



DÜSSELDORF DISTRICT COURT

IN THE NAME OF THE PEOPLE

DECISION

4b O 508/05

Pronounced on 30.11.2006

[REDACTED]
as Clerk
of the Court

In the action

[REDACTED]

Plaintiff,

- represented in these proceedings by:

[REDACTED]

v.

1.

[REDACTED],

2.

[REDACTED],

3. [REDACTED]

Defendant,

- represented in these proceedings by: [REDACTED]
[REDACTED]

Chamber 4b. of the Düsseldorf District Court with respect to the oral hearing of 31 October 2006 by the presiding judge of the District Court [REDACTED], the judge of the District Court [REDACTED] and the judge of the District Court [REDACTED] hands down the following

DECISION:

I. The Defendants are ordered to cease and desist from

1.

offering, distributing or using in the Federal Republic of Germany, DLT tapes, DVD-Rs and/or masters containing encoded image data [resulting] from an encoding method for the encoding of a digital video signal comprising multiple pictures, or importing or being in possession of such DLT tapes, DVD-Rs and/or masters for such purposes,

2. using in the Federal Republic of Germany stampers with image data encoded by a means of a method of encoding digital video signals consisting of multiple images or having such stampers in their possession for such purposes,

to the extent that such encoding method consists of the following steps:

- Reordering of the multiple pictures;
- Encoding of the multiple reordered pictures as intraframe-encoded pictures or interframe-encoded pictures to generate accordingly encoded data; and

- Attaching time information to a picture data header of the encoded data, identifying the input order of the multiple pictures,
 - Where the frame is subdivided into frame groups, and each group contains a minimum of one intraframe-encoded frame with the frames reordered according to the respective encoding method so that the intraframe-encoded frame or the first intraframe-encoded frame of a subsequent group precedes the interframe-encoded frame of the current group after reordering.
- II. For each violation of the above order to cease and desist with respect to the above prohibitory rights, the Defendants shall be subject to a maximum fine of € 250,000 - or a prison sentence – or imprisonment of up to six months and, in the event of repeated violation, of up to two years in total. Any prison sentence relating to the Defendant as to 1) shall be applied to its legal representatives.
- III. The Defendants are also hereby ordered to report to the Plaintiff the extent to which they (the Defendants), with respect to
1. those types of DLT tapes, DVD-Rs and/or masters pursuant to 1.1
 - a) have used or been in the possession of or imported such items for the purpose of using them since 22.09.2001,
 - b) have distributed such items since 31.12.2001,
 2. stampers of the type pursuant to I.2, which were, since 22.09.2001, used or possessed for the purposes of using,

with details of

- aa) The number of the products received or ordered and the names and addresses of the producers, suppliers and other previous owners,
- bb) For each consignment, classified by numbers delivered, date of delivery and supply prices including the type designations and the names and addresses of consignees,
- cc) 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,
- dd) Any advertising, classified by publisher of the advertisement, the volume of the publication, the period of advertising and the area covered by the advertisement,
- ee) Production/setup costs and profits earned classified by separate cost factors.

where

- Only the information contained in aa), dd) and ee) is required for 1.a) and 2,
- 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.

- IV. The Defendants are hereby ordered to pay all damages of the Plaintiff which were caused or will be caused by those actions pursuant to III.
- V. The Defendants are hereby ordered to destroy any of the products described in I, above, which are in their direct or indirect possession or to which they have title.
- VI. Further complaints are hereby dismissed.
- VII. 5% of court costs shall be borne by the Plaintiff and 95% by the Defendants.
- VIII. These orders are provisionally enforceable, with however, bonds of € 1,500,000 to be posted by the Plaintiff and € 4,000 by the Defendants.
- IX. The value of the claim is determined as € 2,500,000.00.

Statement of Facts:

By virtue of Japanese Union Priority of 14.10.1989, the Plaintiff is the registered holder of European Patent [REDACTED] registered on 11.10.1990 (the "Patent at Issue"), the granting of which was published on 22.08.2001. The Federal Republic of Germany has been named as one of the signatory states.

The Patent at Issue, which was granted in the English language, is designated "Method and Apparatus for Encoding/Decoding a Video Signal". A German translation of Patent Claim 1, which is the only Claim relevant to this action, reads as follows:

"Encoding technique for encoding of a digital video signal comprising multiple pictures, involving the following steps:

- *Reordering of several pictures;*
- *Encoding of the multiple resorted pictures as intraframe-encoded pictures or interframe-encoded pictures to generate accordingly encoded data; and*
- *Attaching time information to a picture data header of the encoded data, identifying the input order of the multiple pictures,*
- *Where the frame is subdivided into frame groups, and each group contains a minimum of one intraframe-encoded frame with the frames reordered according to the respective encoding method so that the intraframe-encoded frame or the first intraframe-encoded frame of a subsequent group precedes the interframe-encoded frame of the current group after reordering".*

The following Figures (Figures 1 and 5 of the Patent specification at issue) illustrate the subject of the invention by means of a preferred embodiment, wherein in Figure 5 line

(D) reproduces the picture sequence before, and line (E) reproduces the picture sequence after the reordering step.

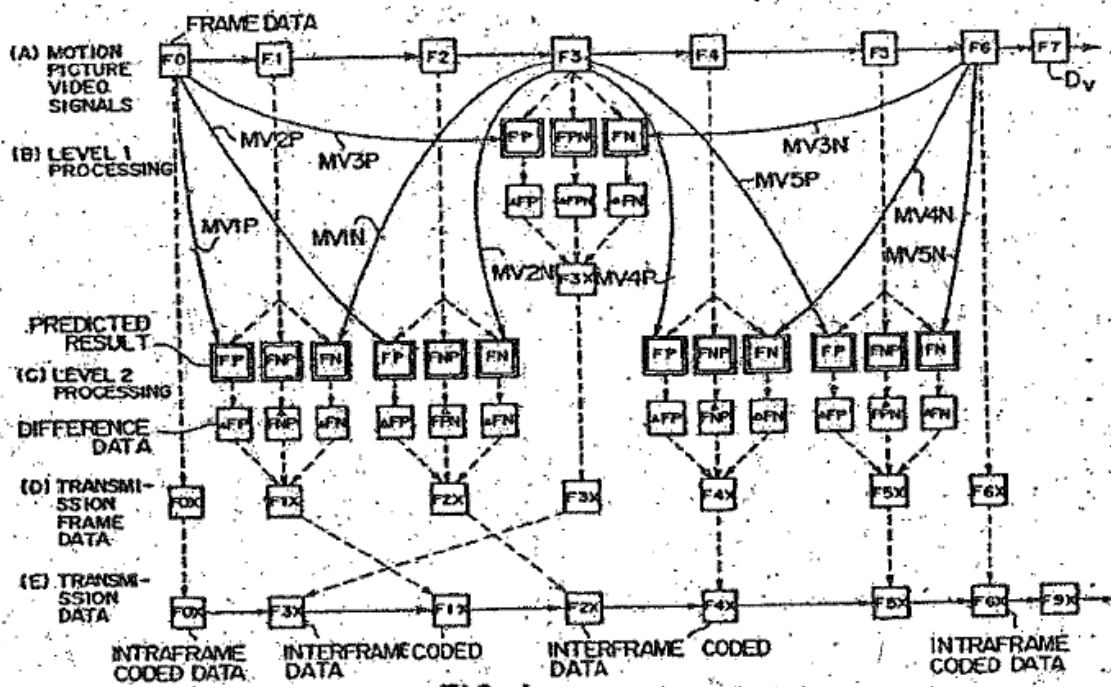


FIG. 1

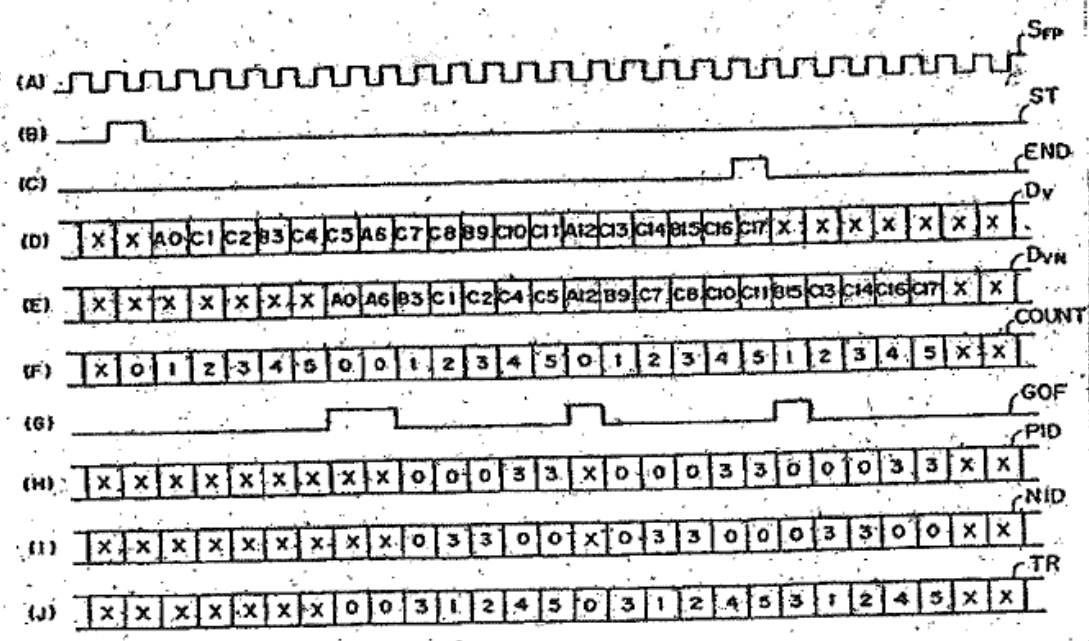


FIG. 5

The Defendant as to 1), the Managing Directors of which are the Defendants as to 2) and 3), is a company engaged in the industrial production and specialist distribution of optic storage media with worldwide operations. In its pressing facility, which is one of the largest in Europe, it pressed 672,600,000 discs in 2005 of which 220,000,000 were DVDs.

The Defendant as to 1) requires and uses a press template for production which is designated as a DLT tape, DVD-R or master. These templates are produced by so-called "authoring studios", and – often in analog form – contain film material and video data as well as other data, designs and software of the customers of the Defendant as to 1) for inclusion in the DVDs to be pressed. The authoring studios encode raw data of the recorded video film, and then format the encoded data into a DVD format thus creating the pressing templates required for DVD production runs. Following receipt of DLT tapes, DVD-Rs or masters, the Defendant as to 1) then produces a glass master from which a stamper is subsequently produced. This stamper, similar to a die, is merely a negative of the data contained on the DLT tapes, DVD-Rs or masters, and is used by automatic pressing equipment to press an unaltered replica of the data contained on the original template onto discs which leave the production process as DVDs and, following consignment to the customers of the Defendants as to 1) are made available, for instance, in retail outlets or as magazine supplements (cover mounts). The DVDs can be played on DVD players found in ordinary shops.

One of the authoring studios is [REDACTED], which was founded in 2001 by [REDACTED], the current sole Managing Director. The Defendant as to 1) has held 51% of the share capital since mid 2004 and the Defendant as to 2) is the Chairman of the Supervisory Board. [REDACTED] offers and provides authoring and digitalization services for the production of masters which includes the use of the MPEG-2 Standard. The company also acts as an independent broker for orders for the pressing of optical storage media at various pressing facilities.

[REDACTED] is the owner of the domain addresses [REDACTED] and [REDACTED]. The Defendant as to 1) is the owner of the internet domain [REDACTED]. Reference is made to copies of the web pages for the

exact nature of the content of those pages. On 19.7.2005, the company [REDACTED] sent a request to the address [REDACTED] for an offer for a 500 unit DVD 5 and/or DVD 9 production run stating that it would be possible to provide the DVD master in the form of a DLT tape. Three days later [REDACTED] received – without any prior notification that its enquiry had been forwarded – an offer (No. 200507086) from [REDACTED]. Following acceptance, [REDACTED] sent an order confirmation on 29.7.2005 and invoices on the same date and on 5.8.2005. The Defendant as to 1) prepared and sent the delivery note of 31.8.2005. By virtue of the web pages and the manner in which the [REDACTED] order was processed, the Plaintiff assumes that there is complicity between the Defendant as to 1) and [REDACTED] in the division of work.

It was argued by the Plaintiff based on its opinion concerning real life experience that the MPEG-2 encoding method contained in the Patent at Issue is used not only by [REDACTED] but to a great extent by other authoring studios for the production of pressing templates commercially used by the Defendant as to 1) often in conjunction with patented production methods. The DLT tapes, DVD-Rs, masters and stampers used in that connection are direct products of a method, to which prohibitory patent rights pursuant to § 9, Sec. 2, No. 3 of the German Patents Act (*Patentgesetz* or “PatG”) are also said to refer.

The Plaintiff’s petition in connection with the Defendants’ patent infringement was primarily for the Defendants’ restraint, reporting, compensation of damages and destruction.

The Plaintiff accordingly applies to the Court for an order for the Defendants to cease and desist, in the Federal Republic of Germany, from

offering, using DLT tapes, DVD-Rs, masters and/or stampers with coded picture data encoded by the method protected by Claim 1 of the Patent at Issue or importing or being in possession of such items for those purposes.

The Plaintiff, in addition, has also petitioned the Court for a reporting for the period from 22.09.2001 and compensation of damages as well as destruction.

Reference is made to the pleadings of 14.7.2005 (GA I 59-61) for the precise wording of the petition.

The Defendants have petitioned the Court to:

Dismiss the complaint.

They dispute their capacity as Defendants. The Defendant as to 1) maintained that it neither offered nor engaged in authoring. Pressing templates were not produced. It only used the DLT tapes, DVD-Rs and other masters of its customers. The Defendants argued that they had no influence on the form and organization of files specifically with reference to the encoding methods and were fully ignorant of the background of the masters supplied. An examination on a case by case basis was unreasonable due to the many encoding methods used. The Defendant as to 1) argued that it used stampers exclusively for internal purposes, namely for the reproduction on commission of DVDs. There was, consequently, no offering or distribution. This was also the case for [REDACTED] business, which could not be attributed to the Defendant as to 1) as a result of its relationship or shareholdings or as a result of internet advertisements.

