Art. 138(1)(a) EPC) refers to the lack of a patentable invention, and to a lack of novelty, inventive step and/or industrial applicability.

Unpatentable inventions include *inter alia* schemes, rules and methods of doing business as such, aesthetic creations as such, and computer programs as such. Moreover, surgical, therapeutical and diagnostic methods are not regarded as being susceptible of industrial application (Art. 54(4) EPC, Section 5(2) PatG) while animal and plant varieties are excluded from patentability according to Art. 53 EPC and Section 2 no. 2 PatG, albeit the jurisdiction has lately introduced some differentiation, in particular in the field of computer-implemented inventions and biotechnological inventions.

Generally speaking, the German patent law and jurisdiction is as a tendency harmonized with the EPC, although some specific differences remain.

E.g. according to Art. 54(2) and (3) EPC, the list of the prior art documents pertinent to novelty does not include a German national patent (application) filed before the

relevant priority or filing date of the European patent or application in question and published after that date. Accordingly, the EPO may grant a European patent effective in Germany which is invalid in Germany because the previously mentioned German national patent or patent application represents relevant prior art in nullity proceedings and may therefore destroy novelty of the patented invention (Art. 139 EPC, Sections 3(2) and 22 PatG). Accordingly, that European patent effective in Germany may be revoked in nullity proceedings.

Lack of enabling disclosure (Sections 22 and 21(1) no. 2 PatG; Art. 138(1)(b) EPC) refers to the patentability requirement that the claimed subject matter shall be disclosed in a manner sufficiently clear and concise in the patent as to enable a person skilled in the art to carry out the invention. In general, lack of enabling disclosure is a minor issue in nullity proceedings, but may be of greater significance particularly for patents covering biotechnological inventions.

Unlawful deprivation (Section 21(1) no.3 PatG; Art. 138(1)(e) EPC) is another ground of nullity. It offers the infringed party (plaintiff) to seek for a revocation of the patent, if

- a) the plaintiff has already been in possession of the invention before essentially the same patentable invention was taken away from him and filed as a patent application by the patentee and
- b) if that filing occurred against the will of the infringed party.

Under certain circumstances and for German national patents only, the German patent law provides the deprived party with the right to claim the priority of a patent and to file a patent application covering the patented invention, provided that the patent was revoked in an opposition proceedings for reasons of unlawful deprivation only (Section 7 PatG). However, the plaintiff of the nullity proceedings is not entitled to these rights in order to obtain patent protection for his deprived invention. As a result, entering nullity proceedings against a patent based on unlawful deprivation - if successful - will only result in the revocation of the patent and is therefore only considered recommendable if an action directed to the transfer of the right of the patent to the infringed party is (deemed) unsuccessful or if destroying the patent is more important than holding the patent.

Inadmissible amendments of the claims (Section 21(1) no.4 PatG; Art. 138(1)(c) EPC): The claims may not be amended before grant such that the subject matter of

the amended claim extends beyond the disclosure of the patent application⁶ underlying the challenged patent as originally filed. Some examples of admissible and inadmissible amendments are provided in the box below.

Inadmissible amendments not only represent a ground of nullity to revoke the patent, but also limit the possibilities of the patentee to amend the claims during nullity proceedings (refer to section 2.7 below).

Please note that under some specific circumstances it is admissible to introduce disclaimers into the claims during the nullity proceedings, e.g. to establish novelty over certain patent applications published post-filing (Section 3(2) PatG). Such disclaimers may exclude subject matter from the claim which has not been disclosed in the patent application underlying the challenged patent as originally filed.

Examples for admissible and inadmissible amendments in the claims

Original Claim

A liquid fermentation product obtained from a composition comprising:

- A) Water,
- B) Grain,
- C) Hop, and
- D) Yeast.



Admissible amendments

1. Replacing a feature (*grain*) for another feature disclosed in the patent application (*barley*):

A liquid fermentation product obtained from a composition comprising:

- A) Water,
- B) Barley,
- C) Hop, and

D) Yeast.

