



DÜSSELDORF DISTRICT COURT
IN THE NAME OF THE PEOPLE

DECISION

4a O 83/07

Pronounced on 11.09.2008
[REDACTED] Court Employee
as Clerk of the Court

In the action

[REDACTED]

-

Chamber 4a. of the Düsseldorf District Court with respect to the oral hearing of August 19, 2008 by the presiding judge of the District Court Dr. [REDACTED] as well as the judges of the District Court [REDACTED] and [REDACTED]

has ruled as follows:

I. Defendants are hereby ordered,

1. to cease and desist, under penalty of a fine of up to EUR 250,000.00 for each case of non-compliance or imprisonment of up to six months, or of imprisonment up to six months and in the case of recurrence imprisonment of up to two years, within the German territorial scope of the European Patent [REDACTED], from
 - a) offering, distributing, using, or either introducing or owning for these purposes optical data carriers with encoded video data which represent successive frames from video images, in which the video data for each frame contain interlaced first and second fields, where the process involves the following steps:
 - (a) Receiving a sequence of frames from video data and
 - (b) Separating the data for each frame into the first and second fields, where the process also contains the following steps:
 - (c) Determining one or more first motion vectors, each of which is assigned to a corresponding block of pixel data of

the first field of a current frame and a corresponding block of pixel data of the second field of the current frame;

- (d) Determining one or more second motion vectors, each of which is assigned to a block of pixel data of the first field of the current frame and a corresponding block of pixel data of the second field of the frame immediately before it;
- (e) Storing the second field of the current frame, the first field of the current frame, the first field of the frame immediately before it, one or more first motion vectors determined in step (c), and one or more second motion vectors determined in step (d);
- (f) Determining information regarding the best mode from the one or more first motion vectors and/or the one or more saved second motion vectors to predict one or more blocks of pixel data, each of which is assigned to a corresponding stored first or second motion vector and each of which has the lowest pixel error rate compared to the corresponding block of pixel data of the first field of the current frame;
- (g) Determining pixel error data which represent any pixel error between the one or more predicted blocks of pixel data and the one or more corresponding blocks of pixel data of the first field of the current frame;
- (h) Generating signals which represent the second field of the current frame, the motion vector data regarding the best

mode and pixel error data;

and/or

- b) Offering and/or supplying optical data carriers suitable and intended for decoding systems for encoded video data representing a sequence of frames of video images, where the video data for each frame has first and second interlaced fields, where the system contains the following elements:
- (a) an input circuit which receives encoded video data and separates the encoded data for every frame into (i) first motion vector data which is assigned to one or more blocks of pixel data of the second field of the current frame and one or more corresponding blocks of pixel data of a first field of the current frame, (ii) second motion vector data which, where applicable, are assigned to one or more blocks of pixel data of the first field of an immediately preceding frame and one or more corresponding blocks of pixel data of a first field of the current frame, (iii) pixel error data which represent any pixel error in each block of pixel data which is assigned to the first and/or second motion vector data, compared with the corresponding block of pixel data of the first field of the current frame, and (iv) separately, the second field of the current frame;
 - (b) A block selection device which receives the first and second motion vector data from the input circuit and one or more blocks of pixel data of the second field of the current frame and or one or more blocks of pixel data of the first field of an immediately preceding frame which selects the

first or second vector data received;

- (c) One block processor which receives one or more selected blocks of pixel data selected by a block selection device, and determines one or more of the received blocks of pixel data, each of which has the lowest pixel error rate compared to the corresponding block of pixel data of the first field of the current frame;
- (d) A block adder which receives one or more blocks of pixel data determined by the block processor, and the pixel error data for the same block or the same multiple blocks and generates a predicted first field of the current frame; and
- (e) A frame generator, which receives the predicted first field of the current frame and the second field of the current frame and generates the current frame of video image data;

and/or

- c) Offer and/or supply optical data carriers suitable and intended for decoding processes for encoded video data, which represent a sequence of frames of video images, where the video data for each frame has first and second interlaced fields, where the process contains the following step:
 - (a) Receiving encoded video data for successive frames where the process also contains the following steps:
 - (b) Separating the encoded data for each frame into (i) first motion vector data which are, if applicable, assigned to one or more blocks of pixel data of the second field of a current frame and one or more corresponding blocks of pixel data of a first field of the current frame, (ii) second motion vector

data which, if applicable, are assigned to one or more blocks of pixel data of the first field of a immediately preceding frame and one or more preceding blocks of pixel data of the first field of the current frame, (iii) pixel error data that represent any pixel error in each block of pixel data which is assigned to the first and/or second motion vector data, compared to the corresponding block of pixel data of the first field of the current frame, and (iv) the second field of the current frame;

- (c) Selecting one or more blocks of pixel data of the second field of the current frame, which is assigned to the first motion vector data, and/or one or more blocks of pixel data of the first field of a directly preceding frame, which is assigned to the motion vector data assigned to the second motion vector data;
- (d) Determining from the block or blocks of pixel data selected in step (c) one or more blocks of pixel data, each of which has the lowest pixel error rate compared with the corresponding block of pixel data of the first field of the current frame;
- (e) Generating a predicted first field of the current frame from one or more blocks of pixel data which are determined in step (d) and from the pixel error data for the same block or the same multiple blocks of pixel data; and
- (f) Generating the current frame from video image data from the predicted first field of the current frame and the second

field of the current frame which are separated from the encoded video data received;

2. to report to the Plaintiff the scope in which they (the Defendants) have committed the actions described above under item I. 1.,

namely

- the Defendants 1) and 4) for the period as from July 10, 1998,
- the Defendant 2) for the period as from March 14, 2005,
- the Defendant 3) from September 20, 2005 to May 31, 2007,

indicating

- a) the number of the products received or ordered and the names and addresses of the producers, suppliers and other previous owners,
- b) for each consignment, classified by numbers delivered, date of delivery and supply prices including the type designations and the names and addresses of consignees,
- c) for each offer, classified by numbers offered, date of the offer and offer prices including the type designations and the names and addresses of offerees,
- d) any advertising, classified by publisher of the advertisement, the volume of the publication, the period of advertising and the geographic area covered by the advertisement,
- e) production/setup costs classified by separate cost factors and profits earned that are not reduced by deduction of fixed costs and variable

overhead, unless directly attributable to the items defined under I. 1;

where

- the corresponding purchase and sales documents according to the information contained in aa) and bb) have to be submitted (copies of invoices, delivery notes)
- to the extent that consignments and offers were not of a commercial nature, the Defendant shall instead be permitted to notify the names and addresses of such non-commercial consignees and offerees to public accountants bound to secrecy and practicing in the Federal Republic of Germany, provided that the Defendants bear the relevant costs and authorize and require such public accountants to reply to direct questions by the Plaintiff as to whether a specific consignee or offeree is contained in such list of non-commercial consignees and offerees.

- II. The Defendants are hereby ordered to pay all damages of the Plaintiff which were caused or will be caused by those actions pursuant to I.1., namely within those periods described in details for each defendant in I. 2.
- III. The Defendants 1), 2) and 4) are hereby ordered to destroy any of the products described in I. 1. a), above, which are in their direct or indirect possession or to which they have title.
- IV. Further complaint is hereby dismissed.
- V. The defendants have to bear the costs of the action.

VI. The decision is provisionally enforceable, with bonds of €250.000,00.

The security deposit can be held in any bank or savings institution recognized in the European Union as a customs- or tax-bond in the form of a non-callable, unconditional, indefinite-term and absolute guarantee bond.

Statement of Facts:

The Plaintiff is the registered and sole authorized owner of the European patent [REDACTED] (Patent at Issue). The Patent at Issue, whose language is English, relates to systems and processes for encoding alternating fields in interlaced image sequences. It was registered on December 3, 1991, claiming a priority of December 3, 1990. The granting of the Patent at Issue was published on June 10, 1998. The Patent at Issue is in force in Germany.

Patent Claims 11, 21 and 25, whose infringement was claimed in the present proceedings, read as follows in the published German translation (DE [REDACTED], Annex K2):

11. *A method for encoding video data representative of successive frames of video images, the video data for each frame having interlaced first and second fields, the method comprising the steps of (a) receiving a sequence of frames of video data and (b) separating the data for each frame into its first and second fields, characterized in that the method further comprises the steps of:*
 - (c) *deriving one or more first motion vectors (FMV) each associated with a respective block of pixel data from the first field of a current frame ($E_i(t)$) and with a corresponding block of pixel data from the second field of the current frame ($O_{c1}(t)$);*

- (d) deriving one or more second motion vectors (CMV) each associated with a respective block of pixel data from the first field of the current frame ($E_i(t)$) and with a corresponding block of pixel data from the first field of the immediately preceding frame ($E_{c1}(t-1)$);
- (e) storing the second field of the current frame ($O_{c1}(t)$), the first field of the current frame ($E_1(t)$), the first field of the immediately preceding frame ($E_{c1}(t-1)$), one or more first motion vectors derived in step (c), and one or more second motion vectors derived in step (d);
- (f) determining from the one or more stored first motion vectors and/or the one or more stored second motion vectors, best mode information for predicting one or more blocks of pixel data, each associated with a respective stored first or second motion vector, and each having the least pixel error when compared with the corresponding block of pixel data of the first field of the current frame;
- (g) determining pixel error data representative of any pixel error between the one or more predicted blocks of pixel data and the one or more corresponding blocks of pixel data of the first field of the current frame; and
- (h) providing signals representing the second field of the current frame, the best mode motion vector data, and the pixel error data.
21. A decoding system for encoded video data representing a sequence of frames of video images, the video data for each frame having interlaced first and second fields, characterized in that the system comprises:
- (a) an input circuit (82, 84, 89, 91, 107) receiving encoded video data and separating the encoded data for each frame into (i) first motion vector data associated with one or more blocks of pixel data of the second field of a current frame ($O_c(t)$) and with one or more corresponding blocks of pixel data of a first field of the current frame ($E_c(t)$), (ii) second motion vector data, if any, associated with one or more blocks of pixel data of the first field of an immediately preceding frame ($E_{c1}(t-1)$) and with one or more corresponding blocks of pixel data of a first field of the current frame, (iii) pixel error data

representative of any pixel error in each block of pixel data associated with the first and/or second motion vector data when compared with the corresponding block of pixel data of the first field of the current frame ($E_c(t)$), and (iv) the second field of the current frame;

(b) a block selector (88) receiving the first and second motion vector data from the input circuit and selecting one or more blocks of pixel data of the second field of the current frame and/or one or more blocks of pixel data of the first field of an immediately preceding frame respectively associated with the received first and second vector data;

(c) a block processor (85) receiving the one or more selected blocks of pixel data selected by the block selector, and determining one or more of the received blocks of pixel data each having lowest pixel error when compared with the corresponding block of pixel data of the first field of the current frame;

(d) a block adder (87) receiving the one or more blocks of pixel data determined by the block processor and the pixel error data for the same one or more blocks of pixel data and generating a predicted first field of the current frame ($E_{c1}(t)$); and

(e) a frame generator (90) receiving the predicted first field of the current

25. *A decoding method for encoded video data representing a sequence of frames of video images, the video data for each frame having interlaced first and second fields, the method comprising the step of (a) receiving encoded video data for successive frames, characterized in that the method further comprises the steps of:*

(b) separating the encoded data for each frame into (i) first motion vector data, if any, associated with one or more blocks of pixel data of the second field of a current frame ($O_c(t)$) and with one or more corresponding blocks of pixel data of a first field of the current frame ($E_c(t)$), (ii) second motion vector data, if any, associated with one or more blocks of pixel data of the first field of an immediately preceding frame ($E_{c1}(t-1)$) and with one or more corresponding blocks of pixel data of the first field of the current frame, (iii)

pixel error data representative of any pixel error in each block of pixel data associated with the first and/or second motion vector data when compared with the corresponding block of pixel data of the first field of the current frame ($E_c(t)$), and (iv) the second field of the current frame;

(c) selecting one or more blocks of pixel data of the second field of the current frame associated with the first motion vector data and/or one or more blocks of pixel data of the first field of an immediately preceding frame associated with the motion vector data associated with the second motion vector data;

(d) deriving from the block or blocks of pixel data selected in step (c), one or more blocks of pixel data each having the lowest pixel error when compared with the corresponding block of pixel data of the first field of the current frame;

(e) generating a predicted first field of the current frame ($E_{c1}(t)$) from the one or more blocks of pixel data derived in step (d) and the pixel error data for the same one or more blocks of pixel data; and

(f) generating the current frame of video image data from the predicted first field of the current frame and the second field of the current frame separated from the received encoded video data.