The Defendants are also of the opinion that the cited items (DLT tapes, DVD-Rs, masters and/or stampers) are not direct products of a production method within the meaning of § 9, Sec. 2, No. 3 PatG and, moreover, plead mandatory antitrust licensing based on Art. 82 EC, §§ 19, 20 of the German Act against Restraints on Competition (*Gesetz gegen Wettbewerbsbeschränkungen* or "GWB"). They are of the opinion that neither the standard licensing agreement offered by [REDACTED] (as central licensing agent for all patents protecting the MPEG-2 Standard) nor the offer made by the Plaintiff during the course of these proceedings to grant an individual license are reasonable and non-discriminatory. The Defendants, instead, cite their own license offers. Reference is made to the pleadings of 16.3.2006 (p. 44-46, GA I, 223-225) and 17.08.2006 (pp. 82-84, GA II 460-462) for the precise wording. The Defendants regard

the Plaintiffs prohibitory rights as exhausted, due to the fact that the video data, of [REDACTED] for example, were coded by using an encoder manufactured by an [REDACTED] licensee, and raised an objection based on the statute of limitations. The Defendants maintain that the series of suits by holders of the MPEG-2 pool patents, relating to complaints of the infringement of 15 separate patents, constitutes abuse of process.

Reference is made to the pleadings and attachments of the parties for details of the facts and the status of proceedings.

The Court has obtained evidence by hearing a witness. We refer to the court report for the hearing of October 31, 2006 (GA III 627 et seq.).

Reasons for the Decision:

Pursuant to the operative provisions of the judgment, the petition is admissible and has succeeded.

I.

The Patent at Issue relates, in particular, to a transmission system for motion picture signals that utilizes data compression and data reduction techniques and process steps.

Based on the similarity of successive images, data compression applies the principle of not transmitting each video image with its total data volume, but instead to use individual images in the image stream for the compression of other similar images. This process, which is known as "interframe-dropping", is based on three categories of image types that use different encoding methods characterized by significantly varying degrees of compression. A distinction is made between intra-frame coded images (I-Pictures) and inter-frame coded images which can either be P-Pictures or B-Pictures. I-Pictures are prediction references for P and B-Pictures derived from those I-Pictures.

They are encoded using information present in the image itself and provide the point in coded sequences at which decoding can begin. Their degree of compression is low. P-Pictures, on the other hand, are encoded by using motion compensated prediction with reference to a previous frame or field, which is either an I or P-Picture. Unlike I-Pictures, they make it possible to achieve a significantly higher rate of compression and are generally used as references for additional predictions. Finally, B-Pictures are encoded using compensated prediction with reference to one or more past and/or future reference frames. Because of their use of several reference pictures, they supply the highest degree of compression.

The pictures referencing each other are comprised in a group (sequence), which follows upon another group (sequence) again consisting of I, P and/or B-pictures etc. As the video signal data are processed differently for I-pictures on the one hand and for B and P-pictures on the other hand, the relevant corresponding data are specially flagged in order to be able to distinguish between an intra-frame encoded picture (I-picture) and an inter-frame encoded picture (P- or B-picture).

To obtain both efficient and high quality video signal transmission, the Patent at Issue provides for reordering of the individual pictures prior to encoding the data, in a manner such that the (only or first) intraframe encoded picture (I-picture) of a subsequent picture (= frame) group precedes the interframe encoded pictures of the preceding picture (= frame) group. In addition, and in order to ensure that in spite of the reordering performed for purposes of data compression, real time transmission will remain possible for playback, the pictures are provided with time information that enables recognition of their original ranking prior to the reordering step.

Accordingly, Patent Claim 1 protects an encoding method having the following Characteristics:

- (1) Encoding technique for encoding of a digital video signal comprising multiple pictures.
- (2) The encoding method consists of the following steps:
 - (a) Reordering of the multiple pictures;

- (b) Encoding of the multiple resorted pictures as intraframe-encoded pictures or interframe-encoded pictures to generate accordingly encoded data; and;
- (c) Attaching time information to a picture data header of the encoded data, identifying the input order of the multiple pictures,
- (d) The frames are subdivided into frame groups,
 - o wherein each group comprises at least one intraframe encoded frame,
 - o whereby the frames are reordered according to their pertinent encoding method, so that, after reordering, the, or the first, intra-frame coded frame of a subsequent group will precede the inter-frame coded frame of the current group.

On a merely semantic basis it must be granted the Defendants that the second part of Characteristic (3d) could be interpreted to mean that the I-Picture (intraframe encoded frame) of the subsequent group should be reordered [to be placed] before all interframe encoded frames (pictures) of the current group. However, it is a firm principle of patent interpretation that claim characteristics should not be interpreted on a grammatical basis, but according to the technical meaningfulness of their content as communicated by the patent description for an average specialist. What is relevant is the significance of the contribution to the solution of the task underlying the patent that is assigned to the pertinent characteristic within the scope of the invention disclosed and protected by the patent.

This said, the Patent at Issue seeks to resolve the technical problem of facilitating decoding of picture signals by ensuring that – as a result of the reordering – the intra-frame encoded (reference) picture that has been used for interframe encoding of other pictures can always be accessed first, so that the reference content of the I-picture is available when the pictures that have been encoded depending on this I-picture need to be

decoded. In this context, reference should be made, for example, to the descriptive text on page 8, lines 11-18:

"Thus the frame data are separated into units of six frames and processed and then transmitted in a combination of the intraframe encoding processing and the interframe encoding processing. Frame data PO, F6 ..., which were intraframe encoded and then transmitted, are reconstructed, and then the remaining frame data are gradually reconstructed. If an error occurs, this prevents the error from being transferred to the other frame group, and therefore, if the invention is applied to Compact Discs or similar, video signals can be transmitted highly efficiently and with high picture quality."

Against this background, placing the I-picture of the next group in front of interframe encoded pictures of the current group is necessary only insofar as pictures that have been encoded depending on that particular I-picture of the subsequent group are concerned. On the other hand, further reordering of the I-picture of the subsequent group also in front of interframe encoded pictures for which the I-picture does not represent a reference object (because the pertinent interframe encoded pictures are encoded exclusively dependent on the I-picture or on a P-picture of the current frame group) is not necessary. It would provide reference material for decoding which would not even be required at this point in time. In view of these facts, which the Defendants are unable convincingly to counter, the Plaintiff is rightly of the opinion that the instructions of Characteristic (3d) – understood in their technical meaning – indicate that the I-picture of the next frame group is to be placed in front of the [i.e. those] interframe encoded pictures of the current group which have been encoded dependent on the I-picture. Naturally the Patent at Issue does not exclude a broader reordering such that the I-picture of the subsequent group also gets placed in front of such P and B pictures of the current frame group for which the reordered I-picture does not constitute a reference object. In any event, a system of this kind has been made the subject of the embodiment according to Figure 5 of the Patent at Issue. Because this is merely an *exemplary* variant of the invention, in any event the assumption that the invention could only be realized as shown in Figure 5 can also not be contemplated, and this alone is of importance in the present case.

II.

Based on the full facts of the case (§ 286, Sec. 1, German Code of Civil Procedure (*Zivilprozessordnung* or "ZPO")), it is to be concluded that in producing DVDs, the Defendant as to 1) used DLT tapes, DVD-Rs or masters the production of which included the application of the patented encoding method.

1.

Although it may be true that DVD players are backwards compatible, i.e., with MPEG 1, the fact that it is accepted that the DVDs produced by Defendant as to 1) can be played by DVD equipment which is available on the market does not mean that each individual DVD produced by Defendant as to 1) since 30.10.1998 meets the MPEG-2 Standard. This observation, however, is not determining for the judgment with respect to this case. According to the Plaintiff's unrefuted statement, the MPEG-2 Standard is in practice the dominant encoding method. The fact that after the advent of MPEG-2 technology, the MPEG 1 Standard retained significant importance in terms of numbers and/or is still currently important, has not been adequately demonstrated by the Defendants - at least not in a substantiated manner. In view of that and of the considerable volume of the business of Defendant as to 1), which, it is agreed, operates one of the largest pressing facilities in Europe, it has been adequately demonstrated that the Defendant as to 1) has used an undetermined number of masters since 30.10.1998 which were encoded in accordance with the requirements of the (current) MPEG-2 Standard.

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. This is also the case for the part of the Video Standard dealing with the “temporal processing” of data. In the Intro 4.1.1, *loc. cit.*, it is stated:

“Because of the conflicting requirements of random access and highly efficient compression, three main picture types are defined. Intra coded pictures (I-Pictures) are coded without reference to other pictures [...] with only moderate compression. Predictive coded pictures (P-Pictures) are coded more efficiently using motion compensated prediction from a past intra or predictive coded picture ... Bidirectionally-predictive coded pictures (B-Pictures) provide the highest degree of compression but require both past and future reference pictures for motion compensation. The organization of the three picture types in a sequence is very flexible. The choice is left to the encoder and will depend on the requirements of the application. Figure I-1 illustrates the relationship among the three different picture types. [T.N.: English version taken verbatim from the Standard]

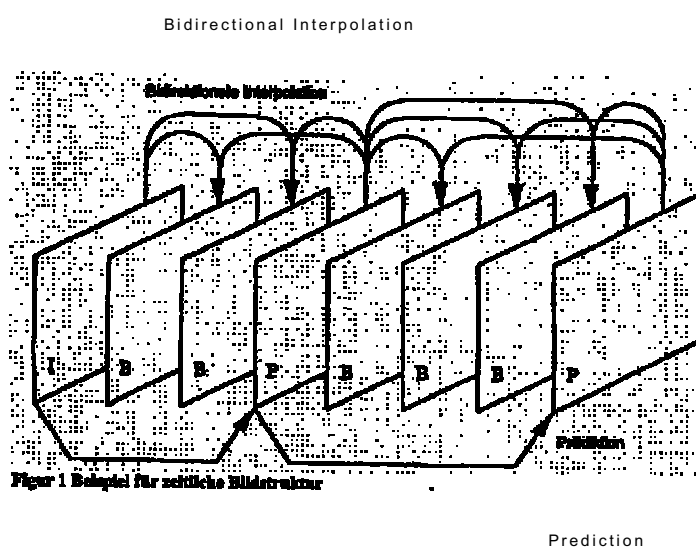


Figure 1. Example of temporal picture structure

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 Defendants. 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 at Issue, 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 Plaintiff) safely permits the conclusion that the Standard's requirements are 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.

2.

As is also conceded by the Defendant's privately engaged expert, the MPEG-2 Standard contains a reordering process for individual pictures for purposes of encoding. These specifications are found in item 6.1.11 "Frame reordering".

a)

It is of course true that no reordering takes place when the picture or frame group does not contain B-pictures. Section 4 reads as follows in this connection:

"When the sequence contains no coded B-frames, the coded order (i.e. the order in which the pictures are transmitted and decoded, cf. Section 3, Definitions, item 3.26) is the same as the display order (i.e. the order in which the decoded pictures are displayed, cf. Section 3, Definitions, item 3.45).

However, the absence of B-pictures represents only one possible type of application within the basically "very flexible organization of picture types in a sequence" (Intro 4.1.1). The fact that this is not the rule but, quite on the contrary, a (fairly rare) exception can be concluded from the indications provided in the reordering example shown later on in the Standard, which even contains a preponderance of B-pictures (8 out of 13). The much more important and ultimately decisive factor is, however, that it is first and foremost B-Pictures that make it possible to achieve the high degree of compression (over 90%) aimed at by the MPEG 2 Standard. It is obvious that it is not possible to achieve such compression values, which are also claimed by the Defendants for the DVDs they press,

without using B-Pictures. Certainly the Defendants at first stated in the main hearing of October 31, 2006 that B-pictures only permitted a 3% increase in the rate of compression. However, that was a blanket assertion and accordingly without significance. It is directly obvious that it is in particular the B-pictures that enable a high degree of compression, because their contents - unlike those of I and P-Pictures - use several past and/or future reference pictures. Each additional reference object reinforces the tendency to render encoding of data of the relevant picture superfluous. As a result of these relationships, there should have been a more detailed explanation regarding the fact that despite the increased number of prediction references that are available for B-Pictures there would only be a minimal increase in the rate of compression compared to P-Pictures. That notwithstanding, the analysis of [REDACTED] order showed the presence of many B-pictures and the Defendants explicitly conceded in the hearing of October 31, 2006 that the use of B-Pictures was "very likely" and corresponded to usual practice.

If however there are B-pictures present, the Defendants themselves do not dispute that a preferred and common order under item 6.1.11 of the Standard – as included below – is reproduced. This provides a favorable compromise between a good compression rate on the one hand and high picture quality on the other, in particular with fast motion pictures.

Picture sequence at the encoding input stage (i.e. before reordering):

1	2	3	4	5	6	7	8	9	10	11	12	13
I	B	B	P	B	B	P	B	B	I	B	B	P

Picture sequence at the encoding output stage (i.e. after reordering):

1	4	2	3	7	5	6	10	8	9	13	11	12
I	P	B	B	P	B	B	I	B	B	P	B	B

The reordering resulting from the above example uses the technical teaching of the Patent at Issue. Certainly the I-picture of the second frame group (Position 10) merely moves two frames forward, so that it is placed in front of the B-pictures in Positions 8 and 9, but behind the P and B-pictures in Positions 2 to 7. However, this is not sufficient, since – as undisputedly argued by the Plaintiff in its pleadings of October 31, 2006 by reference to

Figure 1 (reproduced above) of the Standard – the P and B-pictures ordered into Positions 2 to 7 are not coded depending on the I-picture of the second group (Position 10), but only in reference to the I-picture or the B-pictures of the first group (Positions 1, 4, 7). Because the I-picture of the second group represents a reference object only for the B-pictures in Positions 8 and 9, the specifications of the Patent at Issue are sufficiently met by the fact that after reordering it precedes these pictures (encoded dependent on it) in order to receive decoding priority,

b)

The Defendants wrongly dispute that it is part of the MPEG-2 Standard to perform reordering prior to encoding the data, as is the subject matter of the Patent at issue; in fact, the opposite is true. In the context of the explanation of the reordering example, item 6.1.11 states as follows:

„... Frame ‘1I’ is used to form a prediction for frame ‘4P’. Frames ‘4P’ and ‘1I’ are both used to form predictions for frames ‘2B’ and ‘3B’. Therefore the order of coded frames in the coded sequence shall be ‘1I’, ‘4P’, ‘2B’, ‘3B’ [...].”