Inadmissible amendments

1. Replacing a feature (*grain*) for a feature which was not disclosed in the patent application (*wheat*):

A liquid fermentation product obtained from a composition comprising:

- A) Water,
- B) Wheat,
- C) Hop, and
- E) Yeast.

2. Claiming a combination of features which was not disclosed in the patent application (*Barley and Oat*):

A liquid fermentation product obtained from a composition comprising:

- A) Water,

⁶ Or in case of a divisional application beyond the content of the earlier application (parent application).

- B) Barley and Oat,
- C) Hop, and
- D) Yeast.

Inadmissible broadening of the scope of the patent (Section 22(1) PatG; Art. 138(1)(d) EPC). The grant of the patent constitutes a turning point to the right of the patentee to amend the claims in subsequent proceedings such as opposition, restriction or nullity proceedings. The scope of the patent defined by the subject matter of the claims as granted are the reference for assessing the admissibility of amendments in the claims. Whereas amendments enlarging the scope of protection are not admissible, amendments which limit the scope of the patent are admissible, provided the combination of features is disclosed in the application underlying the patent as originally filed and is also comprised in the patent as granted. It is also admissible to introduce new features into a claim as long as the combination of features of the amended claim does not extend beyond the disclosure of the patent application underlying the challenged patent as originally filed.

In addition to representing a ground for nullity, this provision also limits the patentee's options to amend the claims during nullity proceedings. Some frequently encountered cases are illustrated in the box below.

Finally, it is noteworthy that in general in nullity proceedings no file wrapper history estoppel applies, i.e. statements on file of the prosecution, opposition or patent infringement proceedings have no impact on the patentee's action in the nullity proceedings. Please note that the assessment of the patentability in national German or European opposition proceedings have no prejudging effect on the nullity proceedings, even if the same prior art documents and claims are examined. Of course, on a psychological level such arguments may have an influence on the judges.

Examples of admissible and inadmissible amendments of the scope of the patent

Granted Claim

A liquid fermentation product obtained from a composition comprising:

- A) Water,
- B) **Wheat**,
- C) Hop, and
- D) Yeast.



Inadmissible amendments

1. Exchange of a species (*wheat*) for a genus (*grain*), i.e. generalizing the claim:

A liquid fermentation product obtained from a composition comprising:

- A) Water,
- B) **Grain**,
- C) Hop, and
- D) Yeast.

Admissible amendments

1. Addition of a limiting feature disclosed in the patent application and patent (*preservative*):

A liquid fermentation product obtained from a composition comprising:

- A) Water,
- B) Wheat,
- C) Hop,
- D) Yeast, and
- E) **Preservative**.

2. Deletion of a limiting feature (*yeast*):

A liquid fermentation product obtained from a composition comprising:

- A) Water,
- B) Wheat, and
- C) Hop.
- ~~D) Yeast.~~

2.6 Effects of the Nullity Decision

Once the patent has been finally revoked in part or *in toto*, the revocation of the patent is effective from the beginning on (Section 21(3) PatG). Thus, the revoked patent or part of the patent can no longer be subject to infringement proceedings for claims residing in the past or in the future. The revocation of a patent also has important implications for pending infringement proceedings based on the revoked patent, because the infringement proceedings will be closed to the extent the patent was revoked (settlement in the main issue) and executory deeds based on the revoked patent may be declared invalid in a separate action for retrial of the case (Section 580 ZPO).

Moreover, licenses become invalid to the extent the license is based on a revoked patent or on revoked parts of the patent from the time of revocation of the patent. The revocation, however, has generally no impact on the validity of the license in general, and for the payment of royalties in particular, for the past.

Accordingly, it is a common strategy among parties sued for patent infringement in Germany or among parties who face a patent as an obstacle for their business activities in Germany, to file a nullity action in order to seek revocation of that patent or to improve their position in negotiations with the patentee. Notably, in contrast to opposition proceedings at the Federal Patent Court, it is at the disposition of the parties to terminate the proceedings by withdrawal of the nullity action or by settlement. Thus, the Court may not issue a decision, if the parties withdrew or settled the case before the Court declares the oral proceedings be closed.