The Plaintiff has brought the patent under dispute into a patent pool which is being administered by ██████████ of ██████████ ██████████ in the United States, an American company with limited liability pursuant to the laws of the State of Delaware (hereafter ██████████). The patent pool is based on an agreement dating back to 1997 and concerns the granting of licenses for patents which are required for the introduction of an ISO norm with the designation MPEG-2, for the transmission and storage of video signals. The agreement was concluded between holders of patents which – in their view - was considered necessary for the introduction of the MPEG-2 norm, as well as the ██████████ ██████████ and a further corporation. So as to speed up, among other things, the introduction of the norm, members granted ██████████ a worldwide simple patent license. ██████████ ██████████ committed, on its part, to granting each company, intending to introduce the

MPEG-2 norm, simple (sub)-licenses at standard conditions. The Plaintiff joined the agreement as holder – in own view – of the necessary patents, most particularly the patent under dispute. Up to this point in time 25 licensors have brought into the MPEG-2 patent pool more than 800 patents for 57 countries overall. [REDACTED] offers companies, desirous to use the MPEG-2 Standard, a contract in line with the standard licensing agreement per attachment B1 (without the appendix “MPEG-2 PACKAGED MEDIUM AMENDMENT TO THE MPEG-2 PATENT PORTFOLIO LICENSE” also in attachment KR-18, in German translation as attachment KR-19). The pertaining license fee amounts (since January 1st of 2008) to not more than US\$ 0.026 for each DVD codified according to the MPEG-2 standard and sees a gradual reduction to US\$ 0.020 by the year 2001 (cipher 2 of appendix, attachment B1). At the moment more than 1,200 licensees are licenses on a worldwide basis by such standard contracts. For further details please refer to the existing contractual text per attachment B1.

The Defendant 4) is a company domiciled in Denmark, founded in 1986 and existing in its present form by virtue of the 2005 merger between [REDACTED] and [REDACTED]. The company produced and distributed, among other things, DVDs and CDs; whether it is still engaged in manufacturing of DVDs at this time is in dispute between the parties. Undisputed is the fact that the Defendant 4), primarily engaged in the Scandinavian market, also supplied buyers in Germany with DVDs, at least until 2006.

Defendant 1), founded in the year 1991, is a fully owned subsidiary of the Defendant 4) and supplies the German market with DVDs that are compatible with the MPEG-2 standard. The Defendant 2) is business manager of Defendant 1). He exercises that function since March 14th, 2005. The Defendant 3) was, since September 20th of 2005, co-manager of Defendant 1) with responsibility for the departments of finance and controlling. Whether he has meantime effectively retired from this position is in dispute between the parties.

At the occasion of settlement talks on August 3rd, 2007, legal representatives of the Defendant solicited in vain a standard license - limited to the Federal Republic of Germany - for the Defendant 4), and the entire [REDACTED] Group.

The Defendant 1) furthermore repeatedly endeavored without success to obtain a (worldwide) standard license for all DVDs distributed by him, including by submitting a contract – filled in and signed by him – to [REDACTED] in the course of August of 2007

(see attachment B11). [REDACTED], however, was not prepared to agree to such solution without a worldwide acquisition of license by Defendant 4).

From a point of view patent infringement, Plaintiff presently calls upon Defendant for omission, rendering of accounts, compensation for damages and destruction.

The Plaintiff sees the production of optical data carriers (DVDs) with video data by the Defendants as an infringement of the method protected by patent claim 11 of the Patent at Issue, for which reason the DVDs are direct products of the method protected by patent claim 11 of the Patent at Issue. According to Plaintiff, the master-discs used in the production of the DVDs are produced with video data that were encoded in accordance with the MPEG-2 Standard. The optical data carriers marketed by the Defendants thus owe their creation to the method protected by patent claim 11 of the Patent at Issue, as this is said to be an essential component of the MPEG-2 Standard. At the same time, the plaintiff sees the offering and distributing of DVDs by the Defendants as an indirect infringement of the decoding system protected by patent claim 21 of the Patent at Issue as well as of the corresponding decoding method protected by patent claim 25. The method according to patent claim 25 is also an essential component of the MPEG-2 Standard.

The Plaintiff is of the opinion that Defendants 1) and 4) collusively conspired in the patent-infringing distribution of their DVDs in Germany. This, Plaintiff argues, is already evident from the corporate structure promoted in internet appearances by the Defendant 4). Furthermore, the Defendant 1) binds Defendant 4) into fulfillment and execution of the DVD orders conferred. Originally it was exclusively the Defendant 4) as parent company that produced all DVDs distributed by the subsidiaries, including those distributed by the Defendant 1). This is evident from the SID-Codes (*Source Identification Codes*) as applied to the DVDs distributed in Germany by Defendant 1) and which up to this date has to be assigned to Defendant 4) as producer.

Plaintiff requests

essentially as already known, and also with respect to Defendants 2) and 3), enforcement of demands for information and accounting data and also that

Defendant's level of compensation for damages be established with no time limitation as requested since July 10, 1998, and also with respect to Defendant 3) a destruction claim

alternatively: stay of execution.

Defendants petition:

to dismiss claim,

alternatively: to suspend dispute pursuant to § 148 of the German Code of Civil Procedure until a legally binding decision is on hand in respect to the law suit for patent infringement against the Defendant 4) in Denmark, on the part of the [REDACTED] licensors [REDACTED], [REDACTED] and [REDACTED]

further alternatively: stay of execution.

Defendants deny that the DVDs offered and distributed by them make use of each single characteristic of the technical method of the patent under dispute. Defendants argue that Plaintiff has not substantially made its case in the manner required; in particular it is possible to arrive at variations of the standard which consequently can lead outside the method of the patent under dispute without jeopardizing the standard conformity of the DVDs. The Chamber's ascertainments in the judgments against [REDACTED] should not be carried over to the products of the Defendants as it cannot be excluded that in the meantime alternatives to the technical solution of the patent under dispute may have been developed, resulting in the loss of the substantiality for the MPEG-2 standard.

The Defendant 4) is meantime no longer active on the German market and therefore does not need a license for the patent under dispute. Deliveries of DVDs to Germany which, in the past, took unquestionably place have been completely suspended. Today, the German market is serviced exclusively by Defendant 1) who is not being supplied neither by Defendant 4). Since end 2007, the markets outside of Scandinavia are serviced exclusively by the newly established [REDACTED] [REDACTED], whereby the sole stockholder – beyond dispute – is the Defendant 4). The DVDs distributed in Germany at this time by Defendant 1) originate to a small part from

██████████. but by far predominantly from third parties, licensees of ██████████, in Germany and Poland.

The Defendant 3) effectively retired on May 31st, 2007, from the position of managing director of Defendant 1). Inasmuch as he now works outside this particular sector of industry, no danger of recurrence exists. At any rate he is not responsible for possible patent infringements that occurred during his management activities which – undisputed – were in the areas of finance and controlling.

The Defendants invoke the plea of limitation against the cause of action for information, accounting and damages for acts of use prior to January 1st of 2004.

The Defendants object to the cause of action on grounds of antitrust license considerations. Although – after suspending their distribution activity to Germany – they do not require a license for the patent under dispute, the Defendant 4) has endeavored for a long time to get a license. However, in unlawful manner in terms of antitrust considerations, ██████████ merely offered a (worldwide) standard license which did not reflect the requirements of Defendant 4). A license was needed only for the territory of the Federal Republic of Germany, not worldwide. The attempt – ongoing since end of 2005 – to obtain individual licenses from ██████████ and ██████████ failed thus far.

In addition, the refusal to grant the Defendant 1) a standard license is, in the opinion of the Defendants, running counter to antitrust laws. Plaintiff and ██████████, as the case may be, thus misuse the German legal system so as to force the Defendant to get a worldwide license for all the patents licensed by ██████████

The refusal to grant a license to Defendant 1) is furthermore discriminating because, in other cases, subsidiaries received pool licenses without the respective parent company holding such a license at the same time.

Furthermore the MPEG-2 standard licensing contract does not fulfill the requirements of the granting of a license at fair, reasonable and non-discriminatory (FRAND) conditions. There is a lack of individualization provided for the needs and concrete circumstances existing with Defendants. The license fee is by far too excessive, particularly if considering that essential parts of the MPEG-2 standard are to be licensed by other enterprises rather than by the Plaintiff or by ██████████. Also, it is considered inappropriate that the (worldwide) standard licensing offer does not

differentiate between individual countries with or without property rights for patents. The level of the demanded (piece) license fee is not equitable, less so as -for DVD production - the Defendants also have to acquire (pool) licenses in other property rights. The result is a total license burden of US\$ 0.1285, representing a proportion of 45% of volume and thus rendering a beneficial economic activity impossible for Defendants. In addition, the MPEG-2 standard licensing contract penalizes licensees in inappropriate manner because it does not contain a ceiling for the potential full demands in terms of essential patents.

The standard licensing contract is furthermore exploitative because it foresees a per-piece license rather than a volume license, without differentiation with respect to the necessary technology as well as no cap in regard to the overall demands by all of the essential patents.

After all – so the Defendants – the members of the MPEG-2 pools among themselves as well as members of the 4C and 6C pools among each other, ██████ included, accord each other license-free cross-licenses which is contradictory to a non-discriminatory licensing policy and which further distorts competition.

Plaintiff counters that it is not reasonable to grant the Defendant 1) alone a worldwide license in line with the standard licensing contract whereas the Defendant 4) merely desires a license for the Federal Republic of Germany, with the result that considerable distribution areas would remain unlicensed. ██████ is not authorized to deviate from the MPEG-2 Standard licensing agreement vis-à-vis the patent holders: ██████ is merely given the authority to grant to all interested users a worldwide non-exclusive license for patents essential to the MPEG-2 standard, and this according to a standard licensing contract. Isolated licenses to individual corporations within the scope of an affiliated group can only be accepted if and insofar non- licensed companies on their part do not use patents which are essential for the standard, in other words if they do not undertake DVD activities.

It is particularly unacceptable to the Plaintiff – and ██████ - to grant the requested licenses without at the same time achieving a contractual arrangement for the payment of licenses for past acts of use by the ██████ Group. According to Plaintiff's

own calculations, the [REDACTED] group of companies owes the MPEG-2 pool patent holders, for roughly 200 million DVDs MPEG-2 standard licenses, fees to the tune of 6 million US dollars. It is a legitimate criterion of reasonableness if the patent holders at the same time insist on a settlement of prior licensing debts.

That granting of a license as aspired to by Defendant 1) and 4) is not acceptable for the Plaintiff and [REDACTED] respectively results to a considerable extent from the attitude of the Defendant 4) to constantly establish new companies to which DVD production and distribution is assigned in order to escape the responsibility to pay for accumulated license dues from the past. This fact alone justifies the need to grant, in acceptable fashion, a MPEG-2 standard license only to the [REDACTED] group of companies as a whole. Otherwise there is cause for fear – substantiated by the hitherto existing behavior of the Defendants – that the group of companies would continue with the attempt to operate the actual DVD business via non-licensed spin-offs and new establishments.

Concerning further details of current position and stage of proceedings please consult the documentation of the parties, including appendices.

Reasons for Decision:

The admissible action has been successful, as can be ascertained from the extent of operative provisions of the judgment. The Plaintiff is entitled to asserting the claim to the extent of the operative provisions, pursuant to art. 64, item 1 EPÜ (European Patent Convention) in conjunction with §§ 139, items 1 and 2, 140a item 1, sentence 1, 140b item 1 and 2, Patent Act; §§ 242, 259 of the German Civil Code. Objecting to antitrust implications in granting of licenses remains unsuccessful for the Defendants. The objection of limitation of time is not accepted.