The cited text passage enables the undoubted conclusion that reordering precedes encoding.

3.

Due to the fact that the Patent at Issue and the Standard, consequently, overlap and that there is sufficient evidence showing that within the considerable scope of its business the Defendant as to 1) 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. This burden of proof was not met by the Defendants.

a)

The objection based on the impossibility of presenting such proof was rejected. Ignorance, as claimed by the Defendants, is only permitted as a defense by § 133, Sec. 4, ZPO for acts of parties other than the defendant or which are outside the defendant's control. It may well be in this case that the Defendant as to 1) did not itself use the

patented encoding method for the production of its DVDs. Even though the proceedings may not have revealed any “own action or awareness” by the Defendant as to 1), § 138, Sec. 4, ZPO is not relevant due to the fact that the lack of awareness of the parties claiming ignorance infringed the obligation to ascertain information. An obligation to ascertain information has consistently been cited in judgments by the German Federal Supreme Court (BB 2001, 2187; NJW 1999, 1965; also see OLG Cologne, NZG 2002, 870) procedures relating to persons having regard not only to their own company but to an external company, whose acts were under the control, supervision or responsibility of those parties responding to claims of opponents. This is the case for the period from mid 2004. The parties do not dispute the fact that the Defendant as to 1), as majority shareholder, has during the period held 51% of the shares in [REDACTED], which is engaged in authoring. Pursuant to §§ 17, Sec. 2 and 16, Sec. 1 German Stock Corporation Act (*Aktiengesetz* or “AktG”), the consequences of this situation are that, by law, a position of dominance is to be presumed meaning that the Defendant as to 1) directly or indirectly controlled [REDACTED] (§ 1, Sec. 1, AktG. This presumption has not been contested in this case. Although the Defendants have made blanket statements to the effect that [REDACTED] was not under the control of the Defendant as to 1), the argument does not suffice because it only means that there is no controlling agreement within the meaning of § 291, Sec. 1, sentence 1, AktG which, however, does not preclude a position of dominance pursuant to § 17, Sec. 1 AktG. In addition, the existence of a presumption cannot be challenged by a statement that control was not exercised. It must, instead, be demonstrated that independence of a majority owned company is legally assured (Bayer in MK zum AktG, 2nd ed., § 17 Subitem 93 f.). Testimony by the Defendants is silent on this issue. If therefore it is ascertained for the purposes of legal evaluation that [REDACTED] has been under the control of the Defendant as to 1) since mid 2004, it is simultaneously justified to state that pursuant to the cited judgment [REDACTED] - which was undoubtedly aware of the details of data encoding – performed its business operations under “the responsibility of” the Defendant as to 1). The Defendants’ statement – which was not substantiated - that they made limited use of [REDACTED] as an authoring studio, is irrelevant. In view of the intervening period of significantly more than two years elapsed to the conclusion of the oral hearings and the considerable volume of the business of the Defendant as to 1), the Defendants’ - blanket - statement that only extremely limited use was made of [REDACTED] DLT tapes, DVD-Rs and masters is meaningless. Even if this were, in fact, the case, the Defendants would nevertheless have not used [REDACTED] masters in ignorance and, in the interest of completeness and honesty as required by § 138, Sec. 1, ZPO,

should have stated whether masters were produced using the technical teachings of the Patent at Issue.

b)

Apart from what has been said, the Defendants would have been able themselves, with the aid of the VISUALmpeg program, to obtain information on the basis of the DVDs pressed by them as to whether and in what form the MPEG 2 standard was applied when encoding the data. It is neither evident that the defendants no longer have any samples for such an analysis, nor is it submitted that the defendants would at least have attempted to obtain suitable samples from the respective customers or that such an undertaking would obviously be futile. In the hearing on October 31, 2006, the plaintiff stated without contradiction that the VISUALmpeg program - beyond the content of the submitted screenshots ~ is able to provide information also about the position of the I-pictures after the reorganization and thus to make the realization of all process features of the patent in suit apparent. Also because of this possibility of truthfulness, which is available with reasonable effort, the statement of the defendant with ignorance proves to be inadmissible (cf. Baumbach/Lauterbäch/AiberB/Hartmann, ZPO, 64th ed., § 138 ZPO marginal no. 53).

III

The DLT tapes, DVD-R's, or masters produced by the authoring studios and/or [REDACTED] [REDACTED] as well as the stampers produced by the Defendants as to 1) are direct products of the process protected under Patent Claim 1.

1 .

A legal evaluation must therefore be based on the following technical circumstances:

Film recording

First, a moving picture is recorded by means of a camera. This will be a film recorded either on a magnetic tape (analog) or a video film recorded with a digital camera, where pixels are stored 1:1 with all pertinent information (e.g. brightness, color, etc.) on a Digibeta tape or cassette.

Encoding

This is followed by encoding of the video film, carried out by an authoring studio. The encoding process takes place independently from the original type of recording, in a PC-based encoding or plug-in card. The source material and/or the primary source data are compressed, data encoded according to the MPEG-2 Standard are generated and stored. Encoding according to the MPEG-2 standard indisputably delivers a data volume that has been reduced by more than 90% as compared to the original data volume.

Storage of encoded data

The data encoded according to MPEG-2 are then stored on the computer hard disk.

DVD formatting

They are then formatted to DVD format. This formatting takes place without changes to or (further) processing of the encoded MPEG 2 data. The reason for the DVD format is to enable "lossless" storage of the data encoded in accordance with the MPEG-2 Standard on a DVD, and their "lossless" reproduction on a DVD playback device.

Masters

Following the DVD formatting, the authoring studio makes a DLT tape, a DVD-R, or a master, on which data encoded in accordance with the MPEG-2 Standard are stored. The masters are delivered either to the customer or directly to a pressing facility.

Glass masters

The DLT tape, the DVD-R or the master are used by the Defendant as to 1) as pressing templates for their serial production of the final product, the DVD. In doing so, the Defendant as to 1) first uses the masters in order to produce a glass master

Stampers

The glass master then constitutes the template for the production of a stamper (similar to a rubber stamp) which, like a die, is merely a negative of the data content of the DLT tapes, DVD-Rs or masters.

DVDs

By means of the stampers, in the automatic pressing facilities of the Defendants as to 1) the data contents of the original pressing template are stamped unchanged onto plastic or polycarbonate discs which exit the production process in the form of DVDs. The Defendants as to 1) then deliver the DVDs to their customers; this product can be played on standard commercial DVD-players.

2.

According to § 9 Paragraph 2 No. 3 PatG products directly manufactured on the basis of a patented process enjoy the same scope of protection as that provided for products constituting the subject of a product patent pursuant to § 9 Paragraph 2 No. 1 PatG. The background to the regulation contained in § 9 Paragraph 2 No. 3 PatG is the legislator's concept that the owner of a process patent is unable appropriately to exploit the economic value of the invention they are entitled to if in addition to the offering and the use of the process (§ 9 Paragraph 2 No. 2 PatG) they are not also exclusively assured of the commerce with the products directly produced by means of the process (Kraßer, *Patentrecht* [Patent Law], 5th Ed., p. 798).

a)

Contrary to the Defendant's opinion, in the case here in litigation the process products under consideration are not video signals or data within the meaning of purely virtual ideas without any physical embodiment. Rather, the Plaintiff rightfully claims protection for the data and recording structures generated by means of the process according to the patent in dispute and extant on a recording carrier – in this case the DLT Tapes, DVD-Rs, masters, and stampers. According to § 9 Paragraph 2 No. 3 PatG products directly manufactured on the basis of a patented process enjoy the same scope of protection as that provided for products constituting the subject of a product patent pursuant to § 9 Paragraph 2 No. 1 PatG.

Claim 1 of the patent in dispute concerns an encoding process for interlaced image signals. In order always to ensure efficient encoding, the teaching of the patent at issue first seeks to make a decision as to whether the encoding is to take place on a frame-by-frame or a field-by-field basis, and then, on the basis of that decision, to perform the appropriate encoding of the image signals.

The result of the encoding method according to the invention is a recording structure with physical properties that improve the optical exploitability of the data stored by means of the recording structure (cf. BGH [*Bundesgerichtshof*, (German) Federal Supreme Court], GRUR 2005, 749 recording carrier media).

The data and/or recording structures according to the invention are data units requiring storage capacity which are physically retained on the relevant storage medium by means of storage units and which exist – only – because of the storage space. The video data to be transmitted, received, stored and reproduced are data resulting from signals existing on a magnetic tape as a transition between two magnetic states or on an optically readable disc as a transition between sites of optically differently active areas. The recording carrier media present a spatial and physical structure caused by different magnetization states or by certain depressions and elevations ("pits" and "lands", respectively) in the track, so that the encoded and/or compressed data structure is physically present on the recording carrier medium. The development of this physical data and recording structure corresponds only to the meaning and purpose of the encoding method according to the invention, which assumes decoding of the data encoded according to the invention on the receiver side. In order to enable this

[decoding] to take place in an error-free manner, a materialization and/or perpetuation of the data encoded and compressed according to the invention is required. In other words, the encoding must not be of a merely intangible or transient, fleeting or ephemeral nature, since otherwise reproduction of the video film on a given player device would not be possible. How the data and recording structure and/or the magnetically active or inactive, and/or optically active and/or inactive areas are to be “read” ultimately depends on the technical convention used.

Since however a physical product is to be assumed, the issues argued between the parties as to whether physical objects are not excluded from the protection of processes or methods, and if yes, if and under what circumstances this would rightfully be so require no further discussion. Nor is an examination of the issue of whether in particular under compliance with § 1 Sec. 2 No. 3, 4 PatG a patentable invention should be assumed necessary in this connection.

b)

The image encoding process or method according to the invention is a production method and not only a work method (for delimitation of these two types of methods cf. BGH, GRUR 1998, 130 – *Handhabungsgerät* [“Handling Device”]; 1990, 508 – *Spreizdübel* [“Expansion Anchors”] 1986, 163 - *Borhaltige Stähle* [“Boron Steels”]; 1951, 314 - *Motorblock*). The process or method according to the invention teaches how a finished product that is different from a specified starting product is derived therefrom by means of the abovementioned process steps.

Therefore, and contrary to the Defendants’ belief, it is not the motion picture stored on a data carrier as such that is to be taken into consideration. It (and/or its contents) is/are not the subject of the patent at issue, so that it is irrelevant that “according to the customary view, the product – both before and after compression according to the patented method – is the stored motion picture”.

Rather, the technical teaching of the patent at issue refers – as explained earlier – to the encoding of the stored video data. When using the patented process or method, and as explained by the Defendants themselves elsewhere, the data of the video film transferred onto the computer are subjected to various compression steps in the random access memory of the computer’s encoding card in order to meet the MPEG 2 Standard. The

result of the compression is "reduced data". It is therefore indisputable that the "primary source data" originating from, at first, an analog or digital video film are encoded and compressed in an encoding or encoder plug-in card during the process according to the invention. This goes hand in hand with the modification and processing of the initial data and recording structure including the reduction of the required storage capacities. The output data available after the process are therefore different from the input data, the primary source data. In comparison to the latter, their volume and/or the required storage space on a recording carrier medium is indisputably reduced by up to 90%.

To the extent that in view of this situation the Defendants nonetheless doubt [the existence of] a production process with the consideration that the video DVD would not allow from encoding, i.e. for a modification of the data stored on it, this is irrelevant. The finished product – the pressed video DVD – is not the subject of the present litigation; the Plaintiff is merely aiming its action at the pressing templates necessary to produce it. Furthermore there is no basis for the argument advanced by the Defendants that the process according to Claim 1 requires data already encoded on a recording carrier medium that are capable of undergoing modification.

c)

Ultimately, the DLT-Tapes, DVD-Rs, masters, and stampers constituting the subject of the present litigation are "direct" products of the process according to the invention.

aa)

An "immediacy" between the process and the product within the meaning of § 9 Paragraph 2 No. 3 PatG is firstly and immediately to be affirmed when the product objected to is an object obtained with the completion of the very last step of the protected process (Benkard, op. cit., § 9 Subitem 55; Busse, op. cit., § 9 Subitem . 105; Kraßer, op. cit., p. 800 et seq.; Schulte, PatG, 7th Ed., § 9 Subitem 69). Aside from this purely temporally chronological approach, "immediacy" also exists when the product objected to, although not being the result of the very last process step, is, rather, an intermediate product that has thereupon and subsequently to the patent protected process been subjected to further processing measures, *provided that* the patented process has, as intended and according to a customary view, materially contributed to generation of the product, and that the product

created by means of the invention has not lost its characteristic properties and its independence as a result of such further processing steps. Of decisive importance is the retention of the identity conferred on the product by the manufacturing process according to the patent (Düsseldorf Appellate Court, Decision of 10/04/2005 - U (Kart) 44/01; Düsseldorf District Court, Decision of 02/08/2002 - 4 63/00; Court of Appeal, GRUR Int 1998, 718 - Compact Disk; Benkard, op. cit., § 9 Subitem 55; Busse, op. cit., § 9 Subitem 106 et seq.; Kraßer, op. cit., p. 800 et seq.; Schulte, op. cit., § 9 Subitem 69).

bb)

When applying these legal principles, the masters and stampers addressed in this litigation are to be considered as directly resulting from the protected process.

As the Plaintiff is aiming its complaint exclusively at the masters and stampers serving as pressing templates, and not against the DVDs sold as the finished product, any processing steps or transformations to be performed after production of the pressing templates are just as irrelevant as is the question as to whether the DVD itself can possibly (still) be considered to be an intermediate process product. The only items to be evaluated are the DLT tapes, DVD-Rs, masters and stampers, and the differentiation argued by the Defendants (i.e. between DVD-ROMs, Audio DVDs and video DVDs) is irrelevant. The only decisive element is the presence of encoded video data.

(1)

For the DLT tapes, DVD-Rs, and masters it is therefore decisive that after completion of all process steps provided for in Patent Claim 1 the encoded data and recording structures are stored on the computer's hard disk. The MPEG-2 video data are permanently materialized by means of this storage step following the end of the process sequence. To this extent this is the (first) intermediate product, as the data stored on the hard disk will then be subjected to a DVD formatting and later to a recording and/or storage process on another recording carrier medium, namely the DLT tapes, DVD-Rs, and masters. Since neither the transformation into the DVD format nor the storage on the abovementioned recording carrier media lead to further processing or modification of the data encoded by means of the process in accordance with Claim 1, so that such data

retain – without limitation – their characteristic properties brought about by the process, this identity connected with the compression process is also preserved in the DLT tapes, DVD-Rs and masters. The properties of the encoding and compression processes according to the invention are not lost; no independent, autonomous new product can be discerned.