2.7 1st Instance nullity proceedings and Decision of the Federal Patent Court

According to Section 82 PatG, after the nullity action was duly filed by the plaintiff, the Court gives notice of the action upon the defendant (i.e. the patentee of the patent in dispute) and invites him to reply thereto within one month. If the defendant fails to reply in due time, a decision complying with the plaintiff's request may be rendered without a hearing and to that end every factual allegation of the plaintiff may be regarded as proved.

After the reply of the defendant (also called "indication of defense" of the defendant), arguments are usually exchanged regarding questions of whether or not the reasons for nullity apply to the patent in dispute.

The defendant (i.e. the patentee) has the possibility to defend the patent in dispute in a limited way⁷. However, a limited defense is only possible to the extent the patent is actually attacked. At present, case law is not clear whether the Court may uphold a patent in a limited way which the defendant has not expressly requested at least in an auxiliary way. In other words, at present it is not clear whether the Court may limit the patent on its own motion without the defendant expressly requesting the patent to be maintained in that form. On the other hand, the nullification of the independent claim(s) and of further single dependent claims by the Court is unproblematic. It is therefore usual that the defendant files one or more auxiliary requests in which the maintenance of the patent in dispute in amended form (e.g. based on features of the description) is auxiliarily requested.

⁷ Regarding the possible amendments to the patent, please refer to above Section 2.5.

It is one of the unique peculiarities and advantages of the nullity proceedings in Germany that among the five judges of the Senate at the Federal Patent Court in charge of a given nullity case three judges are technical experts having a technical background and two judges (including the Chairman of the Senate) have a legal background (Section 67(2) PatG). Due to the technical expertise of the technical judges of the Senates at the Federal Patent Court, an appointment of a technical expert, a hearing of evidence or submission(s) of opinions by technical experts rarely occur in the first instance nullity proceedings.

According to Section 87 (1) PatG the Federal Patent Court investigates *ex officio* the facts of the case and is not bound by the factual statements and the offers of proof of the parties. A joinder (Prozeßverbindung) of several nullity proceedings against the same patent (i.e. a combination of several proceedings to one single proceeding) is within the discretion of the Court (Section 147 ZPO) and is usually decided by the Federal Patent Court, provided no substantial delay of the proceedings is to be expected due to special circumstances of the case.

After having given the parties the opportunity to present their arguments, the Federal Patent Court summons to an Oral Hearing (Section 90 PatG). In view of Section 269 ZPO at the beginning of the Oral Hearing the Federal Patent Court has to ask the parties whether they are willing to settle the matter in an amicable agreement, which may be also an out-of-court agreement. In case no amicable agreement is possible, the Court proceeds with the fixing of the value in dispute (i.e. of the value⁸ of the patent in dispute) and then to the discussion of the facts. At the conclusion of the Oral Hearing the Federal Patent Court usually renders a decision. Only in exceptional cases, the decision is rendered at a session to be fixed forthwith.

2.8 Appeal to the Federal Court of Justice (2nd Instance)

According to Section 110 PatG an appeal may be filed within one month after service of the decision including the reasons for the decision (i.e. after receipt by the party), the latest five months from the rendering of the decision (i.e. after the Court has announced the decision without yet providing the reasons therefor). The appeal is

⁸ The value of the patent in dispute is based on the interest of the public (i.e. not only of the plaintiff!) to revoke the patent in dispute.

subject to the payment of a prescribed fee⁹. A cross or counter appeal (Anschlußberufung) of the other party is possible also beyond the one month term.

The appellant must state according to Section 111 PatG reasons for the appeal. These reasons may be contained already in the appeal brief or in a subsequent letter within a term of one month from the appeal brief. Upon request of the appellant this term may be extended by the Chairman of the Senate at the Federal Court of Justice in charge of nullity appeal proceedings (presently the X. Senate).