I.

The Patent at Issue relates to systems and processes for encoding alternating fields

in interlaced image sequences, i.e. encoding alternating fields of interlaced video sequences.

The Patent at Issue describes interlaced scanning as an already efficient process of compressing bandwidth for television transmission. In interlaced scanning, even and odd fields are scanned alternately, to interlace the even and odd lines with one another, thus forming a frame in the correct sequence. Each frame of a television image consists of numerous horizontal lines which are divided into an odd field (consisting of lines 1, 3, 5, ...) and an even field (consisting of lines 2, 4, 6, ...). Interlaced scanning of even and odd fields was already familiar from analog television transmission, and already reaches a certain level of data reduction. In accordance with the introductory comment of the Patent at Issue (Translation: Attachment K2, page 1, second paragraph), data can be reduced further (also known as bandwidth compression) by deleting either all even or odd fields when scanning the interlaced video sequence downwards. With digital television transmission, further data reduction can be implemented by taking advantage of the fact that there is a strong correlation (match) between the even and odd fields which makes it possible to only transmit even and odd fields partially inasmuch as only the field from which information is to be expected is subjected to further processing.

From prior art, a process based on this principle is known as block matching, which is described in more detail on page 2 of the German translation (Attachment K2) of the Patent at Issue. The block matching principle basically consists of determining the best matching position of the block content within a zone of a fully transmitted field and the shift between them for each of the blocks, where the best matched position in the not fully transmitted field is transmitted. The field which is not fully transmitted is then formed by combining the blocks at the corresponding position of this field.

1. Patent Claim 11

An encoding process with the following Characteristics as protected by Patent Claim 11 was known from prior art:

- (1) Process for encoding video data which represent successive frames of video images,
- (2) Whereby the video data for each frame contains interlaced first and second fields
- (3) Where the process comprises the following steps:
 - a) Receiving a sequence of frames from video data, and
 - b) Separating the data for each frame into first and second fields.

However, the Patent at Issue assumes that for this prior art the block matching does not make sufficient use of the high correlation between even and odd fields. That is the result of the patent's task mentioned in the description (Attachment K2, page 1, second-last paragraph), namely to develop processes and systems for the efficient encoding of a field of an interlaced video.

Patent Claim 11 meets this requirement by adding the following process steps under Characteristic (3) to the encoding process in accordance with Characteristic (1):

- (c) Determining one or more first motion vectors (FMV), each of which is assigned to a corresponding block of pixel data of the first field of a current frame ($E_i(t)$) and a corresponding block of pixel data of the second field of the current frame ($O_{c1}(t)$);
- (d) Determining one or more second motion vectors (CMV), each of which is assigned to a block of pixel data of the first field of the current frame ($E_i(t)$) and a corresponding block of pixel data of the second field of the frame immediately before it ($E_{c1}(t-1)$);
- (e) Saving the second field of the current frame ($O_{c1}(t)$), the first field of the current frame ($E_1(t)$), the first field of the frame immediately before it ($E_{c1}(t-1)$), one or more first motion vectors determined in step (c), and one or more second motion vectors determined in step (d);

- (f) Determining information regarding the best mode from the one or more first motion vectors and/or the one or more saved second motion vectors to predict on or more blocks of pixel data, each of which is assigned to a corresponding saved first or second motion vector and each of which has the lowest pixel error rate compared to the corresponding block of pixel data of the first field of the current frame;
- (g) Determining pixel error data which represent (*with regard to the relevant English translation according to art. 70, clause 1 EPC it should be correctly called: each*) any pixel error between the one or more predicted blocks of pixel data and the one or more corresponding blocks of pixel data of the first field of the current frame; and
- (h) Generating signals which represent the second field of the current frame, the motion vector data regarding the best mode and pixel error data.

Patent claim 11 achieves an improved compression efficiency in that the coded data for each full picture is separated into first and second motion vector data, into pixel error data and into the one partial picture of the preceding- and of the present full-picture. Therefore, according to the patented method, it is possible to use both the correlation between the one even or uneven partial picture with a different uneven or even partial picture, and also the correlation between an even or uneven partial picture within the present full picture and at least one even or uneven partial picture of a preceding full picture.

2. Patent Claim 25

Patent Claim 25 of the Patent at Issue relates to the decoding process complementary to the encoding process in Claim 11. With regard to the block matching process known from prior art, the principle of decompression consists of the

following elements, as the Patent at Issue (Attachment K2) describes at the bottom of page 2,

- For each block, using the block vector to select the suitable block-sized section of the corresponding zone from the reference field, and
- Forming the even field (which is not transmitted as such) by combining these block-sized sections of the zones in the corresponding blocks of the field.

A decoding process was already known from prior art with the following Characteristics:

Decoding process for encoded video data;

- (1) The video data represent a sequence of frames of video images,
- (2) Whereby the video data for each frame contains interlaced first and second fields
- (3) Where the process comprises the following step:
 - (a) Receiving encoded video data for successive frames.

However, the Patent at Issue also assumes that block matching does not make sufficient use of the high correlation between even and odd fields. The task of the invention is, as demonstrated by the Patent, not only to create processes and systems for efficient encoding of a field of an interlaced video, but also (Attachment K2, Page 1, last paragraph), to create processes and systems to encode interlaced video data to allow efficient and precise decoding using processes and systems.

In order to solve this problem, Patent Claim 25 adds the following additional process steps to the Characteristics of (1) to (3) (a) under (3) named above:

- (b) Separating the encoded data for each frame into

- (i) first motion vector data (FMV) which, where applicable, is assigned to one or more blocks of pixel data of the second field of a current frame ($O_c(t)$) and one or more corresponding blocks of pixel data of a first field of the current frame ($E_c(t)$);
 - (ii) second motion vector data which, where applicable, is assigned to one or more blocks of pixel data of the first field of an immediately preceding frame ($E_{c1}(t-1)$) and one or more corresponding blocks of pixel data of a first field of the current frame;
 - (iii) pixel error data representing any (*correct: each*) pixel error in each block of pixel data assigned to the first and/or second motion vector data, compared to the corresponding block of pixel data of the first field of the current frame ($E_c(t)$), and
 - (iv) the second field of the current frame;
- (c) Selecting one or more blocks of pixel data of the second field of the current frame, which is assigned to the first motion vector data, and/or one or more blocks of pixel data of the first field of a directly preceding frame, which is assigned to the motion vector data assigned to the second motion vector data;
- (d) Determining from the block or blocks of pixel data selected in step (c) one or more blocks of pixel data, each of which has the lowest pixel error rate compared with the corresponding block of pixel data of the first field of the current frame;
- (e) Generating a predicted first field of the current frame ($E_{c1}(t-1)$) from one or more blocks of pixel data which were determined in step (d) and from the pixel error data for the same block or the same multiple blocks of pixel data; and
- (f) Generating the current frame from video image data from the predicted first field of the current frame and the second field of the current frame

which are separated from the encoded video data received.

3. Patent Claim 21

Patent Claim 21 describes the decoding system for the decoding process in accordance with Claim 25 with the following features:

A decoding system for encoded video data was known from prior art in relation to the block matching principle;

- (1) The video data represent a sequence of frames of video images,
- (2) whereby the video data for each frame contains interlaced first and second fields.
- (3) The system contains:
 - (a) An input circuit (82, 84, 89, 91, 107), which receives encoded data and separates the encoded data for each frame into
 - (i) First motion vector data assigned to one or more blocks of pixel data of the second field of the current frame ($OC(t)$) and one or more corresponding blocks of pixel data of a first field of the current frame ($Ec(t)$),
 - (ii) Second motion vector data which, where applicable, are assigned to one or more blocks of pixel data of the first field of an immediately preceding frame ($Ec1(t-1)$) and one or more corresponding blocks of pixel data of the first field of the current frame;
 - (iii) Pixel error data representing any (*correct: each*) pixel error in each block of pixel data assigned to the first and/or second motion vector data, compared to the corresponding block of pixel data of the first field of the current frame ($Ec(t)$), and
 - (iv) The second field of the current frame;
 - (b) A block selector (88) which receives the first and second motion vector data from the input circuit and selects one or more blocks of pixel data of the second field of the current frame and/or one or

- more blocks of pixel data of the first field of a directly preceding frame which are assigned to the first or second vector data received;
- (c) One block processor (85) which receives one or more selected blocks of pixel data selected by a block selection device, and determines one or more of the received blocks of pixel data, each of which has the lowest pixel error rate compared to the corresponding block of pixel data of the first field of the current frame;
 - (d) A block adder (87) which receives one or more blocks of pixel data determined by the block processor, and the pixel error data for the same block or the same multiple blocks and generates a predicted first field of the current frame ($E_{c1}(t)$); and
 - (e) A frame generator (90), which receives the predicted first field of the current frame and the second field of the current frame and generates the current frame of video image data;

II.

On the basis of the overall content of deliberations (§ 286, item 1 Code of Civil Procedure) it is to be assumed that the offending DVDs have been manufactured, amongst others, by use of the encoding method subject to patent claim 11 of the patent at issue. At the same time, they are exclusively destined and appropriate to be used for a decoding system according to patent claim 21, whereas, then, the decoding process for encoded video data according to patent claim 25 is used. Said patent is instrumental to the MPEG-2 standard. In view of the extent of business activities of the Defendants it cannot be surmised that the Defendants did in no single case make use of the options by which the standard is applied through the technical method of the Patent at Issue.

1.

The MPEG-2 Standard, which was issued by the International Standards Organization (ISO), relates among other things to the combination of one or more data streams for storage or transmission purposes (ISO / IEC 13818-1 "Systems"). The standard also includes technical requirements for image compression and decompression (ISO / IEC 13818-2 "Video") specifically with reference to the processing of video signals. Although the requirements of the MPEG-2 Standard are not insofar mandatory in that they merely tolerate one single method to the exclusion of all others, on the other hand, the Standard provides for various alternatives which may or may not be used in specific circumstances (i.e., when encoding concrete video data), which are only relevant to certain applications but not for others.

The fact that certain of the alternatives provided to users by the Standard are of a purely theoretical nature and are of no practical use was also not mentioned by the Respondents. If, however, the entire Standard (including alternatives) is applied to the encoding of data, then all of the Standard's contents (including alternatives) become suitable to determine the technical method to use in order to comply with the MPEG 2 Standard. If, as in this case, it is determined that a user is in compliance with the MPEG 2 Standard and it is also assured that a method permitted by the Standard would lead to the (actual or equivalent) use of methods protected by the patent, it must be presumed that the patent has been infringed to the extent that the nature of the Defendant's business (or other circumstances to be explained by the Applicant) safely permits the conclusion that the Standard's requirements fully exhausted in order to engage in that business. In these circumstances, the onus is on the Defendants to explain how and why in complying with the Standard the alternative leading to the realization of a characterization was not used in any case (District Court Düsseldorf, Decision of November 30, 2006, 4b O 508/05, InstGE 7, 70, 79, Rn. 26 - *Videosignal-Codierung I*)

2.

The method for coding of video data which represent sequential full pictures of video pictures according to claim 11 of the patent in suit, is necessarily a component of the MPEG-2-Standard.