To the extent that the Defendants counter this conclusion with the assertion that the stored data and their data structure are fundamentally modified in the manufacturing steps listed by the Defendant, the evidence brought forth in substantiation lacks substance and is therefore procedurally irrelevant. The indication of a “multiple substrate change” and the lack of a “transfer of a physical substance” also fail. Although it is accurate that a transfer and storage of the data from the hard disk onto various recording carrier media does take place, this however undisputedly takes place without modification or processing of the picture data already encoded according to the MPEG-2 Standard; in fact this is nothing but a simple change of storage medium. The perpetuation and/or materialization of the data and recording structure obtained after performing the process takes place on a plastic or polycarbonate disc instead of on the hard disk, but always preserving the [existing] structures. The technically decisive data and recording structure is one and the same. The exchange of the substrate should only be seen as a different “packaging” that does not destroy the sufficient connection between process and product (cf. BGH, GRUR 2004, 495 – *Signalfolge* [Signal Sequence]).

(2)

The same assessment is appropriate in connection with the stampers produced by the Defendants as to 1). Even though, just like a die, they are a negative of the data content of the DLT tapes, DVD-Rs, or masters, the data and recording structures originally obtained by means of the process according to the patent in dispute remain unchanged. There is no processing or modification of the Standard compliant encoded data in the production of the stamper, so that the stampers, too, are products directly resulting from the compression process according to Patent Claim 1.

IV.

Contrary to the Defendants' opinion, the rights arising out of the patent in dispute are not exhausted by the fact that the masters here at issue were produced by means of the application of the patent protected process in an encoder using encoding cards (hereafter: encoding devices) for which the entities offering the encoding devices ([REDACTED], [REDACTED], [REDACTED]) have entered into a licensing arrangement with [REDACTED]

1.

Essentially, the prohibitory rights arising out of a patent are consumed as soon as the patent holder or, with his/her authorization, a third party (e.g. a licensee within the scope of the right of use granted such licensee) has placed the protected item in distribution. Special conditions do, however, apply to process patents. They are not exhausted by the fact that the device for implementation of the process or the product resulting from application of the process or method (§ 9 Paragraph 2 No. 3 PatG) enter into the realm of commercial trade (BGH, GRUR 1980, 38 – *Fullplast* case; 2001, 223 – *Bodenwaschanlage* [Floor Cleaning Device]). Distribution of direct process products according as intended by the patent owner only exhausts the prohibitory rights relating to such products themselves (Busse, op. cit., § 9 PatG Subitem 151; Benkard, op. cit., § 9 PatG Subitem 25).

2.

In the present case, the masters – as the direct products of the patent protected manufacturing process – were not placed in distribution with the consent of the Plaintiff.

To this extent, assumptions must be based on the Plaintiff's statements of facts that the conditions of the license granted the encoding device manufacturers correspond to the content of the Standard Licensing Agreement submitted within the scope of the action. However, the Defendants doubt this and demand that the Plaintiff submit a template of the Licensing Agreements concluded with the encoding device manufacturers. There is, however, no legal foundation for this demand. Even if taking into account the Federal Supreme Court decision "*Restschadstoffentfernung*" [Residual Pollutant Elimination] (Decision, GRUR 2006, 962) it is assumed that an order pursuant to § 142 ZPO directly comes into effect if there exists even a certain probability of the facts asserted and to be

clarified by means of the documentation to be submitted, in these proceedings an order for submission is not possible because the Defendants cannot even provide presumptions based on actual points of reference that would speak for a contractual content different from that alleged by the Plaintiff. The Defendant's request is rather aimed at pure discovery that is also inadmissible within the scope of application of § 142 ZPO.

According to Clause 2.3, the conditions of the Standard Licensing Agreement entitle [the licensee] (merely) to manufacture, sell, market, and otherwise distribute encoding products, transmission encoding products, encoding software and bundled encoding software, whereas the use of the licensed products is only permitted for purposes other than the encoding of an MPEG 2 video event on an MPEG 2 packaged medium. Specifically, the license does not contain the authorization for commercial customers of the encoding device licensees to encode one or more MPEG-2 video events for recording on an MPEG 2-packaged medium . Against the background of this limitation rule the Defendants' objection that the license granted the encoding device manufacturers also comprises the use of the licensed devices at customer level because the sale of an encoding device allegedly only makes economic sense if the sold device can also actually be placed in operation. Aside from the fact that the parties to the license agreement have contractually agreed differently, it should be pointed out that the authorization for use at the encoding device buyer level can of course result from their own license obtained in respect to the patent at issue (for exactly that use of the encoding device purchased).

As stated by the Plaintiff, it is also common practice that authoring studios be granted a license in the MPEG 2-Standard patents that is limited to the use of the encoding devices.

3.

Under these conditions, no legal objections can be made against the permissibility and effectiveness of the contractual licensing limitation. Fundamentally the patent holder is free, as a corollary of its sole authority, to dispose over the subject matter of the invention, to determine the content of the license grant at its own discretion (cf. Benkard, op. Cit., § 15 PatG Subitem 61). Exhaustion therefore only goes as far as the acts of use comprised in the license distribution (Benkard, op. cit., Subitem 72). Products that have been placed in circulation under contempt of the rights granted under license infringe the patent. They do not enter into the public domain, so that the customer of the licensee

also commits patent infringement by the fact of the use of such objects (cf. Benkard, op. cit., Subitem 73).

V.

The Defendants unsuccessfully claim recourse to the mandatory license objection provided for in antitrust law.

1.

On the other hand, both parties correctly assume that the antitrust law objection is to be taken into account in patent infringement actions.

Although in its "*Spundfass*" decision (InstGE [*Instanzgerichte zum Recht des geistigen Eigentums*, (German) Instance Court for Intellectual Property Rights, 2, 168) the Antitrust Committee of the Düsseldorf District Court adopted the – opposing – position that a person using a patent belonging to another remains subject to the exclusivity rights arising out of that patent even if according to antitrust regulations they can demand from the patent holder the concession of a (not for consideration) right of use (i.e. the execution of a licensing agreement), if they initiate use without having requested the patent owner to grant a license, or, in the event of a denial, without having instituted proceedings before an antitrust regulatory body or an antitrust court in which the granting of a license could have been ordered. This is substantiated to the extent that by means of such conduct the defendant assumes for itself the right to take the law into its own hands as self-help to enforce a putative or actual legal position (namely: its claim to a license), an attitude that, insofar as the special prerequisites of § 229 BGB are not present, is frowned upon by the legal system.

This Chamber is unable to follow these considerations, whose merit the Federal Supreme Court explicitly left open in its "*Standard-Spundfass*" appeal decision (GRUR 2004, 966). § 229 BGB merely stipulates a reason for a justification, which states that a person who takes a thing in order to enforce a claim to which they are entitled is acting lawfully if certain prerequisites are met which exceptionally make arbitrary enforcement appear to be required, in particular [if] no help from the State for purposes of prosecution can be obtained. As concerns the use of a patent in anticipation of a licensing claim to which the user is entitled in respect to the patent on the basis of antitrust provisions, this means that

the user who initiates use of the patent under the factual prerequisites of § 229 BGB acts lawfully and therefore does not commit patent infringement. In such cases, potential prohibitory rights of the patent owner fail already because there is no unlawful use of the patent as a result of the intervening justification pursuant to § 229 BGB. If the self-help prerequisites of § 229 BGB are not met, however, conversely it follows that the actions of use on the part of the party seeking licensing are indeed unlawful.

However, the answer as to the presence or absence of the prerequisites for self-help does no more than provide a judgment on the lawfulness or unlawfulness of the use of a patent. In particular, no decision takes place as to whether the existing claim for the granting of a license in respect to the patent used cannot be opposed to the patent owner's prohibitory claims on another legal level than that of illegality. On the contrary: This is indeed known in the legal system in connection with other situations, such as exemplified by § 1007 BGG for the case that the material right holder in regard to an object arbitrarily takes the item, which is in someone else's possession. If the self-help prerequisites of § 229 BGB cannot be proven, then such taking of possession is unlawful. The defendant may, however, oppose his or her material right to possession as an objection (§ 1007 Sec. 3 BGB) to the demand for restitution of the party formerly in possession based on § 1007 BGB even if the defendant's self-help action was unwarranted, with the result that the action for restitution directed at it will be dismissed. Moreover, it corresponds to a generally valid legal rule that no-one shall be able to demand something from someone else which the latter party could immediately again demand to be returned owing to a counterclaim inherently based on the personality of the person against whom the claim was directed. Regardless of the nature of each individual claim such demands constitute abuse of process, so that the defendant may invoke the objection that the plaintiff must immediately retribute that which it had claimed in its demand. This general principle derived from the precepts of Good Faith (§ 242 BGB) is also applicable to patent infringement actions. Of course, the prerequisite for the objection of *dolo-petit* is that the defendant should have applied to the patent owner for a license to be granted under appropriate conditions, which as a rule means that a concrete contractual offer was made to the latter which would objectively prove to preserve the patent owner's interests and therefore to be acceptable to it. If this has taken place, which in the case

before us will have to be proven by the Defendant, then the patent owner lays itself open to the objection of conduct abusive of process if it had either categorically refused the license offer or made the execution of the agreement dependent on conditions that, for their part, are unlawful under antitrust law and to which the Defendant therefore need not in fairness submit.

2.

If the Defendant as to infringement argues in its legal defense that the patent owner is under the obligation pursuant to antitrust legislation regulations (e.g. Art 82 EG, §§ 19, 20 GWB) to grant it a (mandatory) license in the subject of the patent at issue, then two fundamental case universes need to be differentiated:

a)

First, it could be considered that, invoking its exclusivity right, the patent owner refuses, as a matter of general principle, to grant third parties a license, regardless of conditions. In such circumstances the question arises as to whether the patent owner is actually under the obligation to grant licenses under competition regulations. This can acquire urgency under European antitrust legislation, here in particular Art 82 EG, and assumes that the patent owner holds a market dominant position and that unusual circumstances exist. According to the precedent set by the EuGH [*Europäischer Gerichtshof*, European Court of Justice] (GRUR 2004, 524- IMS Health) such circumstances exist when, cumulatively:

- The patent use sought is essential for the user's activity to an extent such that even in the event of substantial own efforts on the part of the patent user there is no actual or realistically potential replacement for it;
- The business seeking the license intends to market new products or services not offered by the patent owner and for which there is potential consumer demand;
- The refusal to grant the license is not justified on objective grounds; and

- Refusal excludes all potential for competition on a derived (directly upstream or downstream) market.

Whether German antitrust legislation too provides tools for dealing with mandatory licenses in the event of refusal of a license is debatable. According to opinion applicable and prevalent in the literature (Constanze Kübel, *Zwangslizenzen im Immaterialgüter- und Wettbewerbsrecht* [Mandatory Licenses in Intangible Assets and Competition Law], 2004, p. 256 et seq.; Immenga/Mestmäcker, *GWG [Gesetz gegen Wettbewerbsbeschränkungen, (German) Restraint of Competition Act]*, 3rd Ed., § 19 Subitem 218; Loewenheim/Meessen/Riesenkampff, *Kartellrecht [Antitrust Law]*, Vol. 2, 2006, § 19 Subitem 90; differing: v. Bechtolsheim / Bruder, *WRP [Wettbewerb in Recht und Praxis, Competition in Law and in Practice]* 2002, 55, 59, 63) § 19 Sec. 4 No. 4 GWB does not apply as grounds for a claim because according to the legislator's explicitly stated intention intangible property rights cannot be considered to be "essential facilities". Whether this set of circumstances forbids derivation of a contracting obligation from the general clauses in § 19 Abs. 1 GWB and § 19 Sec. 4 Nr. 1 GWB has been subject to controversial opinion (in the negative e.g. Constanze Kübel, op. cit., p. 257 et seq.; Immenga/Mestmäcker, op. cit., § 19 Subitem 218 at the end; in the affirmative: Leewenheim/Meessen/Riesenkampff, op. cit., § 19 Subitem 90).

In the present case, however, no decision is necessary in this respect; for there is no actual evidence of licensing refusal. Quite on the contrary, the Plaintiff is prepared to grant a license under the conditions of the Standard Licensing Agreement as used by [REDACTED] or at the conditions of its single license offer of 19 October 2005 as submitted within the proceedings.

b)

Where the patent owner is, as is the case here, prepared in principle to grant a license, the only question arising under antitrust legislation is whether its licensing practice is discriminatory (because license applicants receive unequal treatment without objective grounds) or whether inappropriate licensing fees are demanded (also referred to as "exploitation abuse"). To this extent, Art. 82 EG (EuGH, *Compendium* 1988, pp. 6039, 6073 – Renault; *Comp.* 1988, pp. 6211, 6235 – Volvo / Veng) and § 19 Sec. 4 No. 2, 3 GWB, § 20 GWB (cf. Constanze Kübel, op. cit., pp. 259 et seq.). Fundamentally this is also just what applies to licensing by patent pools, i.e. alliances of several protection right owners for the purposes of joint licensing of the patents held by them, if the patents together constitute an industry standard and third parties are offered only a bundled license at fixed license fees.

aa)

First, it is unquestionable that the establishment of industry standards in certain technological areas is not only economically sensible and practical, but also represents a necessity for society at large, as witnessed by the existence of national and international standards organizations such as DIN, CEN/CENELEC, ETSI, ISO/IEC, etc.. Standards serve e.g. general safety, labor and environmental protection, and therefore meet governmental requirements, or they create compatibility standards that constitute essential prerequisites for young technology areas to be opened up to a broad public at acceptable prices and within an appropriate period of time. An example for the latter application case is provided, in addition to communications technology with its GSM Standard, also by the MPEG Standard, without whose technical standardization mass dissemination of the DVD technology would be inconceivable. The said new technology areas are regularly characterized by a high degree of innovation and therefore high patent density, which inevitably results in that the Standard must rely on patented technologies (Constanze Kübel, op. cit., p. 64 et seq.).