In general, the German Federal Court of Justice (Bundesgerichtshof, BGH) only handles appeals on points of law. However, in the specific case of the nullity proceedings, the appeal to the Federal Court of Justice is an appeal on points of both facts and law.

At the Federal Court of Justice, the appeal is handled by five judges which all have - unlike the Senates at the Federal Patent Court - a legal background, but are generally very experienced with nullity proceedings and dealing with different technologies. Regarding the technical issues, the Federal Court of Justice is also not bound to the factual statements, declarations and offers of proof provided by the parties to the nullity proceedings and has a discretion to take all measures necessary for investigating the case (Section 115 PatG).

As a rule, the Federal Court of Justice in nullity appeal proceedings usually hears court experts (such as university professors) appointed for the specific technical field in question and mostly rely upon their judgment regarding the understanding of terminology, the disclosure in the documents as originally filed and the knowledge of the person skilled in the art. Please note, however, that the judges do not rely upon the court experts for assessing the inventive step, as the issue of whether or not an inventive step is involved in the specific case is regarded as being a question of law which cannot be assessed by the court expert. The appellant has to give an advance payment for the costs¹⁰ of the court expert, as decided by the Federal Court of Justice.

⁹ Regarding the height of the fees, please refer to section 3.3 below.

¹⁰ For cases of normal complexity the costs for the court expert (for both giving the written expertise and attending the oral hearing) amount to about EUR 4000 to 7000. Finally, the costs for the courts expert are born by the (overall) losing party (refer to section 3).

According to Section 116 PatG the decision of the Federal Court of Justice is rendered on the basis of an oral hearing. If a party duly summoned to the proceedings does not attend the oral hearing, a decision can nevertheless be taken.

In the oral hearing the parties submit their requests. In this connection it is noted that even if the defendant (patentee) defends his patent in a limited way during the first instance of the nullity proceedings, the patentee may request the upholding of the patent *in toto* in the appeal proceedings¹¹.

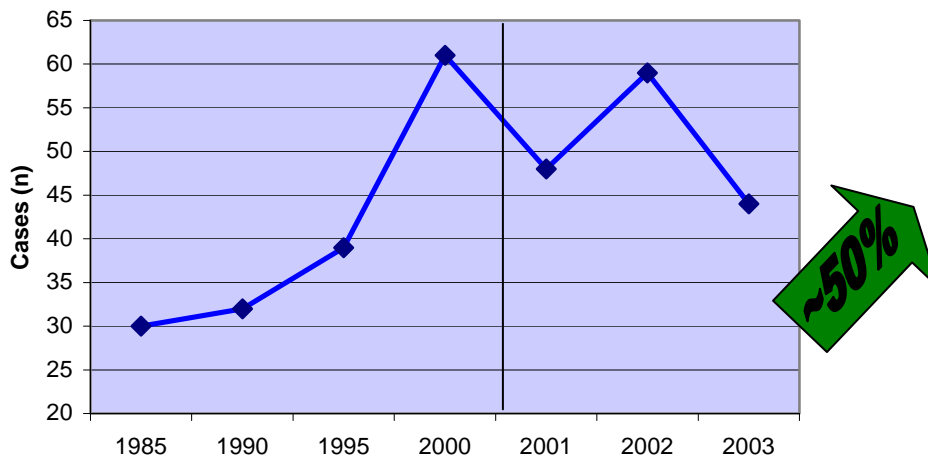
In the oral hearing, the Chairman of the Senate of the Federal Patent Court first introduces into the factual and legal issues. Then, the court expert and other possible witnesses are heard. After the Court has directed their questions and investigations to the court expert and witnesses, the parties have the chance to forward questions to them. If requested, party's (technical) experts may be also heard. Then, the parties are given the occasion of conclusive statements. Finally, the Court of Justice decides on the remuneration of the court expert and sets a term for the rendering of the decision (usually at the end of the day on which the oral hearing takes place).