Within the scope of half-picture prediction according to Section 7.6.2.1, in which neither exclusively half pictures nor exclusively full pictures are processed, but rather a coding of partial-picture by partial-picture occurs, the MPEG-2-Standard literally makes use of claim 11 of the patent in suit. We are dealing with a method for coding of video data which represents sequential full pictures of video pictures and which has nested first- and second-partial pictures for each full picture (features (1) and (2)). If a sequence of full pictures of video data is received, then the data for each full picture is separated into its first and second half picture (features (3a) and (3b)). For half picture prediction, the reference half pictures of the two last-coded half pictures, an upper and a lower one, are used. If the second half picture of a coded full picture is to be coded by use of the two last-decoded reference half pictures (of an upper and of a lower one), then the last decoded reference half picture was obtained by decoding of the first half picture of the coded full picture (see the MPEG-2-Video standard, Section 7.6.2.1, second paragraph, first sentence). In this situation, figures 7-7 and 7-8 of Section 7.6.2.1 show that the prediction of the second half picture follows from the other half picture of the present full picture (in figure 7-7 this is the upper referenced half picture, in figure 7-8 the lower referenced half picture) and from a first partial picture of the immediately preceding full picture (in figure 7-7 this is the lower referenced half picture, in figure 7-8 the upper referenced half picture). In Section Intro 4.1 (second paragraph), the introduction to the MPEG-2-Standard expressly discusses that a used technique for achieving a high compression will have a block-based motion compensation in the algorithm in order to reduce the temporary redundancy. Hence the derivation of motion vectors in the sense of features (3c) and (3d). Also, the determination of pixel error data is addressed as a "prediction error" in Section Intro 4.1 (second paragraph). The additional feature (3e) which pertains to the saving of the partial pictures and of the motion vectors, will also be self-evident to the ordinary person skilled in the art who is charged with implementation of the MPEG-2-Standard.

Also, feature (3f) is implemented by the MPEG-2-Video standard. Due to the "and/or"-linkage, this feature expressly leaves open whether the "best mode" is determined from the one or the plurality of first motion vectors (derived per feature (3c)) and the one or a plurality of second motion vectors (derived per feature (3d)) or from the one or the other. Both variants implement the MPEG-2-Video standard. The Standard describes an interpolation of two predictions in the sense of the "and"-linkage of feature (3f), in that the Dual-Prime mode is derived in the half picture prediction of two motion vectors and is used to form predictions from two referenced

half pictures (one upper, one lower), which are then averaged in order to form the final prediction. The selection according to the “or”-linkage is implemented in the Standard by the parameter “motion_vertical_field_select[r][s]” (see its definition in Section 6.3.17.2 of the MPEG-2-Video standard), which defines the basis for the prediction of the alternatively available referenced half pictures. In the sense of feature (3g), pixel error data is determined which represent each pixel error between the one or the plurality of predicted blocks of pixel data, and the one or the plurality of corresponding blocks of pixel data of the first partial picture of the present full picture (see Intro 4.1, second paragraph, fourth sentence of the MPEG-2-Video standard, wherein the prediction error is further compressed by use of the discrete cosine transformation (DCT) in order to remove a spatial correlation). Finally, signals are generated which represent the second partial picture of the present full picture, the motion vector data as per the best mode, and the pixel error data (feature 3h). The second partial picture can also be represented solely by the transmission of motion vectors and difference information.

3.

Due to the fact that the Patent at Issue and the Standard, consequently, overlap and that there is sufficient evidence showing that the breadth of the business of the Defendant as to 1) and 4) also used the alternatives afforded by the Standard and embodied in the Patent at Issue, the onus is on the Defendants to demonstrate that compliance with the Standard did not result in the use of a patented process procedure.

On the one hand Defendants contest as unsubstantiated the use of the technical method of the patent under dispute within the scope of alternative parameters of the MPEG-2standards. In particular they do not bring forward to have made *exclusive* use of technical alternatives not protected by the patent under dispute. The Defendants, however, themselves point out in a different connection that a DVD which applies the MPEG-2 standard has meanwhile become inevitable for the storage and reproduction of audio and video data. Thus, the MPEG-1 standard indisputably describes technologies with which a DVD must be compatible in order to be successfully introduced in the German market, the more so as it represents, at all events, the codification procedure which dominates in practice. A substantiated argument, with

which the use of the technical variations of the MPEG-2 standard – making use of the technical method of the patent under dispute – is disavowed, would have had to deal with patent-free alternative technology. It would have been up to the Defendants to demonstrate which technologies free of property rights could have been brought into consideration as an alternative to the patent under dispute, in what the difference precisely consists and in which manner Defendants would have made sure that such technology was used in exclusivity instead of the one protected by the patent under dispute. All the above, however, is missing in the pleading by Defendants.

On the other hand – contrary to the opinion represented by Defendants (for the first time) in the rejoinder, most particularly the extent of their business activities as outlined by Defendant – the sufficiently safe deduction is permitted that the specifications of the standards were exploited to their fullest extent. A sufficiently large business activity in that sense is already evident from the fact that Defendant 1), established back in 1991 (compare with attachment B6), has busied itself for many years with the distribution of DVDs in the German Federal Republic. Alone attachment B7 documents DVD purchases by the Defendant 1) amounting to seven digits. Even if one should accept in favor of Defendants their own plea that the instances documented in the set of documents per attachment B7 concern the DVD purchase of Defendant 1) from licensed third parties, whereas DBD purchases from the Defendant 4) remained relatively insignificant, a sufficiently large quantity of DVDs acquired within the group remains and which Defendant 1) subsequently marketed in Germany. It applies to Defendant 4) that Germany was merely a subzone of the distribution activity which, for the rest, concentrated on Scandinavian, in itself – according to Defendants - a region of ancillary importance. Nevertheless, by their own indications, around 115'000 DVDS were shipped in 2005 and in 2006 approx. 18'000 DVDs even to Germany. Without regard to above numbers, a total group volume of 200 millions MPEG-2-compliant DVDs speaks for itself and underlines that shipment of Defendant 4) to Germany since granting of the patent under dispute must have reached sufficiently high quantities to justify the safe conclusion that the parameters of the standard in their full width were exploited (under inclusion of the implementing options to the patent at issue).

Under these circumstances the Plaintiff was excused from the pleading that and why each of the DVDS offered and distributed in Germany on the part of Defendants is also standard-compliant in each feature by employing precisely those parts of the

MPEG-2 standards which make use of the technical method of the patent under dispute. Rather it would have been up to Defendants to explain that and why, in following the standard, the options leading to the realization of the features, were applied *in no way*. To which Defendants did not satisfactorily respond with the simple pointer that one is not compelled to depart from the assumption that each standard-compliant DVD uses each standard-essential patent; that deviations are easily possible without jeopardizing conformity with standards. Instead it would have been required to invalidate the assumption, by way of a substantive statement of facts and justified by the circumstances, of utilization in at least one case. It is of no particular consequence that no justification exists in transferring the findings of the court and the parallel court resp. in the preceding procedures against ██████ to the products of the Defendants, because the DVDs of the ██████ group must not necessarily be identical to those of the Defendant in their relevant features. A transfer of the findings at that time to the circumstances under judgment here is not under consideration. Starting point for the determination to be arrived at is alone the extent of the business activity developed by the Defendant plus the fact that they have not (also) substantiated or denied use of the technical method of the patent under dispute by bringing forth arguments about technical alternatives.

The further pleading on the part of Defendants to the effect that, based on time elapsed since the ██████ decree, the categorization at that time of the patent under dispute as essential to the MPEG-2 standard, is no longer valid for the present point in time – because preceding adjudications no longer reflect the present status of the MPEG-2 standard – remains without success. Defendants bring forward the argument that “it cannot be excluded” (page 8 of the rejoinder document) that meantime alternatives to technical solutions of the patent under dispute have been developed so that the patent in question may have lost its standard-essential status. This argument by the Defendants does not fulfill the requirements of a substantive pleading which would have had to address the question as to which concrete modifications of standards could have influenced or even made obsolete the essentiality of the standard of the patent under dispute. The sweeping reference to “numerous [...] innovations in the area of MPEG-2 technology” fails to replace a substantiated pleading.

III.

Therefore, the Defendants literally made use of the technical method of the Patent at Issue.

1.

The disputed optical data media represent direct (physical) products of the method protected by patent claim 11 (§ 9 line 2 no. 3 Patent Law).

2.

Marketing and sale of the disputed DVDs with video content which correspond to the MPEG-2-Video standard, represent a direct infringement of Claims 25 and 21 of the patent in suit (§ 10 para. 1 Patent Law). Now the stated DVDs pertain to a means which deals with an essential element of the method placed under protection in claim 25 of the patent in suit, and also to the decoding system protected in claim 21 of the patent in suit, § 10 para. 1 Patent Law. Moreover, they are suitable for literal implementation of the subject matter placed under protection in patent claims 21 and 25. From the discussion in II.2. of the decision reasoning, it follows that the MPEG-2-Video standard uses claim 11 of the patent in suit for the partial-picture by partial-picture coding. Thus it also follows that in the decoding of the affected data in the course of the replay of the optical data media, the decoding method per claim 25 is implemented in a decoding system according to claim 21. Because claims 11 (coding) and 25 (decoding) behave in a mirror-image to each other, and claim 21 describes the decoding system needed for use of the method according to claim 25. Provided the DVDs contain data which was coded according to patent claim 11, then its decoding automatically also makes use of the method according to claim 25, and the DVD player which is used for its decoding implements the features of patent claim 21.

When the users play the DVDs with video data, these media are intended by the users also for use of the patented decoding method (claim 25) in a patented decoding system (claim 21). Provided the DVDs contain video data which was coded in the method according to claim 11, in their replay they necessarily make use of the decoding method according to claim 25 and are used in a decoding system according

to claim 21. Based on these circumstances, finally it was evident to Defendants at least that the disputed MPEG-2-compatible DVDs with video data are suitable for and intended for being used according to the invented method.

IV.

The Defendants unsuccessfully bring forth the objection to compulsory licensing related to antitrust considerations. The objection of misuse of and breach against the antitrust-induced ban on discrimination (art. 28 EGV Convention of the European Union, §§19, 20 of GWB, Law Against Competitive Restraints) is unfounded, even though Plaintiff does not deny – with justification – enjoying a market-dominating position for DVDs with video content in the European and German market.

1.

The parties depart, correctly and in agreement, from the premise that the matter of antitrust objection has to be taken into consideration in the litigation on patent infringements. This is in line with concurrent jurisdiction of both patent courts of Düsseldorf (see only LG Düsseldorf, Court of Appeals 7, 70 and following – *Video Signal Codification I*) and rightly is not disavowed by Plaintiff. Accordingly, the assertion of claims would be legally abusive, pursuant to § 242 Civil Code, if the Plaintiff is obligated to grant the Defendant a license to the property rights under dispute, based on which the Defendants would then be entitled to use the technical method.

Precondition for the *dolo-petit* objection, however, is that the defending patent user has endeavored to obtain a license from the patent holder at appropriate conditions. This in turn and as a rule means that a concrete contract proposal is to be submitted to the patent holder, containing fair and equitable conditions acceptable to the patent holder. If such has happened – in the law suit under review it has yet to be presented by the Defendant – the patent holder exposes himself to the reproach of illegal behavior by either categorically rejecting the licensing proposal or else by making the conclusion of the contract subject to conditions which in turn are in breach of antitrust provision and which the Defendant, as a consequence and in fairness, does not have to entertain.

2.