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 having to apply to each individual patent holder for a license in respect to the latter's patent(s). In their "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 iure* – 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 cumulation 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.

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”

bb)

Against this legal background the Defendants’ argument that the advent of the MPEG-2 Standard constitutes a breach of antitrust law fails.

(1)

The Defendants claim that in developing the Standard patented technologies were not, as is required, foregone inasmuch as possible. On the contrary, the industrial companies participating in the development of the Standard are said to have intended, ultimately successfully, to establish as many of their patent protection rights as possible. According to this goal, enquiries concerning potentially existing patents within the scope of the Standard were made only after, and not already before, establishment of the Standard.

From the point of view of exploitation abuse this argument could draw its legal relevance from the consideration that, since in establishing the Standard the standards organization [REDACTED] unnecessarily took into account patented technologies, the corresponding patents also found their way into the Standard Licensing Agreement of [REDACTED], exercising an inappropriate pressure on the fees demanded from license applicants. This point of view would however not take into account that the standards bodies – regardless of the fact that, among others, their membership also includes representatives of the industry concerned – are legally and organizationally independent institutions with their own regulations for standard setting purposes. Even if the complainant patent owner has been involved in the deliberations leading to the setting of the Standard, this does not mean that precisely this participant (if applicable in collusion with other intellectual property right owners) would have controlled the work of the standards body and decisively caused a technology patented in its name to be included in the Standard instead of an equivalent solution available in the public domain. Even the Defendants are unable to provide any evidence as to such circumstances concerning the Plaintiff. Whether a patent owner would be exposed to the charge of antitrust violating conduct already and just because an industry standard developed without such owner’s influence is objectively favorable to it appears extremely questionable, since in such circumstances it is not obvious whether and to what extent market power is abused.

However, no conclusive decision is necessary in this connection, since for demonstration of abusive standard setting it would have been the obligation of the Defendant, on whom rests the burden of proof of its defense objection, not only, as was indeed the case, to proffer blanket accusations and suspicions, but to prove in a substantiated manner which equivalent technologies in the public domain could have been included in the Standard instead of which patented ones. Appropriate alternatives would have had to be provided for, in particular, the patent at issue, while of course a single case does not immediately substantiate "abuse". Rather, what would be required would be proof of systematic action, in the event of doubt concerning several patents for which a side-step technology available in the public domain could not have been overlooked but was passed over in setting the Standard. The facts put forth by the Defendant in no manner relate to the details required in that sense and without which any test of abuse must fail at inception. In this connection, the Defendants' announcement in their pleadings of August 17, 2006 (p. 21; GA 11 399), that they would be able to provide more specific arguments as well as proof upon request is irrelevant. For the Defendants, who enjoy the advice of legal counsel, there could in any event not be any doubt regarding the fact that the burden of demonstration and proof in connection with the evidentiary requirements for abusive licensing practice in an objection to the legal defense as concerns the prohibitory rights arising out of the patent at issue rests with them. In view of the unambiguous procedural legal position this also did not require any direction from the bench. Therefore, in regular proceedings it was self-evident that the allegation of abusive inclusion of industrial patents in the MPEG-2 Standard with unsubstantiated assertions as contained in the pleadings of March 16, 2006 and August 17, 2006 could not be supported, but that – instead – it requires detailed substantiation accessible for [the development of] a counterplea on the part of the Plaintiff and for examination by the Court.

(2)

The same evaluation applies to the Defendants' objection that the MPEG-2 Standard had incorporated invalid patents.

The Defendants do not provide further details about the patents allegedly involved within the scope of their antitrust law argumentation. Even if it were assumed that the Defendants are targeting those patents in respect to which they had filed a claim of nullity in the litigation taking place before this Chamber, we must note that this concerns five patents out of currently 134 patent families belonging to the MPEG-2 Standard. None of the nullity claims involves a chance of success that would make a waiver/abandonment of the infringement suit appear likely. Even if this prognosis should be inaccurate in one case or another and if abolition of one or more patents within the Standard should actually take place, this still in no manner proves "abuse". Abuse could, if at all, only be argued if it were certain that not only in one individual case and unintentionally, but repeatedly and systematically patents incapable of protection had been incorporated in the MPEG-2 Standard, and this in full knowledge and acceptance of their lacking legal validity. Mere success of a nullity action is therefore still not meaningful in terms of indicating abuse for as long as it has not been determined that the abolition decision is not based on only subsequently discovered prior art but that it is based on a citation that was already positively known or at least easily ascertainable at the time of setting the Standard, and on the basis of which the incapability for protection was clearly discernible. The Defendants' arguments do not provide any foundation for a scenario of this type.

cc)

They also unsuccessfully criticize the fact that no independent assessment had been carried out prior to incorporation of the individual patents into [REDACTED] Standard Licensing Agreement as to whether the questionable patent were supported by the MPEG-2 Standard. According to the Defendants, this omission would open up the possibility that the agreement offered to license applicants would abusively take into account patents whose use were not specified by the Standard, which would be reflected in inappropriately high licensing fees.

It should be granted to the Defendants that exploitation would regularly be established whenever not only in one individual case, perhaps unavoidable even after conscientious examination, but rather in a systematic way patents not necessary for compliance with the Standard were to find their way into the Licensing Agreement, so that the purpose unjustifiably to raise the license fees by means of the incorporation of as many patents as possible were recognizable.

However, the Defendants, bearing the burden of proof (cf. Langen/Bunte, *Kommentar zum deutschen und europäischen Kartellrecht* [Commentary on German and European Antitrust Law], Vol. 1, 10th Ed., § 20 GWB Subitem 203) have already not stated which licensed patents are supposed to exceed the MPEG-2 Standard and for what reason. The mere circumstance that the patent attorneys engaged by ██████████ to examine the applications for inclusion in the Standard (whose professional qualifications for the assessment of the relevant technical issues are also not disputed by the Defendants) are not entirely independent, but, rather, act as representatives of patent owning parties in infringement proceedings arising out of patents belonging to the Standard in and of itself in no manner enables a conclusion of abusive tipping of the Licensing Agreement with patents. That the expert assessor is "batting for the patent owners" can at worst involve the risk that excessive allowance could – consciously or unconsciously – be made for the economic interests of the companies forming the pool in the assessment. Accordingly, the Commission's Guidelines do not consider the independence of the expert assessors to be an *conditio sine qua non* for appropriate pooling and license agreement structuring under antitrust law, but only as one indicator out of several within the scope of abuse assessment. Subitems 232, 233 read as follows in this connection:

"It is further significant to what extent independent experts are consulted in connection with the pool's foundation and activities. For example the evaluation as to whether a technology is or is not essential for a pool protected Standard is often a complex procedure requiring special technical knowledge. The involvement of independent experts in the selection of technologies can be protracted [and continue] until it is ensured that the task of incorporating only essential technologies is completed in practice.

"The Commission will take into account how the experts are selected and what their exact responsibilities are. Experts should be independent from the companies constituting the pool. If they are linked to or otherwise dependent on the licensors, their contribution will be assigned less importance. Experts must further have the necessary technical knowledge in order to fulfill the

various tasks they are entrusted with.”

General suspicions and imputations merely on the basis of the closeness of the relationship between the experts and individual pool members are not possible already on the basis of fundamental considerations. They are all the more inappropriate in the case here before us because the persons concerned are not employees with a duty to comply with the instructions of their employer but patent attorneys who, at least according to German standards, are independent professionals (§ 2 PAO [*Patentanwaltsordnung* – (German) Patent Attorneys Code of Conduct]) and are an independent body of the judicature (§1 PAO). Taking into consideration this position and responsibility, the degree of potential dependency is limited at the outset and the danger of improper exercise of influence on the results of the assessment rather remote. In view of the above it would have required tangible indications that the ongoing client relationship between the experts and the patent owners participating in the pool had actually led to inappropriate decisions in the inclusion of individual patents in the Standard Licensing Agreement. However, such circumstances are not even shown in a rudimentary manner in the evidence submitted by the Defendants.

In addition, an infringer – as in this case the Defendants – can only benefit from potential antitrust violations if it does not make use of those licensed patents that are not supported by the Standard. For, if it does also use the corresponding patents, it must also pay a license to use them, so that demanding a license fee that includes also those patents that are not necessary for the Standard can in any event not substantiate statutory violation as far as it is concerned. Legally relevant defense arguments would therefore require not only the assertion that certain (to be specified) patents included in the Licensing Agreement are outside of the Standard; it must in addition be demonstrated that no use is made of them. When measured against this yardstick, the Defendant's demonstration is insufficient, since it does not result in an assertion that [and as to which of] the patents under license that are not necessary for the MPEG-2 Standard are not utilized by it.

dd)

The fact that [REDACTED] Standard Licensing Agreement provides for a fixed per unit license fee and not for a percentage of the ex-factory price is not a cause for concern under antitrust law.

In licensing agreements the basis for assessment of the calculation of the fees is often agreed upon to be the sales volume targeted to be realized by the licensee by means of the licensed device or equipment. This is backed by the consideration that a sales license guarantees an appropriate participation of the patent owner in the advantages the licensee has actually derived from the use of the licensed patent. The customary use of a sales volume license does not, however, mean that another fee calculation basis (in particular, a [per] unit license [fee]) would be inappropriate. In the case before us, indeed, the contrary applies. The Plaintiff rightfully points out that a per unit license fee is particularly suitable in order to ensure the equality of all licensees as required by antitrust law, as a fixed per unit license creates the same price component factor for each competitor. A sales volume license on the other hand would have the consequence that the license fee would fall in proportion to falling sales prices, which would primarily favor high sales volume licensees and would enable them to conduct a price war prejudicial to smaller licensees. In addition, licensees would, if a sales volume license were agreed upon, have to assume the risk no longer to be appropriately remunerated for their inventions if the license fees calculated as a percentage of sales were to decline on an enduring basis in the event of a drop in market prices. This would be unreasonable because each licensor – including those in a market dominant position – is undisputedly entitled to receive license fees that appropriately reflect its investment and innovation performance (Constanze Kübel, *op. cit.*, p. 278). A licensing fee arrangement that serves this legitimate concern, as does a per unit license fee agreement, cannot attract an objection in law.

ee)

None of the Defendants' arguments against the level of the licensing fee are convincing.

Demanding an inappropriately high license fee can, in turn, justify the allegation of abuse of a market dominant position. A license [fee] demand should be considered as being "inappropriate" when it significantly exceeds the hypothetical price that would have formed on the controlled market under effective competition conditions, unless there is an economic justification for such price forming (as to Art. 82 EG: EuGH, 81g 1978, pp. 207, 305 - United Brands; as to § 19 Sec. 4 No. 2 GWB: Immenga/Mestmäcker, *op. cit.*, § 19 Subitems 153, 159, 160).

The market comparison concept is customarily used to determine the “as if competition price” presumably resulting without market dominance; this method draws conclusions from a spatially, actually or temporally comparable market with intact competition conditions and then applies them to the hypothetical license fee formation in a dominated market (for details cf. Immenga/Mestmäcker, op. cit., § 19 Subitem 161-167 and Constanze Kübel, op. cit., p. 250 et seq.). In this context, an “actual comparison market” means markets dealing in related goods or services with similar production techniques as well as similar supplier and customer structures. The comparison markets must not only not be dominated, but also provide appropriate and sufficiently certain comparison material (BGH, WuW [*Wirtschaft und Wettbewerb*] / E 2309, 2311 - Glockenheide). In appropriate cases, instead of a comparison market observation the concept of profit limitation could be used, which correlates the development costs of the patent owner willing to grant a license and a (standard) profit margin assigned to it with the actually demanded licensing fees (cf. in this connection Loewenheim/Meessen/Riesenkampff, op. cit., § 19 Subitem 80; Constanze Kübel, op. cit., p. 251 et seq.). As a general rule, the burden of proof for the prerequisites of exploitation abuse lies with the Defendant who resorts to this arguments in its legal defense. Only within the scope of the profit limitation concept is the patent owner affected by secondary burdens of proof in regard to its own development costs, which are by their very nature not known to the Defendant and as to which the patent owner can easily bear testimony.

(1)

The Defendants’ arguments are insufficient in regard to all abovementioned concepts, also addressed in the Defendants’ own assessment. It is not discernible that a spatially or temporally independent market suitable for comparison (has) ever existed for the licensing of the patents concerning the MPEG-2 Standard. Given that patent licenses are by their nature territorially limited, that the possibility of granting them, guaranteed by an industry standard, creates the representative “market” for the granting of user licenses (BGH, GRUR 2004, 966,967 et seq. - *Standard-Spundfass*), and that the power of exclusivity combined in such situations with the ownership of the licensed patents creates the market dominant position of the licensors, a comparable market concerning exactly these patents and their licensing, which would deal with the licensing activity in another territory or at another (earlier) time under regular competition conditions would *ab initio* be conceivable only if licensing had already taken place prior to the establishment of the MPEG-2 Standard.

There is no foundation for this assumption. The Defendants also provided no evidence in connection with an objectively comparable market that would not only assume a similar technical area but also require functioning competition. Their defense that licensing fees of [REDACTED] licensing fees under the Standard Licensing Agreement are disproportionate to the licensors' development costs to be amortized is also a sweeping blanket argument. In order to render plausible that the demanded licensing compensation leads to an excessive (inappropriate) profit for the pool members, it would at least have been necessary in addition to demonstrate which investments for the entire set of licensed patents supported by the Standard should be used as a basis for calculation, what income the licensors have obtained in the past from the Standard Agreement, and what income they are still expected to receive within the residual period of validity of the licensing patents. All this has not even been indicated by the Defendants.

(2)

Only their argument concerning the changes in ex-factory prices for the market dominating DVD 5 and DVD 9, whose market share in 2004 was of 44% (DVD 5) and 54% (DVD 9) is substantiated and admissible in their defense. To this extent, the Defendants' assertions, based on the statistical surveys of [REDACTED], that the ex-factory prices obtained by a pressing facility for DVD 5 and DVD 9 have dropped by an average of approximately 80% between 1997 and 2004 can be assumed for the legal assessment .