Since the decision of the Federal Court of Justice is a final decision, i.e. no legal remedy is given against the decision of the Federal Court of Justice in the nullity appeal proceedings, the appeal decision of the Federal Court of Justice takes effect upon rendering.

2.9 Incidence of Nullity Appeal Proceedings to the Federal Court of Justice

In recent years the number of nullity appeal proceedings filed to the Federal Court of Justice rose considerably e.g. from 30 (1985) to 44 (2003) (cf. following diagram). This clear increase by nearly 50% is paralleled by the increasing number of nullity suits filed in recent years, reflecting the increasing significance of the nullity proceedings.

Nullity Appeals filed from 1985 to 2003

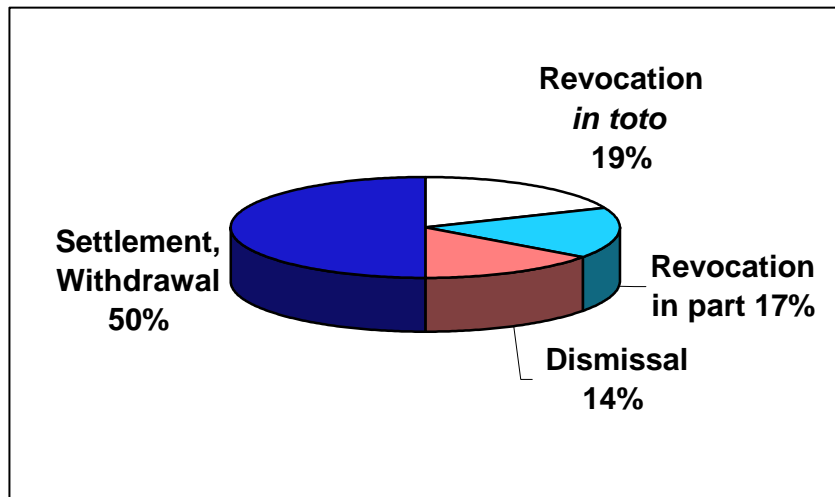


2.10 Chances of Success of Nullity Proceedings at the Federal Patent Court (BPatG)

From 1998 to 2002 786 nullity proceedings were concluded by the Federal Patent Court¹². Among these, 19 % of the patents were revoked *in toto*, 17% of the patents were revoked in part, 14 % of the nullity actions were dismissed and 50 % of the cases were settled or withdrawn (cf. diagram below). Therefore, statistically in about 36% of all nullity proceedings the patent is restricted or revoked *in toto*. Further considering that in a large percentage of cases (50%) the nullity action was settled or withdrawn, chances are statistically high that the plaintiff will achieve some success.

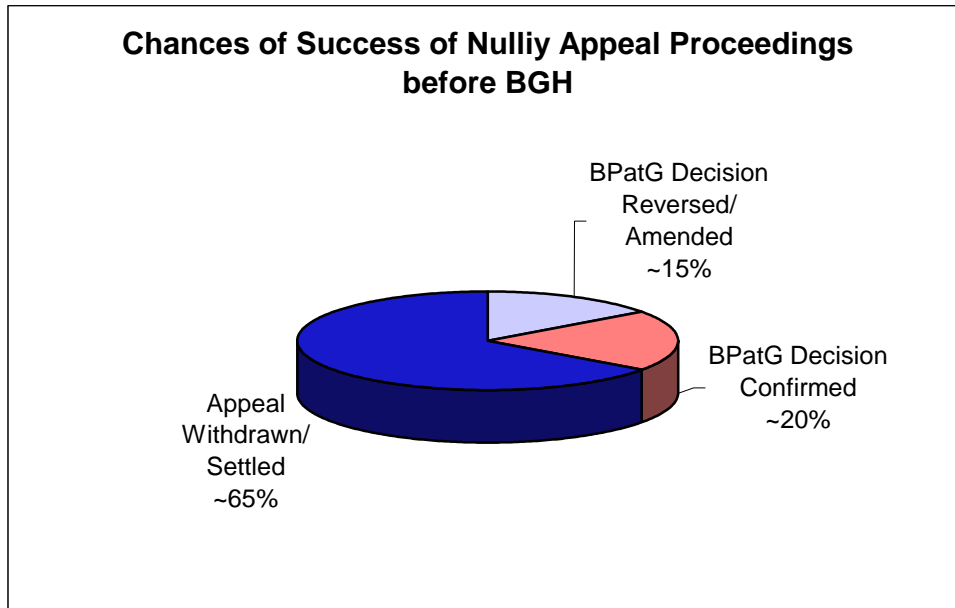
¹¹ Decision of the BGH dated February 17, 2004 - "Ink level detector" (published in GRUR 2004, 583).