The Plaintiff does not, as a matter of principle, refuse the conclusion of a licensing contract comprising the patent under dispute. Therefore, the element of refusal to

license does not apply. If the holder of the property rights, as here, is basically willing to grant a license, the only question remaining from the point of view of antitrust regulations is whether the licensing policies are of discriminatory nature (because license applicants are, without factual reasons, subjected to unequal treatment) or whether inequitable license fees are being demanded (so-called exploitative misuse). Relevant are insofar art. 82 Convention of the European Union and §§ 19, item 4, #2, 3, 20 Economic Value Added. Whether Defendants can make valid, at the same time, a contractual demand for licensing at fair, reasonable and non-discriminatory (FRAND) conditions, with the Defendant having declared the willingness in the course of establishment of the MPEG-2 standards on the basis of the *ISO/IEC/ITU Common Patent Policy* to negotiate with other parties on non-discriminating basis about licenses at reasonable terms and conditions, can - given the existing background - remain unanswered. Licensing by patent pools e.g. consortiums of several property rights holders for the joint licensing of their patents, does in principle not differ either if property rights as a whole form an industry standard and licensing is offered to third parties only as a package deal at fixed license fees (compare with LG Düsseldorf, InstGE 7, 70, 93, Rn. 90 – *Video signal Codification I*).

a)

Defendant 4 has and had at the outset (regardless of the question of a pool license) the possibility to obtain from Plaintiff a single license to the patent under dispute for the Federal Republic of Germany and thus to avoid the prohibitive right - related to the patent under dispute - of the Plaintiff.

aa)

Contrary to the opinion of Defendant 4) as retained in writing, even a “definite” stop (questioned by Plaintiff) of distribution activity in Germany would not eliminate the need to acquire a license for the patent under dispute. In particular it would not eliminate the danger of recurrence. Defendant 4) have by themselves clearly and at least until 2006 shipped MPEG-2 compatible DVDs to Germany which underlines the danger of recurrence independent of whether Defendant 4) at least until 2007 was undisputedly tied into the distribution of Defendant 1) as can be concluded in reverse from the rejoinder which states that this had no longer happened since 2007. The danger of recurrence thus once established could have been disposed of by Defendant 4) solely by providing a declaration of discontinuance with a penalty

clause or by applying for a license from the patent holder. The danger of recurrence is, by admission, not eliminated by the mere suspension of the breach, not even without further evidence by closing the business of the violator and/or going into liquidation (compare BGH GRUR 1992, 318; GRUR 2000, 605; GRUR 2001, 453; Benkard/Rogge/Grabinski, Utility Models Act 10th edition 2006, § 139 Patent Act # and further citations). Therefore, it can be implied in favor of Defendants 4) that they have ceased to undertake own distribution activities to Germany since 2007 because this would neither eliminate the danger of recurrence nor the expendability to take a license for the patent under dispute.

bb)

It cannot be ascertained whether Defendant 4) has solicited an (individual or pool) license for the patent under dispute at reasonable conditions and in the appropriate manner. This would imply that a concrete contract offer was submitted to Plaintiff which would be fair and equitable and thus acceptable to the latter (compare with LG Düsseldorf, Inst.Ge 7, 70, 93, Rn. 90 - *Video Signal Codification I*). Here, the Defendant 4) has merely stated to have tried, since end of 2005, to obtain single licenses from the patent holders [REDACTED] and [REDACTED]. The further pleading of Defendants 4) that it took until July 2007 to receive from [REDACTED] and [REDACTED] a licensing offer, suggests that Defendants themselves had refrained from submitting a concrete proposal. It is at any rate not part of the pleading by Defendants 4) that they ever submitted single license proposals. Based on this background it cannot be said that Defendants 4) made an effort in the appropriate manner to obtain - for Germany - a single license for the patent under dispute due to Plaintiff having unjustly – the proposal being fair and equitable and thus acceptable – and thus illegally rejected the approach.

cc)

Plaintiff offers via its license administration [REDACTED] to interested patent users the alternative possibility to take a pool license in accordance with provisions of the MPEG-2 standard licensing contract. It includes the patent under dispute and entitles the user to avail of the technical method of said patent, amongst others in

Germany. In this manner, Plaintiff procures to license solicitors for the additional option: to get a pool license “from one hand” not only for the patent under dispute but also for all additional essential patents that form part of the pool. In view of these additional options, Defendant 4) cannot demand or expect further modifications because the bundled license package on the part of [REDACTED] is beyond reproach.

There is no violation of antitrust law involved in the offer of a bundled license of the patent owners participating in the Standard as such. On the contrary, it serves the equitable interest of potential license applicants that they are offered an authorization to use the entire Standard from a single source and at uniform conditions, because this relieves them from the necessity (and the burden) of taking individual licenses in a tedious/complex way and apply to each individual patent holder for a license in respect to the latter’s patent(s). In its "Guidelines for the Application of Art. 81 EC Treaty to Technology Transfer Agreements" the European Commission therefore also does not express any reservations in principle in connection with technology pools, even if they - *de facto* or *de jure* – support an existing industry standard (Subitems 210-211). Rather, Subitem 214 explicitly emphasizes the competition strengthening function of technology pools with the following remark:

“However, technology pools can also have competition strengthening effects, in particular to the extent that they lower transaction costs and limit the accumulation of licensing fees, thus preventing double profit maximization. They enable central licensing for the technologies held within the pool. This is particularly important in sectors in which intellectual property rights are of major significance and in which it is necessary in order to ensure a market presence to obtain licenses from a significant number of licensors.”

To the extent that the pool consists only of technologies for which there is no substitute and which are essential for the manufacture of the products or the implementation of the processes governed by the pool, the Commission (Subitem 216, 220) arrives at the conclusion that establishment of such pools does not as a rule fall within the antitrust regulation provided by Art. 81 Sec. 1 EG, regardless of the market share held by the parties involved.

According to the commission's opinion, concerns under competition law can arise only if technologies constituting substitutes enter the pool in a certain (dominant) amplitude. In this connection, the Guidelines state the following in Subitems 213 and 221:

"Technology pools can limit competition, because their constitution mandatorily includes joint sale of the related technologies, which in pools consisting exclusively or primarily of technologies capable of substitution can lead to a price cartel. Furthermore, technology pools can reduce not only competition between the parties to the agreement, in particular if they support or de facto initiate an industry standard, but, by the exclusion of alternative technologies, also competition in innovation. An existing standard and a corresponding technology pool can render market access more difficult for new and improved technologies."

"If non-essential but complementary patents are included in the pool there is a danger of exclusion of technologies external to the pool - for, as soon as a technology has become a component of a pool and is licensed as part of a package, there will be little incentive for the licensee to purchase licenses in competing technologies, in particular if the licensing fees paid for the package already comprise a technology susceptible of substitution. Moreover the inclusion of technologies that are not necessary for the manufacture of products or the application of processes to which the technology pool refers forces licensees also to pay for technologies they may not actually need"

Below this threshold the advantages outweigh disadvantages for the competitive market and the party seeking property rights in accordance with the pool license as encompassed by the pool and as outlined in # 214 of the guidelines. In view of these advantages as well as the fact that the possibility of a pool license, comprising the patent under dispute, represents a "plus" in comparison with a multitude of single licenses – which the patent holder also grants to own advantage to license seekers – it is justified to grant the patent holder certain liberties in designing the pool license.

This concerns e.g. the question as to whether a license seeker should also be accorded national licenses, allowing him to acquire “tailor-made” licenses for the distribution region serviced by him or whether, to the contrary, only a worldwide license package should be offered. To this effect, the holders of standard patents have decided, within the contractual agreement with ██████████ on granting only a worldwide pool license for all property rights considered to be essential and to authorize license administrator ██████████ to also grant such worldwide licenses only. This can be gleaned, as correctly not disputed by Defendants, from the preamble of the MPEG-2 patent portfolio licensing contract (attachments B1 and KR-18, translations: B1b and Kr19, in each case page 2, third item) where it says that each licensor or sub-licensor granted to ██████████ a worldwide, non-exclusive license or sub-license to enable it in turn to provide worldwide non-exclusive licenses of the essential standard patents.

It cannot be objected that the above decision by pool patent holders, to issue only pool licenses with worldwide validity results, by necessity, in certain flat-rate charges for pool licensees. At any rate, Defendants have not proven that the pool rates are unacceptable. The arrangement does not justify Defendants’ demand for a targeted license, customized to their needs. Defendants criticize along those lines that it represents an unreasonable discrimination of license seekers if ██████████ always demands the same license fee, regardless of the country in which a DVD is marketed and although the number of property rights in effect may vary in different countries. In Defendants’ opinion there ought to be a differentiation between countries with comprehensive property rights as against countries with reduced or even without patent protection. They furthermore argue that due to a lack of examination of the essentiality of standard of a property right pertaining to a pool, it cannot be accurately ascertained whether a technical method - the use of which is compelling in the employment of the standard - is indeed involved. These objections are not convincing.

First of all, the number of property rights valid in a given country should not be overrated because already a single patent can be in a position to keep an interested party away from a standard-defined market. Whether additional property rights need to be licensed for the local market, so as to market the standardized technology in the distribution area concerned, ought to play only a subordinate role to the interest of the license seeker in achieving a legal market entry.

It is also to be considered that, with the pool license, the patent holder creates an additional option (also) for the benefit of the license seeker, bringing about considerable simplifications for the patent user that go beyond the (continuing) possibility of individual licensing. After all, the license seeker can, based on the pool license, get “from one single hand” at least all those patent licenses which were brought into the pool as being essential for the use of the standard and he is, in this way, discharged from the burden of an otherwise required complex single licensing procedure. Although it holds true that [REDACTED] cannot guarantee that the pool license comprises all of the essential patents – already because of the sheer fact that participation in the pool license is voluntary for holders of essential patents – the Defendants have to recognize that the pool license provides them at least with the possibility to obtain license for as much intellectual property as possible in one single act. This represents a comfortable licensing alternative compared to the complex single licensing arrangements and reduces transaction costs.

dd)

The territorial limitation of the pool licensing contract to acts of use in Germany, as desired by Defendant 4) would, in the end, result in the need to having to grant a further (third) option for the acquisition of license which would take the place of (in scope quasi between) single licensing and the worldwide pool license, thus factually devaluing the latter; for no license seeker would see any longer an inducement to acquire the worldwide pool license in unmodified form if he could assert a claim to “break down” the original conceptually worldwide license to his distribution area and thus arrive at a tailor-made license fitting his individual requirements or intentions: If a worldwide license does appear inappropriate to him in view of his (more limited) area of distribution, he can retrench to single license arrangements for the countries of his activity. This possibility remains open to him also in the face of the option to conclude the MPEG-2 standard license contract (compare only with MPEG-2 standard licensing contract in attachments B1/B1b and KR-18/Kr-19 page 2, sixth item, respectively). The Defendant 4) has – as explained – not made use of this opportunity. The Defendant’s comportment thus is contradictory when now

demanding modification of the standard pool licensing contract which could have been realized by way of single licensing.

ee)

Insofar as Defendant 4) asserts that the Plaintiff should have to adjust its licensing offer to the requirements of the Defendant, it already gives rise to concerns as to whether a deviation from the standard pool license is at all within the authority of the Plaintiff. It could mean that the Plaintiff could force other pool patent holders to back a decision on such desired individualization. Whether this would at all be possible for the Plaintiff, however, can remain mute.

The Plaintiff and ██████████ respectively - the latter interposed for pool licensing purposes - have not refused an adaptation of the standard licensing contract to the individual requirements of Defendant 4), at least not arbitrarily, which is why Plaintiff can fall back to comprehensible and legitimate reasons by offering the pool license solely as worldwide “*one-stop license*”, with modifications thereto being denied to ██████████.

This requires on the one hand the rule of equal treatment which interdicts Plaintiff to treat different licensees in unequal manner without justifying reason. Thus, ██████████ has so far not granted comparable modifications, as those demanded by Defendant 4), to any of its pool licensees; at any rate, no such occurrence is being recited. If an exception were to be made in the case of Defendant 4), ██████████ would be exposed to reproaches by other licensees that they give Defendant 4) preferential treatment without cause. The Defendants see, in somewhat differing geographic areas of activity sufficient reason for the Plaintiff and ██████████ respectively to differentiate between licensees. A dictate to treat licensee in varying economic situations differently, however, cannot be derived on the basis of antitrust considerations, contrary to the opinion of Defendants. Plaintiff is perfectly entitled to generalize, when offering a pool license contract, if only for the reasons to prevent the danger of malpractice which could go hand in hand with a tailor-made licensing arrangement in a given distribution area. It is rightfully pointed out that DVDs are an “elusive” product, the distribution of which - in breach of contract – in other than the licensed countries does practically not encounter obstacles to speak of. A license granted in the sense of “just unequal treatment” only for certain distribution areas would entail the danger of hardly controllable abuse. On the other hand, a worldwide license facilitates to the

property rights owners and [REDACTED] resp. the control of adherence to contractual obligations by the licensees. The business that Defendant 4) engaged in - at least in the past – viz. the production of the disputed DVDs in Denmark, illustrates the apprehended problems: The Plaintiff would be expected, in case of a license limited to the German distribution area, to tolerate patent-infringing production in Denmark, i.e. to at least accept such practices retroactively. Contrary to the view expounded by the Defendants, Danish portions do exist for five of the total of twelve patents asserted before the patent chamber, as can be ascertained from attachment B1B for the [REDACTED] patent EP [REDACTED], the two [REDACTED] patents EP [REDACTED] and EP [REDACTED] as well as the [REDACTED] patents EP [REDACTED] and EP [REDACTED]. Such a territorial limitation of the pool license by Defendant 4) to Germany, under exclusion of the producing country in which protected patents also exist, cannot be reasonably expected from the Plaintiff.

ff)

Insofar as Defendant 4) assertion goes, viz. that the chamber is allowed to pass judgment only on violations of the patent under dispute in Germany and has no authority to “cross-border jurisdiction”, no conclusions are possible as to whether the appropriateness of the proposal of a license seeker also calls for the inclusion of acts of use abroad. The question of justification of antitrust objection is to be viewed solely in accordance with the reasonability of a license offer limited to Germany, without the chamber thus arrogating to decide on foreign acts of use; most particularly, no conviction of the Defendants 4) occurs for the conclusion of a license contract valid on worldwide basis.

b)

The objection of compulsory license tied to antitrust considerations (art. 82, EGV European Community Convention, §§ 19, 20 GWB Economic Value Added) on the part of Defendant s 1) did not hold up.