Changes in DVD selling prices (1997 to 2005):

	1997	2005	Change in %
DVD 5	USD 2.65	USD 0.51	- 80.7
DVD9	USD 4.50	USD 0.70	- 84.4

Price Distribution in 2004:

	DVD 5	DVD 9
Small production volume (15% market share)	USD 0.82	USD 1.25
Large production volume, Film companies (70% market share)	USD 0.47 – 0.65	USD 0.62 – 0.82
Low capacity utilization periods (10% market share)	USD 0.26 – 0.43	USD 0.45 – 0.62
Covermounts (5% market share)	USD 0.25	USD 0.31

It may also be, as argued by the Defendants, that:

- o according to the – although not further substantiated – current determinations of ██████████ of February 2006 currently no more offers for DVD pressing contracts with a price exceeding EUR 0.30 (DVD 5 and DVD 9) are sought, and
- o ██████████ recently issued a call for bids for its entire DVD production concerning the European market with a unit price of EUR 0.195 (DVD 5) and EUR 0.20 (DVD 9).

All abovementioned prices must be evaluated taking into consideration that DVD unit numbers have literally “exploded” over the same period of time. By reference to the data provided by ██████████ the Defendants themselves provided the following values for the European Union and Switzerland area:

1997	2004
55.000 DVD	1.800.000.000 DVD

It is an economic evidence that since 1997 rocketing unit numbers have enabled mass production that has brought about wide ranging rationalization effects, savings in the procurement of raw materials, and thus ultimately a distinctly improved cost structure by comparison to that originally existing for the initial small series demand. Against this background it is a natural and both economically and managerially entirely justified phenomenon that ex-factory prices will sink as demand increases. The decline in the price level can in itself therefore not bring about any legal consequences.

Such consequences would only come into consideration if the price drop for DVDs had reached a proportion in which the license fees demanded were to represent a disproportionate portion of the sales that can be achieved by using the licensed patents. However, the Defendants have not substantiated anything of the kind. It may be the case that with declining ex-factory prices the sum of the unit license fees claimed by all patent pools (3C/4C, 6C, ██████████, ██████████) corresponds to a continuously rising and in the meantime quite considerable proportion of the amount of sales as can be seen from the following overview.

	DVD 5	DVD 9
1997	6 %	4 %
2004	23 %	17 %

The license fee proportion of approximately 20% may prima facie also seem high, in particular against the background that the DVDs subject to license are mass produced items for which as a general rule only low license fee rates tend to be agreed upon, because sufficient license amounts ultimately accrue to the patent owner via the significant number of units and sales volumes realized by its licensee. It should however be borne in mind that the license portion does not compensate for just one invention but that it covers a plurality of patents belonging to different owners. Just as far as the MPEG-2 Standard is concerned, some 700 patents belonging to 134 patent families are involved. To this must be added the unknown number of patents administered by the 3C/4C-Pool, the 6C-Pool and ██████████ (████████). As already discussed above, each of the patent owners participating in

one of the contested technology pools has a claim for compensation in respect to each of its inventions contributed to the pool and utilized which not only amortizes its development costs but which in addition provides such owner with an appropriate reward for its innovation. 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 been inappropriate is not reflected in the Defendant's argumentation.

It equally provides no foundation for the assumption that license fees can no longer be paid out of the sales that may be realized while preserving a sufficient profit margin. In this connection it is not a matter of the situation of the Defendants as to 1) (only communicated) (in which the manufacturing costs for a DVD 5 are said to amount to USD 0.1985 and for a DVD 9 to USD 0.2016), but of how manufacturing costs are generally structured at pressing facilities under exhaustion of the possible and reasonable savings potential. Only a contemplation in this sense aimed at the average ensures that the allegation of exploitation abuse is not unjustifiably based on the special business economics of one particular competitor whose degree of rationalization may potentially be insufficient or whose remaining operating efficiency is in need of improvement but on the production and distribution conditions typical for the dominated market. However, the Defendants have submitted no information whatsoever about the general cost situation at the pressing facilities. Moreover, the fact that according to the unrefuted information provided by the Plaintiff 114 pressing facilities worldwide having a market share of 88% are licensees of [REDACTED] (and thus pay license fees according to the Standard Agreement), with 44 being enterprises based in Europe, is evidence of the fact that successful participation in the competitive arena is evidently not placed in jeopardy by the licenses demanded.

(3)

To the extent that the Defendants point out that a particularly abrupt price decline in the covermount pressing sector has taken place, where such covermounts accounted for approximately 45-50% of the Defendants' entire business, this too does not justify any other evaluation. It is possible that the license fee burden, which is uniform over all market segments (small production runs, orders from film companies, orders at times of low capacity utilization, covermounts) places the Defendants under special cost pressures due to the significantly above average processing of covermounts.

The allegation of exploitation abuse cannot be derived therefrom directly because it is not the task of antitrust law to enable each and every competitor regardless of their specific orientation on the market in question to enjoy a profitable participation in the economy. Especially because the pool members are under the obligation to treat all license applicants equally, as pointed out by the Defendants themselves in another context, it is justified that the licensing conditions are based on the average conditions prevalent on the dominated market. Ex-factory prices especially on the covermount pressing market segment can therefore not be decisive (or even exercise any kind of influence worth mentioning) in the determination of appropriate license fees for the simple reason that at 5% their market share is negligibly small.

ff)

Nor have the Defendants proven an antitrust violation on the basis of discrimination.

(1)

On a legal basis the Defendants hold the point of view that discrimination should be considered to occur especially when access to a downstream market depends on following the teaching according to the patent on the basis of a standard or standard-like framework conditions and the patent owner takes advantage of this circumstance in order to limit access to such market according to criteria that run contrary to the goals of freedom of competition embodied in the GWB (BGH, GRUR 2004, 966 - *Standard-Spundfass*). If the patent owner wishes to treat different licensing applicants differently in that it excludes some of them entirely from licensing or offers them licenses at conditions that are less favorable than those offered to other licensees, it must substantiate such conduct with objective reasons. No requirements that are too lenient should be set for such objective justification if the technical teaching of the licensed patent has been elevated to the rank of an industry standard, so that the patent owner's market dominance is not (solely) the result of the technical progress inherent in the patented invention, but essentially also of the fact that due to the existence of the industry standard demand for other competing technical solutions is prevented *ab initio* (BGH, GRUR 2004, 966, 968 *Standard-Spundfass*). Whether such

unequal treatment is objectively justified depends on whether the relevant worse treatment of the companies concerned is normal competitive practice by which the specific offer appears to be in compensation of certain interests or is to be attributed to arbitrary considerations and/or economically / entrepreneurially irrational 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.

Having said this, the substance of the Defendants' argument is fundamentally that independent pressing facilities are discriminated against by the fact that the members of the 4C and of the 6C pools as well as [REDACTED] have granted one another free cross-licenses, a fact that benefits their respective group pressing facilities, namely [REDACTED], [REDACTED] ([REDACTED]), and [REDACTED] ([REDACTED]) in the competitive arena. Also legally significant is the further assertion of the Defendants that the [REDACTED] company has secretly been granted preferential conditions by [REDACTED], according to which the maximum annual license fee owed would be USD 2,000,000, which in view of [REDACTED] very significant production volume would be of great benefit to that company. The fact that the Defendants' defense is nonetheless unsuccessful is due to the fact that the Plaintiff has admissibly refuted the allegations of discrimination and that the Defendants, on whom rests the burden of proof, have not provided evidence therefor.

(a)

As concerns the alleged cross-licenses they refer exclusively to the obtention of an expert's report, which can obviously not clarify the situation. Since the matter at issue concerns contractual arrangements between two different companies, essentially only a witness statement could be taken into consideration, which is however not provided by the Defendants. The Defendants also do not refer to written contractual documents concerning the cross licensing activities, nor are there any other elements to evidence their existence. Documentary evidence is therefore just as inapplicable as a potentially automatically possible disclosure order according to §§ 142, 144 ZPO. Such order would in addition enter into the realm of undue discovery, given that it has not been stated on the basis of what sustainable knowledge the Defendants came to the assumption that the pool members had granted one another free reciprocal licenses. The same objection is to be raised concerning the Defendants' request that the Plaintiff should submit all licensing agreements concerning

patents belonging to the MPEG-2 Standard including the pertinent license billings for pressing facilities based in the European Union. The argument that pressing facilities receive equal treatment from [REDACTED] does not constitute part of the Plaintiff's burden of demonstration and proof; rather, it is, on the contrary, up to the Defendant to prove unequal treatment in at least one case. To do so, mere suspicion is not sufficient; verifiable facts are required that would render the non-payment of licensing fees at least probable. Such circumstances were not demonstrated by the Defendant, and primarily not because the only substantiated information concerns the Defendant's as to 1) own cost structure, which is not immediately representative for the entire sector. Even if the cost and profit situation of the Defendant as to 1) should not enable it to effect license payments in the amounts corresponding to those set in the Standard Licensing Agreement, this still does not in any manner mean that circumstances at other pressing facilities are equivalent, so that the assumption should be made that such license payments are, as has been asserted, not actually made.

(b)

As concerns the DVD manufacturer [REDACTED], the Chamber has become aware on the basis of a parallel infringement suit that this company has in the meantime purchased a license under Standard Agreement conditions by way of settlement.

(c)

The gathering of evidence carried out as to the alleged preferential conditions made available to [REDACTED] in Case No. 4b 0 508/05 has not yielded any solid proof. According to his own statement, witness [REDACTED], deposed in this connection, had not seen any contractual documents that would differ in content from those submitted by the Plaintiff, and by means of which [REDACTED] would have received a maximum license of the alleged kind from [REDACTED]. He merely indicated having seen a letter from [REDACTED] at [REDACTED] offices in London on November 16, 2004. This letter, whose exact wording the witness did not remember, allegedly dealt with an arrangement as a result of which an annual [REDACTED] license fee of USD 2,000,000 was "to be calculated" in respect to the European DVD production. The fact that the said sum was supposed to have been quoted as being a maximum amount was not confirmed by the witness upon cross-examination.

With the above described content the [witness] statement is unable to provide proof of preferential treatment of [REDACTED]. A first imponderable results directly from the fact that the witness is merely reporting on a communication concerning the content of the agreement. To this extent the possibility that the communication relied on an inapplicable understanding of the actual agreement must be taken into account. Even if this concern were however pushed into the background, the witness' statement that an annual amount of USD 2,000,000 "should be calculated" for MPEG licensing fees can be understood, informally and even obviously, to be a mere estimate of the sum to which the contractual license fees would probably amount when taking into account the forecast unit numbers for the European [economic] area, which would therefore have to be incorporated into [REDACTED] financial planning. Such understanding could only be rendered impossible if [REDACTED] European production volume were to have made an amount exceeding USD 2,000,000 when applying the contractual unit license to be expected with certainty. However, there is insufficient foundation for this assumption. The evidence also does not result from the license payments communicated by the Plaintiff for the [REDACTED] group amounting to more than USD 100,000,000 since January 1, 2003. On the one hand the License Agreement concerns the production of DVDs worldwide and not only in the European area; on the other hand it includes all group companies, while the letter mentioned by the witness probably referred only to the British [REDACTED] company and its production. All else is unsubstantiated.

Nor is any certainty in conclusions concerning the granting of a maximum license made possible by the witness' remark that when applying for pressing contracts from [REDACTED] (which it was allegedly unable to perform itself and had therefore assigned to third party firms) the bid prices were supposed to be shown without taking into account 3C-, 4C-, MPEG and OVA licenses. The background for this course of action could simply have been that [REDACTED] debits the license fees in cases of third party execution of pressing orders as well as for DVDs produced in its own manufacturing facilities and is therefore – rightly – not prepared to pay the corresponding licensing fees as part of the compensation for the outsourced production again (therefore twice). Premature conclusions to the contrary are not possible in the present case, all the more so since, by their naming of the management of [REDACTED] or [REDACTED] as witnesses, the Defendants would have had the power to seek further clarification of the situation.

(d)

To the extent that the Defendants make a blanket assertion that the Polish company [REDACTED], insofar as it may be a licensee of [REDACTED], definitely does not pay the unit license fee of USD 0.03, and that they proffer witness evidence therefor, this need not be further discussed. The Defendants do not indicate what license conditions the [REDACTED] company is supposed to have been granted instead. However, this is legally relevant because the question of discrimination would have to be answered in the negative if for example a reduced license fee had been agreed upon from a specified number of pieces onwards but the licensee's actual capacity would preclude entering into the enjoyment of this compensation arrangement. Given that the Defendants have not brought forth further arguments concerning the type of the alleged preferential treatment, an examination of the said witnesses would be equivalent to first unearthing, by way of gathering evidence, legally relevant facts that should have been brought forth by the Defendants. This is procedurally inadmissible.

(e)

The reference made by the defendants only at the hearing on October 31, 2006 to a letter from [REDACTED] dated November 15, 2004 to [REDACTED] is incorrect. Insofar as the document contains provisions under item (7) on license payment in cases of customer returns, this does not result in any preference for an individual licensee in the MPEG 2 standard, because the plaintiff has stated without contradiction that the document in question is sent to all licensees after conclusion of the MPEG 2 standard license agreement. This assertion is confirmed by the introductory note of the letter, in which it is expressly stated that, with regard to the execution of the contractual license, the licensee is provided with instructions on the understanding and handling of various contractual clauses by [REDACTED]. The end of the letter is also consistent in stating that the interpretative notes and enforcement practices are an addendum to the license agreement. The immediately preceding remark, according to which the licensee already relied on the interpretations set out in the letter of 15.11.2004 when concluding the license agreement, does not express anything more than that these are provisions of content which are to apply to the contractual relationship from the outset and therefore do not represent a set of rules which only came into force at a later date. Irrespective of all this, the factual

submission of the defendant - who is obliged to prove unequal treatment - does not indicate when the license agreement between [REDACTED] and [REDACTED] came into existence. For this reason alone, the plaintiff's assertion that the cover letter of November 15, 2004 is dated after - and not before - the conclusion of the license agreement is un rebutted. If, however, the letter is not sent in advance, the defendants cannot derive anything from the fact that such a letter was not submitted to them in the course of the - unsuccessful - license negotiations with [REDACTED].

(f)

Finally it can be presumed in favor of the Defendant that – and this is the only concrete argument brought forth by the Defendants – on October 10, 2005 [REDACTED] submitted an offer for the pressing of covermounts in the amounts of EUR 0.19 (DVD 5) and EUR 0.20 (DVD 9) to the [REDACTED] publishing house. This price structure alone does not make it possible to establish (within the meaning of a situation reasonably excluding any other course of events) that [REDACTED] must be released from the obligation to pay license fees. Rather, the possibility should be taken into account that [REDACTED] was only able to submit the said offer due to an above average favorable corporate cost structure superior to the circumstances in effect at the organization of the Defendant as to 1). It is further conceivable that this offer may have been an isolated action for price dumping purposes without any appreciable own profit markup. At least, the Defendants' arguments do not provide any foundation for a priori excluding a scenario of this type.