¹² Source: Annual reports 1998 to 2002 of the Federal Patent Court.



2.11 Chances of Success of Nullity Appeal Proceedings before the Federal Court of Justice (BGH)

In the period from 1992 to 2001 436 appeals were filed in total against the nullity rulings of the first instance. From the 153 decisions delivered during that period, about 15% of the total number of appeals (corresponding to about 42% of the decided cases, namely 65 decisions) reversed or amended the decision of the Federal Patent Court as the first instance Court. In about 20% of the total number of appeals (corresponding to about 58% of the decided cases, namely 88 decisions) the first instance decision of the Federal Patent Court was upheld. It should be noted, however, that generally only about 1/4 to 1/3 of the appeals filed are terminated by delivering a decision while in the majority of the cases the appeal proceedings are terminated otherwise (e.g. by withdrawal of appeal or settlement).



3. COST ANALYSIS OF PATENT LITIGATION

In the following, an overview of the costs associated with patent litigation in Germany, particularly in infringement proceedings (first and second instance) and nullity proceedings (first and second instance) will be provided.

3.1 Principle of Cost Calculation

3.1.1 Assumptions

The cost estimates for patent litigation provided in the following are calculated based on

- the court fees,
- the patent attorney fees and
- the attorney-at-law fees,

assuming that in the infringement proceedings as well as in the nullity proceedings both patent attorneys and attorneys-at-law participate, which even though being usual, however, is not required by law. Please note that costs caused by hearing of evidence, necessary traveling, possible damages, opinions, and the like were

excluded from the calculations, since they differ considerably from case to case so that no reasonable estimation is possible.

Please further note that the cost estimates given in this paper do not apply to opposition proceedings in which - due to their administrative character - usually each party bears its own costs, i.e. under normal circumstances no taking over of the adversary's cost take place.

All of the above mentioned fees are calculated on the basis of the value in dispute as stipulated by German Law (German Court Fees Law (Gerichtskostengesetz, GKG), Patent Cost Law (Patentkostengesetz, PatKostG), Attorney-at-law Remuneration Law (Rechtsanwaltsvergütungsgesetz, RVG)). Notably, the value in dispute is not necessarily identical to the damages incurred by the patentee. In fact, for infringement proceedings the economic interest is higher than the requested damages in that a patent also implies a claim for cease of infringement. Moreover, in nullity proceedings it has to be taken into account that the patent also affects other competitors and has a maximum duration of 20 years (and up to additionally 5 years with extension via SPC). Accordingly, for nullity proceedings the value of dispute has to take into account the interest of the public to revoke the patent. Finally, please note that for some specific cases (e.g. for complex cases), patent attorney and attorney-at-law fees may be calculated on a client-attorney remuneration agreement basis and may thus differ from the costs calculated on the basis of the value in dispute.