Plaintiff has rightly declined the concrete demand by Defendants 1) for a global license in line with the contractual terms and conditions of [REDACTED] (MPEG-2 patent portfolio license as per attachment B1, German translation in attachment KR-19), so

that the dolo-petit objection (§ 252 German Civil Code) of Defendants 1) fails and does so for lack of violating actions on the part of the Plaintiff.

Not disputed is the fact that Defendant 1) proposed to [REDACTED] with email of August 3rd, 2007 and with fax of August 13th, 2007 resp. the conclusion of a licensing agreement, by submitting the specimen of a standard license contract, with missing details filled in. In addition, the legal representatives of the Defendant reiterated with further letter of September 19th, 2007 (attachment B14) the corresponding readiness of Defendant 1. Defendant 1) thus displayed having proposed a license agreement at appropriate conditions.

aa)

The refusal on the part of the Plaintiff to accept this absolutely serious and concrete licensing proposal is nevertheless neither unlawful in the sense of antitrust laws (per art. 82 EGV, §§ 19, 20 GWB) nor does it contradict the regulations of the International Organization for Standardization (ISO - see attachments B15 and B16). The Plaintiff and the other members of the pool cannot really be expected to grant a worldwide license alone to Defendant 1) as subsidiary, whereas its parent company categorically refuses the acquisition of a license for Scandinavia. The lacking readiness of [REDACTED] to grant Defendant 1) an “isolated” standard license, as long as its parent company i.e. Defendant 1) does not also acquire a worldwide valid MPEG-2 license, is in fact based on creditable, factual grounds, justifying the refusal to accept the proposal of Defendant 1).

aaa)

It may be conceded to Defendant 1) - and deviating from what the Plaintiff implies in its letter of September 10th, 2007 (attachment B13) - that the signing of a licensing contract would not necessarily entail, for the Plaintiff and the other pool members, the mandatory commitment to forgo legal action against Defendant 4) for reasons of possible further violations of property rights belonging to the standard pool. Nonetheless the pool members do not have to get involved in only granting a standard license to a subsidiary of the [REDACTED] Group, established in Germany, whereas the parent company in particular – and at least within the Scandinavian area – continues to distribute corresponding DVDs.

In this connection it needs to be stated first of all that five of the twelve property rights asserted also have validity in Denmark, as deliberated in parallel procedures in den patent litigation chamber of the district court Düsseldorf on August 19th, 2008. With this background in mind, therefore, a commendable interest of the Plaintiff and the other pool members in a worldwide standard license acquisition also by Defendant 4) is not to be lightly dismissed (compare comments to Defendants 4 under IV.2 a/ee, where the Danish patents are individually listed).

As far as Defendants' assertion goes, that the corresponding property rights are not legally valid in Scandinavia and that, therefore, Defendant 4) does not violate property rights in Scandinavia, such objection remains without factual substance. In terms of legal validity of these property rights, the Defendants have not outlined the concrete reasons which might confirm such assertion. For a major part of the property rights concerned, the chamber and the parallel chamber resp. arrived, upon close scrutiny, at the conclusion in the █████ proceedings in 2006 – known to the parties - that a destruction or stay of the property rights within the territory of the Federal Republic of Germany was not up for consideration for lack of preponderant probability.

The chamber is furthermore not in a position to re-enact to what extent, in respect of distribution activities of the Defendant 4) in Scandinavia, a (literal) violation of patents should be considered to be absent. But, since European patents are involved in each case, the Scandinavian courts are also bound to observe the relevant principles of interpretation of the European Patent Convention. In view of the above statements on the question of patent violations, it is not discernible for what reasons the Scandinavian courts should thus far arrive at a result which differs from that of the (German) chamber. A stay of action, until the sentential decision to the claims against Defendant 4) in Denmark, for violation of patents has been reached is therefore not up for consideration.

To be added to this is that Defendant 4) supplied Defendant 1) – active in the German market - at least in the past and undisputedly – with DVDs produced by Defendant 4). The argument of Defendants that the members of the pool did not lose any license fees in the end, considering the overall payments of the █████ Group, fails to persuade: Such view leaves the fact unconsidered that Defendant 4) - by own

admission - distributes DVD's in Scandinavia without interposing one of its subsidiaries.

bbb)

██████████ rightly denied the granting of an isolated standard license to Defendant 1) also with the reasoning that the ██████████ Group, in view of patent infringements of the past, owes ██████████ license fees to a considerable extent, whereas Defendant 1) seems only prepared to settle license fee demands arising from its own acts of use in Germany (see cipher 3.2.2. of the standard contract).

It can remain unanswered whether the pleading by the Plaintiff applies that the ██████████ Group owes the MPEG-2 licensing pool license fees to the tune of six million US\$ overall for the production and the distribution of roughly 200 million DVDs with MPEG-2 video content. Independent of the accuracy of these numbers, it is in any event established that Defendant 4) manufactured and distributed (DVDs) in Scandinavia to a considerable extent. Defendant 4) furthermore distributed also DVD's with MPEG=2 video content in Germany, at least to a lesser extent. As far as the arguments of the Defendants are concerned that Defendant 4) did not infringe on any patents in Scandinavia, we beg to refer to the relevant information under aaa).

The granting of a standard license agreement is plainly unacceptable to the Plaintiff and the further pool members - less so merely to a subsidiary of a group of companies – without a settlement being foreseen within a licensing contract as to how and when license fees for past patent infringements are to be retroactively paid up. Otherwise the property rights owners would run the danger that other (potential) licensees could be animated to equally take avail of the technical method without acquisition of license and only be ready to accept future licensing after discovery of the acts of use. Just such danger is realized in view of the license readiness as concretely expressed by Defendant 1) and 4): Whereas Defendant 1) would like to pay only the license fees created by its own entity, Defendant 4) intends to conclude a standard licensing agreement only for the territory of the Federal Republic of Germany and thus refuses at the same time to settle the license fees accrued in the past, in line with cipher 3.3.2 of the standard agreement.

The Plaintiff is not prepared to be satisfied with a mere redemption of the old liabilities arising from the entity of Defendant 1). Without the need for further comment in this individual case as to whether – as Plaintiff contends – Defendants followed a planned strategy and policy of license avoidance, the danger is objectively present that, in case of the acceptance of an obligation for isolated license grants to an individual subsidiary, corporate groups would tend to be inclined to circumvent obligations to pay for license fees for past acts of use by establishing new subsidiaries. The interest of pool members, to effectively prevent such acts of evasion or avoidance and to grant individual subsidiaries a standard license only if a parent company - active in the same business field - concludes a corresponding standard licensing agreement, cannot be repudiated with the argument that no assumption should be made about future development contrary to contract. Past patent infringements of several companies of the group justify the intention of the property rights owners to achieve a cumulative arrangement for license agreements with all companies of the group that are active in the corresponding business field and to reach retroactive payment commitments for licenses triggered by use of patents by group companies. This request is justified not least because of the principle of adherence to equal treatment of all licensees; law-abiding licensees would be put at a considerably disadvantage if one would allow their competitors – economically strengthened by “savings” in past unpaid license fees – to undercut prices, thereby distorting market conditions.

ccc)

Concerning the statement of Defendant 1) not to be in a position to influence conditions at which the parent company - i.e. Defendant 4) – would be prepared to acquire a license, it too does not establish the reproach against Plaintiff of non-objective refusal of license. Not disputed is that Defendant 1) is a 100% subsidiary of Defendant 4). It is of no consequence, in this connection, that no contract of domination exists between Defendants 1) and 4), another non-disputed fact, and that Defendant 1) is legally a fully independent company. Important for the question of appropriateness of isolated granting of a worldwide MPEG-2 standard license is the

circumstance that Defendant 4) as sole shareholder of Defendant 1) can exert influence on the latter, by hiring/firing the business manager (§ 46, item 5, GmbHG = Limited Liability Company Law). Furthermore, the Defendant 4) profits from the economic results of Defendant 1) in that it can dispose of the annual surplus of its subsidiary, plus any possible retained earnings (§ 29, item 1, GmbHG).

Also to be taken into consideration is the fact that the Plaintiff itself and the [REDACTED] respectively do not have a legal hold to sway Defendant 4) into signing a reasonable licensing agreement. On Defendant 1) has, on the other hand, at least the possibility to remind Defendant 4) of its existing duties under group law.

ddd)

Contrary to the view of the Defendant, Plaintiff cannot reasonably be expected to agree to the isolated granting of a worldwide standard license to Defendant 1) in addition to a standard license limited to Germany for Defendant 4), not even under the perspective of a “partial settlement for the future”. It could be that this would ensure that acts of use in Germany would license-wise be accounted for in the future. However, the danger would persist for the Plaintiff and [REDACTED] resp. not to get any license fees from the [REDACTED] Group for the acts of use that occurred to a sizable extent in the past. Such request could not be considered to be adequate between reasonably thinking parties of a licensing agreement.

bb)

Defendant 1) contended - without success - discrimination in the sense that the separate granting of license to an individual subsidiary of a group of companies is allegedly in line with the licensing policies of the Plaintiff within the framework of MPEG-2 standard license grants. Plaintiff has pointed out, in this connection, that separate licenses were granted only in such cases where individual group companies were not active in the relevant field of business. In terms of Defendant 1) referring to attachments B19, B19a, B32 and B33 with concrete examples relative to other groups, the pleading of Defendant 1) does, however, not provide any ascertainment or evidence that, in those cases, the parent companies produced and/or distributed DVD's in the first place. In the case of [REDACTED], the Defendants themselves mention specifically that its parent company ([REDACTED]) was not granted a license

because its own business activity does not call for one. The same holds true for [REDACTED] and its parent company. In the case under review, however, an unobjective and unequal treatment is to be negated because the business objective of Defendant 4) is the distribution of DVDs, undisputedly at least in Scandinavia.