(2)

Unequal treatment exists not only when the market dominant patent owner grants individual license applicants preferential contractual conditions refused to others, but also when it selectively asserts its prohibitory rights arising out of the patent by bringing actions for infringement against individual competitors in order to force them into the Licensing Agreement, while allowing other competitors to continue making use of its patent. In its actual consequences a litigation strategy of this kind means that part of the competitors are granted free licenses, while others only receive paying licenses. Of course, not every claim for infringement objectively disregarded over a certain period of time justifies the allegation of discrimination. Rather, "abuse" assumes that the spared competitor is an infringer that is known to the patent owner or is only not identified owing

to violation of the duty of market observation and against whom the patent owner should take action as a result of the entire set of circumstances – including e.g. the scope of the utilization and the legal protection options in the country in which the suit would be brought. In the interest of the equal treatment required by antitrust law, however, the bar of reasonableness should of course not to be set too high.

On the basis of the principles set out above, the Defendant's arguments are not suitable for meeting the standard applied to evidence of discrimination. The Plaintiff has submitted a list of 1063 named licensees of [REDACTED] worldwide, explaining that they included 114 pressing facilities having a market share of 88%, 44 of which are enterprises based in Europe. While the Defendants countered this by saying that there are more than 100 active pressing facilities in Europe, they did not provide concrete evidence of this assertion. Aside from the Polish company [REDACTED], which is however evidenced as being No. 911 in the list of [REDACTED] licensees, and from [REDACTED], equally based in Poland, which undisputedly is not among [REDACTED] licensees, the Defendants have not named a single pressing facility that makes unhindered use of the MPEG-2 Standard without being in possession of a license. Only with appropriately specific information to which the Plaintiff could have reacted would the Defendants have been able to discharge their burden of proof concerning the assertion that the members of the MPEG-2 pool dispense unequal treatment to users of the Standard in that they abusively tolerate patent infringements of the technology pool they have placed under [REDACTED] management. Only to the extent that the Defendants refer to the activities of the unlicensed company [REDACTED] does their argument possess sufficient substance. With the reference made to the offer letter submitted by the Plaintiff however the Defendant's own statement reveals that [REDACTED] has only been doing business on the European market since February 2006 (with no concrete evidence to the contrary at least), with the pertinent offer documentation neither being publicly accessible (e.g. on the Web) nor addressed to [REDACTED] or to a pool member, but having been sent to [REDACTED] in Fürth, Germany. In this situation the Plaintiff's defense, namely that it only learned of [REDACTED] activities in May 2006 and thereupon initiated the necessary steps for legal action against the company is credible and sufficient to dispel the allegation of discrimination. According to the Plaintiff's unrefuted statement made at

the hearing of October 31, 2006 in connection with the parallel suits 4b 0 350/05, 4b 0 508/05 and 4 b 0 548/05 some ten letters have been exchanged so far as part of the pre-trial correspondence. In the event of failure of the negotiations, the Plaintiff has announced that it would naturally also consider court proceedings. The fact that this announcement is serious is substantiated not only by the infringement claims pending at the Chamber against another German pressing facility, which have in the meantime been concluded by a settlement, but also by other patent infringement actions brought against various European pressing facilities in the past before the Düsseldorf District Court.

3.

In view of the findings, the Defendants' objection that it were a violation of antitrust law that a total of 15 patents out of the MPEG-2 technology pool are being asserted against it in the simultaneous proceedings brought before the Düsseldorf District Court fails. As set out above, the Defendants refuse to execute the Standard Licensing Agreement. Given that no legal objections were recorded against the licensing conditions as shown, so that it would have been reasonable for the Defendants to buy a license at the terms offered to them, it is the legally enshrined right of every patent owner to enforce its claims in connection with unlawful infringement of its patent with the help of the courts if necessary. The fact that in this case this is taking place in a coordinated series of suits is not objectionable under either antitrust or other legal points of view; more particularly, the initiation of the legal actions also does not constitute abuse of legal rights. Rather, the opposite is true: The Defendants' argumentation aims at obtaining that the patent owners accept the Defendants' continued patent infringement, although the Defendants refuse to accept a license under appropriate and equal conditions. A consequence of this type, branded by the Defendants themselves in another context as being in violation of antitrust law, is absolutely untenable.

VI.

Owing to the established evidence of infringement, the claims are well-founded within the adjudicated scope.

1.

The Plaintiff does not direct its complaint against the DVDs undisputedly produced and sold by the Defendant as to 1) with encoded video data and/or video films. Its complaint is solely directed at the templates required for pressing the DVDs, i.e. the DLT tapes, DVD-Rs, masters and/or stampers. The Defendant as to 1) should therefore be considered to be an infringer first because it has itself used the patented invention in an unauthorized manner by means of the pressing of stampers and DVDs, whereby the following applicable utilization acts pursuant to § 9 Sec. 1 Paragraph 2 No. 3 PatG were performed: offer, distribution, use, or for such purposes either import/introduction or possession. In addition, the Defendant as to 1) must assume responsibility for the actions of [REDACTED]. The Defendants as to 2) and 3) are personally liable for complicity on the basis of their capacity as managing officers (cf. OLG Hamburg, GRUR-RR 2006, 182 - Miss 17) pursuant to § 831 BGB to the same extent as the Defendant as to 1).

a)

Concerning the Defendant as to 1)'s own production and sales activities, it is undisputed between the parties that the Defendant as to 1) obtains DLT tapes, DVD-Rs, or masters as pressing templates from its customers directly or via an authoring studio. By means of these templates, which the Defendant as to 1) does not produce itself in its pressing facilities, the Defendant as to 1) produces a glass master from which in turn a stamper is produced, which is ultimately used for DVD reproduction.

aa)

In the situation described above, there is "utilization" in connection with the stampers constituting the subject of the action. This utilization is performed by the Defendant as to 1) when it employs the stampers for their intended use, i.e. to press DVDs with the same data content on a serial production basis. The utilization act category "possession" also applies to the Defendant as to 1). Actual [possession] authority over the item required according to

economic criteria (Benkard, op. cit., § 9 Subitem 48; Busse, op. cit., § 9 Subitem 82; Schulte, op. cit., § 9 Subitem 50) must be present for the purposes of the utilization acts mentioned in § 9 Paragraph 2 No. 3, which cannot be affirmed by the Defendant as to 1) in connection with the manufacture of the stampers because possession of the product logically imperatively follows the producer, so that if the item has already been manufactured there can be no further question of possession for the purposes of manufacture (Busse, op. cit., § 9 Subitem 82). The Defendant as to 1) however has the stampers it manufactures in its possession in order to use them as a pressing template as described above.

In contrast, there is no evidence of offering, placing on the market and importing of the "Stamper".

An offer within the meaning of Sec. 9 Patent Act shall be any act to be regarded commercially which is intended to enable or promote the conclusion of a transaction concerning an object protected by the patent. An act is sufficient which makes it recognizable to a specific or arbitrary third party that a sale or transfer of use is intended and which is intended to encourage the recipient to acquire ownership or use of the product which makes use of the teaching of the patent in suit (BGH, Mitt 2005, 372 - Radschützer; 2003, 1031 - Kupplung für optische Geräte; 1970, 358 - Heißläuferdetektor; OLG Düsseldorf, GRUR 2004, 417; Benkard, loc.cit." § 9 marginal no. 41; Busse; aaö, § 9 marginal no. 72; Schulte, aaO, § 9 marginal no. 45).

Such an act cannot be recognized with regard to the "Stamper". The defendants themselves have expressly denied offering and claimed to use the "Stamper" only for internal purposes, namely the duplication of DVDs. The plaintiff has not countered this. There is no factual argument as to what could be seen as an act of offering with regard to the "Stamper". Instead, the plaintiff confines itself to comments on the defendant's participation in an offer of the "authoring and digitization" service provided by [REDACTED] "Authoring and Digitization". The "Stamper" produced by the defendant to 1) is however indisputably no component of this achievement; Also from the documents with the file - the order procedure [REDACTED] or the various Internet excerpts - is not to be understood. Internet excerpts - it cannot be seen that the "Stamper" is produced and used for other than the "internal" purposes explained by the defendants, for example that it is intended to leave the pressing plant of the first defendant and/or to be used by the customers themselves. and/or to be used by the customers themselves. Rather, the Internetseite [REDACTED] suggests a contrary conclusion. AaO (1st

paragraph) states that a sample of the master DVD is sent to the customers and that a master tape is then produced which the customers can make available to a pressing plant or have pressed by [REDACTED]. Consequently, (only) a sale or transfer for use of the "master" and/or the "master tape" is envisaged; not, however, a sale or transfer for use of the "stamper". The latter is thus a necessary component of the manufacturing process for the final product "DVD"; however, it does not have its own independent significance as a tradable "product" outside the pressing plant.

Placing in circulation presupposes the transfer of the actual [possession] authority over the patented product and/or the direct process product in a manner such as to enable a third party to use the product (Benkard, op. cit., § 9 Subitem 44; Busse, op. cit., § 9 Subitem 77; Schulte, op. cit., § 9 Subitem 46). No foundation can be found for this in the evidence submitted by the Plaintiff, who bears the burden of proof in this respect. According to the Defendant's unrefuted argument, the stampers are only used in its own pressing facilities as templates. No transfer of possession or control or utilization by the customers of the Defendant as to 1) is apparent.

There is also insufficient evidence for the alternative act of import or introduction. In this connection, it is not admissible to draw on the fact that the Defendant as to 1) has customer contacts in Austria and in Switzerland. Undisputedly, the Defendant as to 1) (never) gets stampers from its customers: rather, the Defendant itself manufactures them on a domestic basis.

bb)

A similar legal situation exists for the DLT tapes, DVD-Rs and masters that serve as pressing templates. These items are undisputedly not manufactured at the pressing facilities of the Defendant as to 1) but, rather, made available by its customers and/or the authoring studios. Nor does the Defendant as to 1) offer production of such masters or the masters that have been produced; it also does not place them in circulation. The Defendant as to 1) only supplies the finished product (DVD).

The Defendant as to 1) does, however, use the DLT tapes, DVD-Rs or masters, because they serve as a template for the stamper, which in turn is used as a die to press the DVDs. The Defendant as to 1) has the DLT tapes, DVD-Rs or masters in its possession also in order to use them. Contrary to what is the case with the stampers, in this case import/introduction can also be assumed. The Defendant as to 1) works not only with/for [REDACTED], which is based in Germany; according to its own statements, rather, it has a number of customers, and its sales territory also includes Switzerland and Austria. Against this background, a cross-border transfer for use of a master prepared by a customer based abroad to the Defendant as to 1) for purposes of serial production is both possible and probable.

b)

The Defendant is also liable from the point of view of attribution/imputation (§830 BGB) for the manufacture and sale of DLT tapes, DVD-Rs and masters by [REDACTED].

aa)

For § 830 BGB to apply it is irrelevant whether complicity or aiding and abetting is to be assumed, as both forms of participation receive the same penal classification in § 830 Sec. 2 BGB within the meaning of a comprehensive mutual and reciprocal attribution/imputation of the corresponding contribution to the deed. Therefore the conclusion that in addition to the awareness of the circumstances of the deed the individual participants at least in general terms also have the individual intent to perform the deed together with others or to further it as a third party act is sufficient; objectively, a participation in the performance of the deed that will in some way further its commission and be relevant therefor must also take place (BGH, NJW 1998, 377; BGHZ 89, 383). For the area of patent law, in view of these principles the Federal Supreme Court has rendered any form of participation in a patent infringement act sufficient to substantiate liability (BGH, GRUR 2004, 845 – *Drehzahlermittlung*, “RPM determination”) and considered any person having in any manner whatsoever, intentionally and causally adequately collaborated in bringing about the unlawful patent infringement as being an infringer, where the support or exploitation of a patent infringement act of an independently acting third party suffices provided that the person the claim is directed against had the legal possibility to prevent such actions (BGH, NJW 2000, 213 - *Räumschild*; GRUR 1995, 62 - *Beton-erhaltung*).

(1)

Participation on the part of the Defendant in the patent infringement acts of [REDACTED] can however not be justified exclusively with the circumstance that the Defendant as to 1) is a majority shareholder (51%) in that corporation and/or by the fact that the Defendant as to 2) is not only the Managing Director of the Defendant as to 1), but also the Chairman of the Supervisory Board of [REDACTED]. Thus neither the Defendant as to 1) nor the Defendant as to 2) intentionally and causally adequately contributed to bringing about the unlawful patent infringement and/or furthered it thus creating grounds for their own liability (cf. BGH, NJW 2000,213 - *Räumschild*).

According to §§ 76 Sec. 1, 77 Sec. 1 AktG the management of a corporation and the business management are the responsibility of the Board of Directors, which represents the corporation to the outside world pursuant to § 78 AktG. Within the scope of its management competency, the Board of Directors is therefore responsible for corporate planning, coordination, control, and the staffing of executive positions, and within the scope of its business management competency, for all factual and legal acts of the corporation. The Board of Directors performs both the corporate and the business management function independently and at its own discretion. It is not subject to instructions from other corporate bodies. This is particularly valid as compared to the Supervisory Board, which is limited to supervisory activities according to § 111 Abs. 1 AktG. Business management functions may not be transferred to the Supervisory Board (§ 111 Sec. 4 Paragraph 1 AktG). Although the Supervisory Board is particularly charged with ensuring proper business management, and despite the fact that it has the possibility to prevent certain activities of the Board of Directors from taking place, or to take the individual measures mentioned in § 111 AktG, it has no right of instruction by means of which it could enforce positively determined measures. Equally, the Board of Directors cannot provide instruction to shareholders. Shareholders can only exercise their influence on the business and corporate managements when they are the controlling enterprise and there is a control agreement pursuant to §§ 308, 291 or if it has become the main enterprise as a result of a merger of the corporation into the group, § 323 Sec. 1 AktG (Hüffer, AktG, 6th Ed., § 76 Subitem 10 et seq., 18 et seq.; § 111 Subitem 6 et seq.). Mere existence of a control relationship within the meaning of § 17 AktG, as is suspected here, is not sufficient.