3.1.2 Basic Principle

It is a principle of nullity and infringement proceedings that the parties' duty to bear fees and other costs of the proceedings depends on the degree to which the respective party lost the case ("the loser pays it all"). Accordingly, if for example 80% of the scope of protection of the patent is revoked in nullity proceedings when revocation *in toto* had been requested by the plaintiff, the Court may decide that the patentee is charged with 80% of the costs, whereas the plaintiff is charged with 20% of the costs. Moreover, no matter how much remuneration a given party spent in connection with the proceedings (e.g. for their representative(s), legal counseling, traveling, etc.), the costs subject to refund by the losing party are calculated based on the Attorney-at-law Remuneration Law (RVG) and the value in dispute. Therefore,

costs of the representative(s) exceeding the calculated amount will not be refunded by the losing party. This principle applies to all cost estimates given below. As for other costs actually accrued to a party, such as necessary travel costs and the like, the amount of refundable costs will be determined in a cost fixing decision at the end of the proceedings.

3.2 Estimated Costs of Nullity Proceedings before the Federal Patent Court (BPatG)

According to the German Court Fees Law (GKG) and the German Patent Cost Law (PatKostG) the court fees amount to a 4.5x process fee. This factor is multiplied by the amount of money (Euros) corresponding to a 1x process fee at a given value of the dispute as stipulated by Law. The value of the dispute, in turn, is determined during the respective proceedings. This principle of calculation applies to all cost estimates given in the following.

In the case of German nullity proceedings in the first instance, the client is usually only represented by a patent attorney, i.e. the participation of an attorney-at-law is usually not necessary. According to the Attorney-at-law Remuneration Law (RVG), the patent attorney is eligible to a 4.5x process fee. In case the patent attorney is joined by an attorney-at-law, the latter is also eligible to a 4.5x process fee. The following table illustrates the estimated costs of nullity proceedings before the Federal Patent Court (BPatG) as the 1st instance in nullity proceedings.

Value in dispute (Million Euro)	Court fees (PatKostG, GKG, 4.5 fee)	Party's attorney fees (A + PA) (RVG, 4.5 fee x 2= 9 fee)	Adversary's attorney fees (A + PA) (RVG, 4.5 fee x 2= 9 fee)	Remuneration agreement for complex cases* (Euro)	Sum risk (Euro)
1	20.000	40.500	40.500		101.000
1*	20.000	40.500	40.500	≤ 120.000	≤ 221.000
5	74.000	148.500	148.500		371.000
5*	74.000	148.500	148.500	≤ 120.000	≤ 491.000
10	141.500	283.500	283.500		708.500
10*	141.500	283.500	283.500	≤ 120.000	≤ 828.500

* In complex cases patent attorney and attorney-at-law fees may be calculated on a client - attorney remuneration agreement basis.

A= Attorney-at-Law, PA= Patent Attorney

Additional court and representative fees may arise if, for example, a hearing of evidence is scheduled, which usually is unlikely to happen.

3.3 Estimated Costs of Nullity Appeal Proceedings before the Federal Court of Justice (BGH)

In case the decision of the first instance is subject to an appeal to the Federal Court of Justice (BGH), it is recommended the client be represented by a patent attorney and an attorney-at-law accredited to the Federal Court of Justice, although it is admissible that the client is only represented by a patent attorney.

The court fees amount to a 6x process fee as stipulated in the German Court Fees Law (GKG). According to the Attorney-at-law Remuneration Law (RVG), which is equally applied for the remuneration of the patent attorneys, the patent attorney is eligible to a 1.6x process fee and a 1.2x hearing fee which sums up to a 2.8x fee. In case the patent attorney is joined by an attorney-at-law, the latter is also eligible to a 2.8x fee. Again, additional court and representative fees may arise.

The following table illustrates the estimated costs of nullity proceedings at the Federal Court of Justice (BGH) as the 2nd instance in nullity proceedings.

Value in dispute (Million Euro)	Court fees (GKG, 6 fee)	Party's attorney fees (A + PA) (RVG, 2.8 fee x 2= 5.6 fee)	Adversary's attorney fees (A + PA) (RVG) 2.8 fee x 2= 5.6 fee)	Remuneration agreement for complex cases* (Euro)	Sum risk (Euro)
1	27.000	25.000	25.000		77.000
1*	27.000	25.000	25.000	≤ 120.000	≤ 197.000
5	99.000	92.500	92.500		284.000
5*	99.000	92.500	92.500	≤ 120.000	≤ 404.000
10	189.000	176.500	176.500		542.000
10*	189.000	176.500	176.500	≤ 120.000	≤ 662.000

* In complex cases patent attorney and attorney-at-law fees may be calculated on a client - attorney remuneration agreement basis.