As far as Defendant 1) points out that individual companies of the [REDACTED] Group had been allowed to sign separate standard license agreements, he has – in spite of the pleading of the Plaintiff, according to which no single [REDACTED] company has a license – failed to provide evidence to such contrary allegation although the burden of proof for the actual precondition of unequal treatment is incumbent on the party making the allegation. A reference to the existing division of the burden of proof has not been necessary as the Defendants and/or their attorneys of record are obviously aware of the decision "*Video-signal-Codierung I*"; which states that the burden of proof of unequal treatment rests on the Defendant, who argues a violation of the ban on discrimination (LG Düsseldorf, InstGe 7, 70, 105, Rn. 125).

c)

Defendants finally turn, without success, against the MPEG-2 standard licence agreement as offered by the Plaintiff and [REDACTED] respectively. This contract cannot be found fault with neither under the aspect of appropriateness nor under the aspect of discrimination (art. 82 EGV, § 18, items 1 and 4, § 20, item 1 GWB).

aa)

That differing numbers of patents are in effect through necessity in countries encompassed by the worldwide license cannot put the appropriateness of the pool license into question. The Defendants have to accept the generalization connected therewith since they would have found it difficult to accentuate the desired differentiation by means of individual license acquisition. If, however, they desire to profit from the advantages of a pool license, they also have to bear the disadvantages of the generalization coming with it. For more details reference is made to the comments to Defendant 4) under IV.2 a) cc).

bb)

The Defendants unjustly find fault with the MPEG-2 standard licensing agreement providing for a piece license instead of a volume-dependent license. They criticize that the price deterioration in the DVD market in recent times is not taken sufficiently into account by staggering the absolute license amounts, as foreseen in the standard licensing contract; the percentages increase disproportionately in relation to the purchase price. A piece license is considered inappropriate by Defendants at any rate when its portion of the product cost becomes so large that the licensee can no longer afford production. This is the case now and here.

The chamber finds it difficult to follow this argumentation. It is not recognizable why, in an upstream market, the licensing of patented technology requires the compelling agreement of a license fee pegged to the percentage of the net sales result which licensees achieve in the downstream market with their products based on licensed technology. First of all it cannot, already in advance, be considered the expression of misuse of the dominant market position of the Plaintiff that a standard licensing contract only foresees a license (fee) per piece and not a turnover-related production and distribution license. As the chamber knows from a multitude of cases, both piece-related and turnover-related production and distribution licenses are common practices in equal measure. When agreeing to a turnover license, the license fee revenue is, aside from the number of pieces sold, also linked to the development of sales prices of the licensed object; such sales price can increase or drop, whereas the license fee revenue with a piece license depends solely on production and/or distribution numbers without dependence on development of sales prices. The piece license corresponds to the legitimate interest of the licensor to detach the extent of the license fee from the concrete pricing of the licensee over which the licensor does not have any direct influence. The licensor would risk, in a turnover license fee agreement, to no longer be reasonably compensated for his invention if the license fee, calculated as a percentage of turnover, suffers a sustained decrease in case of price deterioration. This would not be acceptable because each licensor – even the market-dominating one – has a right to license fees which duly take into account his investments and his innovative performance. A licensing fee arrangement that, by agreement to a piece license, serves this legitimate right is not to be objected to

under antitrust considerations. Furthermore, a piece license fee tends to assure the equal treatment of all licensees under the antitrust aspects, because a fixed piece license represents the same price-forming cost factor for all competitors. A turnover license, on the other hand, would lead to a license fee being reduced in proportion to reduced sales prices, would favour top-selling licensees and lead to a price fight to the detriment of smaller licensees.

The proposition of a piece license in a market with basically decreasing prices cannot, therefore, be considered inappropriate from the outset and therefore an abuse of the dominating position of the property rights owners.

cc)

The deciding factor is rather whether the piece license, because of a market-related price deterioration, reaches too high a proportion of cost of goods which in turn might make it impossible for licensee to continue production within economic feasibility, so that a given piece license can no longer be considered to be appropriate. Only if such a condition came about would a licensor, interested in the licensing of property rights, reduce the license fee to an appropriate level because he would otherwise have to risk that licensee might give up production and distribution altogether.

This cannot (yet at this point) be assumed against the background of the circumstances set forth by Defendants. It is not in dispute between the parties that the licensing rate according to the MPEG-2 Standard License Agreement is currently USD 0.026 per MPEG-2 DVD (since 01 January 2008) and will gradually continue to fall until 2011 to ultimately USD 0.020 per unit. At the same time - so Defendants, in making reference to the statistical information of the market research institute [REDACTED], contained in Appendix B22 - the average ex factory sale price for a DVD 5 is said to have fallen from USD 2.65 in 1997 to USD 0.42 in 2006, which is said to correspond to a price decline of 84%. Owing to this substantial decline in the sales price of DVDs, Defendants argue that that in the meantime they would only be able to obtain a price of EUR 0.20 for a DVD 5 on the market, so that just the license fee demanded by [REDACTED] would already account for approximately 15% of sales revenues. In addition, there are said to be other licensing burdens Defendant must allegedly assume for the manufacture of DVDs: the amounts due are

said to be USD 0.0375 for a 4C Pool license, USD 0.045 for a 6C Pool license, [USD] 0.003 for an AC3 license, and USD 0.015 for a [REDACTED] license, which would result in the following potential total royalty burden:

[REDACTED]	[REDACTED]

Therefore, (as was explicitly argued in the answer to the Complaint for DVD 5s) in relation to a price of EUR 0.20 and at an USD/EUR exchange rate of USD 1.50 = EUR 1.00 this results in a full licensing burden percentage of 40 %. To the extent that Defendants make reference to a proportion of 45%, this is (mathematically accurately) based on the MPEG license fee rate of USD 0.028 applicable in 2007 and on a resulting total argued burden of USD 0.1285. Plaintiff countered this proportion in its Counterplea with the argument that in their calculation, Defendants wrongfully concentrated on the ex-factory price of what are commonly referred to as covermounts, which can, it was argued, be distinctly below that of other ex-factory prices for DVD 5s and DVD 9s, in comparison to which, however, covermounts represent only a minuscule share of the market. Covermounts are DVDs that are distributed e.g. as free magazine inserts or other advertising carriers for consumer goods, and they are also subject of the invoices submitted in set of exhibits B7. Plaintiff asserts that covermounts are only exceptionally used for the storage of MPEG-2 encoded data and that if nothing else for this very reason they could not be used for the determination of the full licensing burden.

Conversely, in their rejoinder Defendants asserted that nowadays covermounts do, as a rule, contain MPEG-2 capable contents, which has also been the case as concerns the DVD's distributed by Defendant 1) according to Exhibit B7. The point of reference for the calculation of a license proportion of 45% (i.e. of an DVD ex-factory price of EUR 0.20) was - against the plaintiff's arguments - said not to be the price of covermounts, "but the sales volume". What Defendants are intending to emphasize

with this argumentation is not comprehensible. The statistical calculation of [REDACTED], submitted by Defendants themselves as Exhibit B22, and to which they explicitly make reference in regard to the decline in ex-factory prices, only takes into account the ex-factory prices for DVD 5s and DVD 9s; for the former, Defendants indicate a total licensing percentage burden of 28%, and for the latter, of 19%. Against this background, the argument proffered by Defendants in their rejoinder, namely that the basis for the calculation of the licensing proportion of 45% had been "sales turnover" (in respect to what?!) is not conclusive. The fact that they cannot mean the sales volume in relation to all types of DVDs already results from the comparative calculation they themselves indicate in the rejoinder, according to which, at a unit price of EUR 0.20 for covermounts, a total licensing percentage burden (at an absolute value of USD 0.1285) of 41% would result. If, according to Defendants' own argument, a license fee proportion of 41% corresponds to covermounts, which are said to contribute to a *falling* average price of DVDs, then the proportion for the average of *all* DVDs (including non-covermounts) cannot be higher, i.e. of 45%. The argument of Defendant as to an upwardly variant – in regard to the calculations in Exhibit B22 – proportion of the licensing burden (28% for DVD 5s, 19% for DVD 9s) can therefore not be intellectually followed, and an unreasonably high total licensing burden has not been conclusively demonstrated. It corresponds to the uncontested argument made by Plaintiff that the information contained in Exhibit B22 and entitled "Percentage Represented By Royalty" (28% and 19%) represents the entire licensing burden resulting from all Pools addressed by Defendant. In the absence of a conclusive argument as to a higher percentage licensing burden it must therefore be assumed that it is of 28% (DVD 5s) and/or 19% (DVD 9s). On average, this results, taking into account the distribution between DVD 5s (44% market share) and DVD 9s (54% market share), in that the average value of the percentage license burden is distinctly under 25%.

A royalty proportion at this level may *prima facie* appear high, in particular against the background that the license-bound DVDs are mass produced products for which in general only low licensing rates are agreed upon because as a result [of the mass distribution] the patent owner obtains sufficient royalties via the considerable unit numbers and sales figures realized by its licensee. It must however be borne in mind that the licensing proportion does not remunerate just one invention but, rather, covers multiple patents of different owners. Merely as far as the MPEG-2 Standard is concerned, more than 800 patents belonging to 134 patent families are involved. To this must be added the patents (unknown in number), managed by the other Pools and by [REDACTED] (AC3). Each of the patent owners participating in one of the technology

pools at issue is, for each of the inventions contributed to the Pool and utilized, entitled to compensation that will not only amortize its development costs, but which will furthermore also provide it with an appropriate reward for its innovation performance. The notion that in view of these measuring factors to be applied in favor of the patent owners the per unit license fee demanded would, at least in the meantime, have become unreasonable is not reflected in the argumentation presented by Defendant.

The expert evidence lined up in the rejoinder on the part of Defendants “as proof of the ramifications of covermounts on the present market price and existing sales price of DVD’s” could not be pursued for lack of suitably linked statements of facts by the Defendants. Without overriding averment of the actual present (even if only an average) DVD factory sales price, obtaining an expertise would be tantamount to unacceptably fishing for evidence.

Therefore, the argumentation presented by Defendant does not provide any basis for assuming that the royalties from achievable sales can no longer be met while preserving a sufficient profit margin – and in this context it must be taken into account that what is determining is not the individual situation of the Defendants but rather how manufacturing costs are *generally* structured at pressing facilities, always assuming that possible and reasonable savings potentials are taken full advantage of. Only by means of a contemplation concentrating on averages can it be ensured that the accusation of exploitation abuse is not in an unwarranted manner linked to the special business operation conditions of an individual competitor, but to the production and sales conditions that are typical for the dominated market. With their contention subject to proof that the covermounts market segment has a – not more closely specified – effect on the current market price and the sales price at the time, Defendants have not convincingly demonstrated that the prices that can be obtained have declined to such an extent that Defendants can no longer be expected to manufacture and sell DVDs with video contents under economic considerations because the unit license fee demanded in the MPEG-2 License Pool Agreement is unreasonably high. After all, the fact that a great majority of DVD pressing facilities with a market share of almost 100% has taken out the Pool license and is able to survive in the market also proves that successful participation in market competition is apparently not placed into question as a result of the required licenses.

dd)

Defendants unsuccessfully criticize that the MPEG-2 Standard License Agreement were unreasonable because it allegedly does not make sufficient distinction among different technologies. The MPEG-2-Standard Standard is said also to comprise different *real time* and *live* broadcasts with steps that are not required for DVDs, but which by means of a pool license are also licensed although useless.

It is not correct that the MPEG-2 Portfolio License Agreement does not appropriately take special needs into account. They are taken into consideration by the fact that different license fees are due for different products. Thus Article 2 differentiates among different products, out of which Article 2.4 "MPEG-2 Packaged medium" is of relevance for DVD manufacturers. According to Article 1.21 this is understood to mean storage media such as e.g. magnetic tape, magnetic discs or optical discs, on which one or more MPEG-2 video events are stored. Article 3.1 separately sets the license fees for each product; for an "MPEG-2 Packaged medium" within the meaning of Article 2.4 this takes place in Articles 3.1.6 to 3.1.8 (as well as in Article 3.1.9 in the version containing the addendum to Item 2. for the period since January 1, 2007). The different technologies likewise comprised in the MPEG-2 Standard are sufficiently taken into consideration by means of this very differentiation among different products for which specific licensing fees are due.