A= Attorney-at-Law, PA= Patent Attorney

3.4 Estimated Costs of Infringement Proceedings before the Regional Court (Landgericht, LG)

In first instance infringement proceedings before the Regional Court (Landgericht, LG) the court fees amount to a 3x process fee according to the German Court Fees Law (GKG). In infringement proceedings it is recommended that the client be represented by a patent attorney in addition to the mandatory attorney-at-law. Each of them is eligible to a 3.15x process fee according to the Attorney-at-law Remuneration Law (RVG). Exemplary cost estimates are provided in the table below. Moreover, additional court and representative fees may arise.

Value in dispute (Million Euro)	Court fees (GKG, 3 fees)	Party's attorney fees (A + PA) (RVG, 3.15 x 2= 6.3 fee)	Adversary's attorney fees (A + PA) (RVG, 3.15 x 2= 6.3 fee)	Remuneration agreement for complex cases (Euro)	Sum risk (Euro)
1	13.500	28.500	28.500		70.500
1*	13.500	28.500	28.500	≤ 120.000	≤ 190.500
5	49.500	104.000	104.000		257.500
5*	49.500	104.000	104.000	≤ 120.000	≤ 377.500
10	94.500	198.500	198.500		491.500
10*	94.500	198.500	198.500	≤ 120.000	≤ 611.500

* In complex cases patent attorney and attorney-at-law fees may be calculated on a client - attorney remuneration agreement basis.

A= Attorney-at-Law, PA= Patent Attorney

3.5 Estimated Costs of Infringement Appeal Proceedings before the Higher Regional Court (Oberlandesgericht, OLG)

During appeal proceedings before the Higher Regional Court (Oberlandesgericht, OLG), the court fees amount to a 4.5x process fee according to the German Court Fees Law (GKG). Again, it is recommended that the client be represented by a patent attorney in addition to the mandatory attorney-at-law. Each of them is eligible to a 2.8x process fee according to the Attorney-at-law Remuneration Law (RVG). Exemplary cost estimates are provided in the following table. Further court and representative fees may arise.

Value in dispute (x Million Euro)	Court fees (GKG, 4.5 fee)	Party's attorney fees (A + PA) (RVG, 2.8 x 2= 5.6 fee)	Adversary's attorney fees (A+ PA) (RVG, 2.8 x 2= 5.6 fee)	Remuneration agreement for complex cases (Euro)	Sum risk (Euro)
1	20.000	25.000	25.000		70.000
1*	20.000	25.000	25.000	80.000	≤ 150.000
5	74.000	92.500	92.500		259.000
5*	74.000	92.500	92.500	80.000	≤ 339.000
10	141.500	176.500	176.500		494.500
10*	141.500	176.500	176.500	80.000	≤ 574.500

* In complex cases patent attorney and attorney-at-law fees may be calculated on a client - attorney remuneration agreement basis.

A= Attorney-at-law, PA= Patent Attorney

3.6 Total Estimated Costs of Infringement Proceedings and Parallel Nullity Proceedings

Based on the cost calculation provided above the total sum of the costs of nullity proceedings and parallel infringement proceedings, each law suit including first and second instance proceedings, will amount to approximately the costs displayed in the following table.

Value in Dispute (Euro)	Total Cost Risk (Euro)
1 Million	about 318.500 (optionally plus remuneration)
5 Million	about 1.171.500 (optionally plus remuneration)
10 Million	about 2.236.500 (optionally plus remuneration)

As a rule of thumb the total cost risk (i.e. the costs for the court and respective representatives) amount to about 20 to 30 % of the value in dispute.

Thank you for your attention



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