No farther reaching differentiation is necessary in regard to such patents, which a DVD manufacturer and seller working only in Europe may under certain circumstances not even need to use, but for which it is nonetheless simultaneously granted a license. To this extent, too, it is also not demonstrated that necessary flat fee structures resulting from the composition of a worldwide licensable patent portfolios would not be reasonable for a license applicant. The same applies to a differentiation that may be conceivable as a point of departure but which need not necessarily be performed, i.e. among different acts of utilization such as the sale or use of DVDs. Nor is a farther reaching differentiation between DVD 5s and DVD 9s as different types of prerecorded DVDs necessary from the point of view of antitrust legislation. In fact, Defendants have not demonstrated that there are different markets for both types that would either justify or even require such differentiation.

ee)

To the extent that Defendants feel that there is a lack of a capping or upper limit in the MPEG-2 Standard License Agreement for the potential total liability of the licensees in regard to all essential patents, this is, at least in the present case, unable to lead to

unreasonableness of the proposed Standard licensing conditions. According to precedent set by the 4a. Division in the case of a patent essential for the GSM/GPRS Standard (decision of February 13, 2007, Case No. 4a O 124/05, “██████████”) there are grounds for doubts concerning the reasonableness of a licensing offer when it does not provide for an upper limit for the potential total claim on the licensee exercised in regard to such patents that are, as essential patents, subject to the GSM/GPRS Standard, in order thus to ensure that the total burden resulting from the payment of license fees for the use of standard essential patents will not exceed a reasonable dimension under free market conditions. To transfer this precedent to the present case without further analysis would involve a disregard of the specificities of both cases. In the cited decision, the Complaint was based on a patent essential to the GSM Standard for which users could acquire a right of use exclusively by way of individual licensing. The option of a “GSM Pool license” was not offered – because there was and is no such pool license in that case. Thus the user saw itself forced to obtain an authorization for use by way of an individual license from all owners of standard essential patents and as a result incurred the special risk, already based in the lack of a patent pool, to see itself exposed, by the cumulation of individual licenses, to a total licensing burden that would render use of the Standards economically impossible. In order effectively to counter this risk ab initio a capping limit for the maximum permissible total license burden is fundamentally required.

However, the above described risk does not apply in the same way in the present case: In the form of the MPEG-2 Pool license, Defendants have the choice to obtain a license in at any rate a majority of all MPEG-2 Standard essential patents on a “one stop shopping” basis. They are, ab initio, not forced into the cumbersome option of individual licensing. For, although ██████████ itself is unable to guarantee that the Standard License comprises every essential patent because Pool participation is voluntary for the individual patent owners, license applicants are in any event provided with the option to be able to utilize the majority of the Standard essential patents against payment of a package license, which decisively reduces the risk of a total licensing burden that would be unreasonable in its amount. This justifies not to require the provision of inclusion of a capping limit in the (Pool) license agreement from an antitrust law point of view when the license applicant is given the option of a pool license in addition to that of individual licensing arrangements.

To the extent that Defendants finally point out that in addition to the MPEG-2 Patent Pool at least another four patent pools allegedly also offer “standard essential patents” (as stated in the rejoinder) or at least patents necessary for the manufacture of DVDs (according to their argument in the answer to the Complaint), this cannot – as referred to the circumstances to be judged in the present case – justify the need for an upper limit for a maximum royalty burden already in each individual pool license agreement. For even if the license fees of all patent pools cited by said Defendants were to be cumulated, the total amount still does not reach the limit of economic reasonableness. To this extent, reference is made to the discussion above under IV. 2. c) cc), in which it was already demonstrated that and why the present total license burden percentage of the Defendants is not yet unreasonable from the point of view of antitrust legislation. The issue of unreasonable disadvantage endured by the absence of a contractual capping limit is therefore not present, or at least in any event not at the present time.

ff)

Nor have the Defendants proven an antitrust law violation on the basis of discrimination. Discrimination can be considered to exist in particular when access to a downstream market is made dependent on compliance with the teaching of a patent on the basis of a standard or standard-like framework condition and the patent owner takes advantage of this circumstance in order to limit market entry according to criteria that are contrary to the goals of the GWB in respect to the guarantee of the freedom of competition (BGH, GRUR 2004, 966 - *Standard-Spundfass*). If the patent owner wishes to treat parties interested in obtaining licenses differently by either entirely excluding some of them from licensing or offering them licenses at conditions that are worse than those offered to other licensees, it must be able to provide objective grounds for doing so, and the bar must be set relatively high for such justification. Whether such unequal treatment is objectively justified depends on whether the relative “worse treatment” of the affected enterprise appears to be a competition compliant equalization of interests defined by the specific offer in each individual case, or whether it is based on arbitrary and/or economically/entrepreneurially unsound actions (BGH, GRUR 2004, 966, 969 - *Standard-Spundfass*). The burden of proof of unequal treatment rests on the Defendant, who argues a violation of the ban on discrimination; objective grounds for unequal treatment on the other hand must be provided by the market dominant patent owner.

Defendants did not conclusively present the prerequisites of discrimination on the part of Plaintiff. They conjectured that [REDACTED] and the members of the 4C and 6C pools had agreed among themselves to license-free cross-licensing and as a consequence were freed from having to pay fees for pool licenses going beyond the MPEG-2 license. Furthermore one had to depart from the premise that holders of patents contained in the MPEG-2 pool had granted each other gratuitous licenses in spite of differing contributions to the MPEG-2 standard. As the Defendant did not - even in the rejoinder - present any facts to support the accusation going beyond the plain allegation and which possibly could have helped a gathering of evidence, the simple contest by the Plaintiff was sufficient to leave the Defendant with the burden of proof.

An order of submission pursuant to §§142, 144 ZPO (Civil Process Order), possible ex officio and requested or suggested by Defendant, according to which Plaintiff would be ordered to disclose its contracts with [REDACTED] and other holders of patents as licensed by [REDACTED] did not come into consideration in view of the given circumstances. It would amount to an inadmissible exploration after Defendant failed to at least rudimentarily present the case on the basis of what sustainable findings they arrived at the assumption that pool members had interchanged gratuitous licenses. The burden of demonstration and the burden of proof that Presswerke are getting equal treatment from [REDACTED] is not Plaintiff's; it would conversely have been rather a matter for the Defendants to demonstrate unequal treatment in at least one case. Mere suspicions are not sufficient, only incriminating facts that point to at least the probability of non-payment of license fees. Defendants did not disclose such circumstances.

In addition, Defendants did not present the assumed value of the alleged exchange licenses, for which reason the chamber is unable to examine whether the assumed value might have been assessed too high, as the case may be (compare with OLG Higher Regional Court Karlsruhe, in: GRUR-RR 2007, 177, 179 – *Orange Book – Standard*).

V.

Based on the use of the patent under dispute the following legal consequences can be summarized.

1.

The Plaintiff is entitled to injunctive relief from Defendants to an adjudicated extent, pursuant to art. 64, item 1 EPC §§ 139, item 1, 10 PatG (Patent Act). By distributing the affected embodiment, Defendants have indirectly infringed on the patent under dispute at least in negligent fashion, so that pursuant to art. 64, item 1 EPC, §§ 139 item 2, 10 PatG, they are bound to pay damages to the extent as evident from the tenor. Inasmuch as the actual amount of damages has not yet been assessed, a justified interest of the Plaintiff is to be recognized in having the Defendant's liability for damages first of all determined and admitted on its merit (§ 256, cl. 1 Civil Process Order). Defendants shall provide information and present an accounting of their infringement activities to the admitted extent (art. 64, item 1 EPC, § 140b Patent Act, §§ 242, 259 Civil Code), and this shall include presentation of order confirmations in the form of purchase orders and billing invoices (cp. Benkard/Rogge/Grabinski, I.c., § 139 Patent Act Rn. 89a, § 140b Patent Act Rn. 8). The validated claims for destruction follow - as far as direct infringement actions exist, thus, in this case with reference to the tenor described in I. 1. lit. a) - from Art. 64, item 1 EPC, § 140a Patent Act.

2.

The partial disallowance with regard to the Defendant 2) and 3) is based on the following legal deliberations:

The Defendants 2) and 3) have to personally answer for the patent infringements of Defendant 1) from the time of their appointments as business managers of Defendant 1), in other words, for Defendant 2) from March 14th, 2005 and for Defendant 3) as of September 20th, 2005, as - by virtue of their position in the company – they were held accountable for upholding the rights of third parties and to determine the actions of Defendant 1) in the course of business. For patent infringements prior to their appointment, Defendants 2) and 3) are not liable for the actions of Defendant 1), as they lacked the corresponding responsibility; thus, this part of the action is unfounded.

The liability of Defendant 3) from the time of his appointment as business manager does not come to nought because he was undisputedly, and in line with internal allocation of tasks of the management of Defendant 1), solely responsible for finance and controlling. In the case of the appointment of several business managers with

differing areas of authority, supplementing one another, only the business manager in whose area the patent-infringing act falls, is liable (Kühnen/Geschke: The Implementation of Patents in Practice, 3rd edition, Rn 355). However, in the present case it is to be observed that the powers of representation of the Defendant 1) in terms of external representation were/are regulated in such a way (compare commercial registry records as per attachment B26, filing date 04.24.2001, under "business manager") that in case of the appointment of several managers, the company is either represented by two managers or by a manager and a company officer with statutory authority ('Prokurist' in German). Undisputed for the entire term in office of Defendant 3) Defendant 2) had equally been appointed as business manager, so that the latter was only authorized to act jointly on behalf of the company either with Defendant 2) or with a company officer with statutory authority. The presence of an authorized officer (Prokurist) at the same time, however, is neither displayed nor otherwise evident. The decision to distribute DVDs with MPEG-2 video content was, therefore, also the (joint) responsibility of the Defendant 3) in external relations i.e. relations to third parties.

The Defendant 3) makes the argument that he would not be able to fulfill requirements of information on damages and accounts, as he no longer has any access to the books of the company of Defendant 1); this objection is legally irrelevant. In case of need Defendant 3) would on his part have to call upon Defendant 1) for information, and this based on an obligation to co-operate by Defendant 1). See § 242 GermanCivilCode.

The prayer of petitioner, however, is unfounded insofar as Plaintiff calls on Defendant 3) for the time after May 31, 2007 for damages as well as disclosure information and rendering of accounts. As can be gleaned from attachment B 9 in terms of declaration vis-à-vis Defendant 4) the Defendant 3) effectively terminated his position in the entity of Defendant 1). Without dispute Defendant 4) is member of the shareholder meeting of Defendant 1) so that the resignation could be presented at such meeting, inasmuch as the partner circle was and is very limited (see BGH Federal Court of Justice and NJW New Legal Weekly Paper 1993, 1198, 1199). For the time after May 31, 2007 i.e. after termination of the activity as manager, at best an injunctive relief still applies against Defendant 3). If a business manager is terminated, it does not eliminate the injunctive relief against him, because the danger of recurrence, resulting from already committed violations, is not omitted (compare BGH, GRUR 1976, 579, 582 f. – *Tylosin*). Contrary conditions do not apply particularly by the circumstance that

Defendant 3) - by his own statement - is now only engaged in activities outside the particular sector of industry of this action. However, it is not inconceivable that Defendant 3) could be reappointed manager of Defendant 1) at any time.

It is not evident that Defendant 3) still has ownership or possession of DVDs of Defendant 1), so that no destruction claim can exist against Defendant 3) as per § 140a Patent Law.

VI.

The objection of limitation of time on the part of the Defendants is unsuccessful. Any pleading by the Defendants is lacking to the effect that Plaintiff was aware of the circumstances leading to the claim and the person of the debtor by 12.31.2006, or should have been in a position to acquire such awareness except for gross negligence (§ 141 sentence 1, Patent Act in combination with §§ 195, 199, item 1, # 2 German Civil Code).

VII.

The cost decision results from §§ 92, item 2, # 1, 100 item 1 of the ZPO Civil Process Order.

The decision to the tentative enforceability is founded in §§ 709, sentence 1; 108 Civil Process Order.

The demand for stay of execution by Defendants was not taken into consideration, as neither the preconditions for the requested stay of execution were fulfilled (per §712 of the Civil Process Order) nor was it credibly shown in the manner as prescribed by law (§ 714, item 2, Civil Process Order).

The amount in dispute has been fixed to EUR 250.000,00.

The assessment of the amount in dispute takes into consider the distribution numbers of Defendant 1) as gleaned from attachment B11 and which amount to approximately 1,000,000 DVDS per year plus the negligible quantities distributed by Defendant 4) in Germany as well as the potential remaining life of the patent under review.