Against this background the existing interlinkage could be of importance when trying to determine what knowledge and awareness possessed by the Defendant as to 1) as a

majority shareholder and the Defendant as to 2) as the Chairman of the Supervisory Board. Both are fully aware of the corporate purpose of [REDACTED] and of the services it provides. However, as a consequence of their respective capacities as shareholder and Chairman of the Supervisory Board they have no (positive) influence on concrete corporate and business management. They are precisely excluded from such influence because both functions – corporate and business management – are the exclusive responsibility of the sole director, [REDACTED]. The fact that the Defendant as to 1) has entered into a control agreement with [REDACTED] has neither been argued nor is it apparent.

(2)

With its Internet presence under the url [REDACTED] the Defendant as to 1) however causally adequately contributes to bringing about patent infringement by [REDACTED], because the manufacture and sale of the masters is certainly objectively furthered by this site.

The abovementioned Internet site is an advertising presence of the Defendant as to 1). It is irrelevant that [REDACTED] is the owner of the corresponding domain and that it has designed the site. Aside from the fact that the address portion "[REDACTED]" is the acronym constituting the beginning of the Defendant as to 1)'s company name, the Defendant as to 1) welcomes visitors to its website indicating its company name, its telephone number and its logo. In the mention set out under the heading "Aktuell" ["Latest News"] first the sales and marketing activities of the Defendant as to 1) in Germany, Austria, and Switzerland are described, and [REDACTED] is listed merely as the subsidiary acting in this capacity on behalf of the Defendant as to 1). There follows a reference to the pressing facility operated by the Defendant as to 1). It is not asserted that all this information has been published by [REDACTED] without the knowledge and intent of the Defendant as to 1) and without its participation and/or its consent, and against the background of the corporate interlinkages between the Defendant as to 1) and [REDACTED] this is also counterintuitive.

On the Internet site, the Defendant as to 1) presents the broader – original – service panoply of [REDACTED], introducing it as a company specializing in all aspects of service in matters concerning optical data carrier media and simultaneously one of the largest DVD authoring studios in Germany, with broad and extensive experience in the

area of DVD programming. It further promotes the service with the remark that [REDACTED] offers a "state-of-the-art" technology for the production of DVDs.

With this advertising presentation of [REDACTED] the Defendant as to 1) directly supports [REDACTED] business activities as a DVD authoring studio. The Defendant as to 1), which undisputedly does not itself perform the encoding necessary for pressing DVDs, refers its customers to [REDACTED], thus furthering the latter's offer of DLT tapes, DVD-Rs, and masters. The support is all the more sustained since the Defendant as to 1) exclusively mentions [REDACTED] as the provider for the required pre-pressing service in the form of data encoding and the creation of the pressing templates. A potential customer who would place an order for the serial production of a DVD with the Defendant as to 1) is thus made aware on the one hand of the need for authoring and is, on the other hand, directed to a single, specific authoring studio he or she may not have known until then, where the necessary preliminary services can, and should, be purchased.

Reference to the services provided by [REDACTED] is reinforced by means of the hyperlink "[REDACTED]" on the website. If the visitor clicks on the link, he or she is immediately redirected to the page [REDACTED]. The possibility of access to the offerings proposed by [REDACTED] is thus knowingly and intentionally facilitated; the user is immediately enabled to find [REDACTED] website and to acknowledge its contents. The placing of a hyperlink is in and of itself a neutral act which, similarly to a text reference mention facilitates finding the website by means of a pertinent reference; by means of the address box the user also realizes that in clicking on the hyperlink he or she is leaving the site originally called up and moves to a site belonging to another company (cf. concerning liability for hyperlinks the following decisions, mostly relating to copyrights and trademarks: BGH, NJW 2004, 2158 - *Schöner Wetten*; 2004, 3102 – Disturbance liability of the online auction house in platform model auctions; 2003, 3406 - Paperboy; OLG Munich, GRUR-RR 2005, 220 – Identification/registration relevant actions by linking to a lottery; LG Hamburg, NJW 1998, 3650; fundamentally: Hoffmann, NJW 2005, 2595; ditto NJW 2004, 2569; MüKo-BGB Complementary Volume - 28.02.2005 Subitem 534 f.; Ott, WRP 2006, 691; Schreiber, WRP 2005, 442; Spindler, MMR 2002, 495; Stadler, JurPC Web-Dok. 2/2003, Sec. 1-95). In view of the overall

design and structure of the website [REDACTED] however, all neutrality is given up. The Defendant as to 1) makes targeted, intentional, direct, and exclusive reference to a specific company, with the purpose of the reference already being revealed in the advertising for the Defendant's own company. From the point of view of the traffic sought, the Defendant as to 1) clearly claims the content of [REDACTED] web pages as its own, and thus as a result the latter's patent infringing acts, on which the Defendant as to 1) then builds with its DVD pressing activities. The Defendant as to 1) is aware of the content of [REDACTED] website and in particular of the use of the MPEG-2 Standard in authoring work. Directly on its own website the Defendant as to 1) already states that [REDACTED] uses "state-of-the-art" technology. This can in any event also be considered to include the MPEG-2 Standard, which – as can already be determined from the first page of [REDACTED] internet presence – is used not only for the masters the company produces, but also via the quality test whenever customers merely order plain DVD pressings from [REDACTED]. The headings visible on the first page of [REDACTED] site lead the user – if the Authoring service is chosen - to the url [REDACTED], which sufficiently describes [REDACTED] "complete service". There, digitization into the MPEG-2 format is explicitly mentioned. The same applies to the "Video Encoding" tab.

(3)

The ordering process presented by the Plaintiff in connection with [REDACTED] [for the test order placed on] July 19, 2005 confirms the company's participation in the infringement.

The documents then firstly reveal the sales activities of [REDACTED] on behalf of the Defendant as to 1), undisputed between the parties, concerning DVDs pressed by the latter in Germany in the period starting in June 2005. It is moreover documented that the Defendant as to 1) also forwards (small) orders received from customers who already have pressing templates for technical processing to [REDACTED] thus automatically involving it in its activities. There is not only a referral of contact data. For, assuming correct understanding, the email address [REDACTED] belongs to the Defendant as to 1) and not to [REDACTED]. This follows not only from the use of the company acronym employed by the Defendant as to 1), but also from the mention of the said email address on the website of the Defendant as to 1) as well as, finally, from the

existence of the email address [REDACTED], which is used by [REDACTED] in correspondence as its own email connection. Although [REDACTED] had sent an enquiry to the address of the Defendant as to 1), [REDACTED] contacted [REDACTED] without a message transfer notification. This took place not merely on a purely commercial level, as will follow from [REDACTED] Internet presence. That site states that since early December, 2003, [REDACTED] tests all DVD productions for encoding, authoring and mastering quality. This service is also said to be available to those who place pure pressing orders via [REDACTED]. Customer masters, too, are verified for correct MPEG-2 encoding. The pressing templates that are ultimately received by the Defendant as to 1) therefore correspond to the Standard.

By transferring incoming enquiries, the Defendant as to 1) also knowingly and intentionally furthers the authoring performed by [REDACTED]. Whether this process results in [REDACTED] "own" contractual relationship with the customer or not is just as irrelevant for the issue of the tortious participation activity as is a differentiation between small and large orders.

c)

To the extent that the Plaintiff does not make use of its collaboration with [REDACTED] for its pressings but, rather, has among its customers companies that have the necessary masters prepared in other authoring studios the attribution/imputation of action does not come into play. The Defendant as to 1), who performs the pressing of the finished product, the DVD, is dependent for its professional activity on obtaining the templates necessary for the pressing process in a DLT tape, DVD-R or master format. For the pressing template manufacturers, conversely, it is essential that the masters they produce can be sold. The templates are not produced as stock but only as needed and in connection with a specific pressing order. Viewed in this way, both – pressing facility and authoring studio – are factually mutually interlinked branches of one and the same production process, coordinated in their business actions. From a pure causality point of view it is therefore indisputable that by means of its DVD pressing offer and the consequent demand for DLT tapes, DVD-Rs, and masters the Defendant as to 1) furthers the manufacture and offer of such patent infringing "preliminary products". It may remain open whether under the given circumstances the question as to evidence for attribution should directly be answered in the negative on the basis of fundamental considerations, because the Defendant as to 1) does not itself place the order for the

masters with an authoring studio (as would a kind of general contractor), but merely uses DLT tapes, DVD-Rs, and masters provided by third parties (e.g. by a film company or similar) in order to, basing itself on such media, provide its own commercial service (namely the pressing of the DVDs). The fact that by its business activity the Defendant as to 1) creates a demand for products that will predictably utilize a technical patent would, as the authoring can simply be performed under license protection and thus legally, in any event only be taken into consideration if it could be alleged that the Defendants had collaborated with an unlicensed authoring studio. The Plaintiff has not put forward any substantial arguments therefor. As according to the Plaintiff's explanations it is clear that [REDACTED] licensees include authoring studios, but the exact number of licensed and unlicensed studios is not reported, it cannot be assumed that according to real life experience and taking into account the high volume of the Defendant as to 1)'s business it could be postulated that in the past there would have been at least one case of use of unlicensed masters.

2.

Within the scope of their own and any allocatable third party utilization acts, the Defendants owe it to the Plaintiff to cease and desist in accordance with Art. 64 EPÜ, § 139 Sec. 1 PatG.

As taking into account the due care required from the Defendants as a specialized technical enterprise the patent infringements should have been recognizable and avoidable, the Defendants are guilty at least of negligence, substantiating their liability for damages (Art. 64 EPÜ, § 139 Sec. 2 PatG). The allegation of tort arises out of the fact that the Defendants have omitted to implement due diligence that would have been possible and reasonable for them in respect to potential utilization of the patent at issue, and that they can also not claim trust on their side in regard to the patent law situation already having been reliably tested at the authoring studio level (Cf. BGH, GRUR 2006, 575 - *Melanie*). The Defendants were obviously aware of the existence of the MPEG-2 Standard. For the Defendants there could be just as little doubt about the

fact that the technical directions of the said Standard need to be complied with when encoding video signals (and which are indeed as a rule respected by the authoring studios in practice) and that the Standard covers multiple patents. In this situation it was immediately obvious that masters used by the Defendant as to 1) for their business activities make use of third party patents falling under the MPEG-2 Standard. The Defendants would therefore have been under the obligation to ensure compliance, which could (insofar as possible) have been accomplished with the help of an appropriate analysis software or by simple consultation with the authoring studio responsible. Assuming a lack of closer knowledge or awareness on the part of the Plaintiff about the exact scope of the infringement, the Plaintiff has a legal interest in having the Defendants' damage compensation liability established on the grounds first (§ 256 ZPO).

In addition the Defendants must, as awarded, provide an accounting to the Plaintiff so that the latter will be in the position to be able to quantify the damages to which it is entitled (§ 14Gb PatG, §§ 242,259 BGB).

The Defendants' liability for damages and provision of information shall, insofar as utilization acts that are attributable to the Defendants only via the imputation of the conduct of [REDACTED] are concerned, not be limited to the period starting on June 27, 2005 (the date of the Internet excerpt that triggers liability) and July 19, 2005 (the date of the [REDACTED] order). It is not generally part of a conclusive argument for the Plaintiff to date the first unauthorized utilization; rather, insofar as a single instance of patent infringement giving rise to a claim for damages has been demonstrated, damages and the corresponding accounting can be demanded on a regular basis for the period since the publication of the granting of the patent plus a qualifying or restriction period. No other procedure would be appropriate in the present case. It is not clear when the Defendant as to 1) published the Internet advertising discussed above. Clarifying this issue so as to enable the Plaintiff to provide a calculation of the damages it is entitled to is, however, the obligation of the Defendant within the scope of the accounting it is under the obligation to provide. A time limitation should however apply in relation to the date of the foundation of [REDACTED] (December 2001), since before the existence of [REDACTED] supporting activities for their business on the part of the Defendant as to 1) are inconceivable. The claim for abolition results from § 140a PatG.

VII.

The Plaintiff's claims have not become time-barred.

Pursuant to § 141, sentence 1, PatG, a claim for the infringement of a patent shall become time-barred in accordance with § 199 BGB – for this claim, therefore, on 1.1.2002 (§§ 105, 199, Sec.1, 204, Sec. 1, No. 1 BGB, § 147, Sec. 1, PatG, Art. 229 § 6 Introductory Act to the Civil Code (*Einführungsgesetz zum Bürgerlichen Gesetzbuch* or “EGBGB”) – which provides that the standard limitation period commences at the point in time at which the holder becomes aware of the circumstances giving rise to the claim (i.e., the commission of the infringement) and the identity of the party committing the infringement or should have become aware of such facts but for gross negligence. The evidence provided by the Defendants, however, did not contain the information necessary to make a ruling in this regard.

1.

The fact that the Plaintiff became aware of the infringement during a period which could have been time-barred has not been demonstrated by the Defendants.

Pre-trial correspondence of 17.09.2002 and 30.12.2003 only demonstrates awareness by [REDACTED], which, however, is not relevant for the Plaintiff. In accordance with the ruling of the German Federal Supreme Court with respect to § 852 BGB, awareness by an agent is fundamentally irrelevant and only awareness by the party whose rights have been infringed can be used to determine the commencement of the limitation period (see, BGH, GRUR 1998, 133, 137 – processing of synthetics). It is only if and to the extent that an injured person has entrusted a third party with the responsibility to resolve certain matters, that the holder of a right may, exceptionally, be deemed aware of the facts of which that third party has become aware in the performance of his duties (BGH, NJW 1989, 2323 mwH; NJW 1968, 988). Assignment of the awareness of patent infringements, in accordance with this rule, can only take place if the patent holder requests a third party to enforce patent rights (BGH, *ibid.* – *Kunststoffaufbereitung*, Processing of Synthetics).

This, however, has not been demonstrated in these proceedings. Although [REDACTED] [REDACTED] repeatedly reminded the Defendant as to 2) – obviously in accordance with instructions given by the pool members for the management of the technology pool –

to conclude a standard licence agreement (which would have also included the Patent at Issue), such a request to obtain a license does not represent the exercise of agency rights with respect to the patent. It has not been contested that [REDACTED] acts merely as an agent for the granting of licenses and, as such, has no additional powers with respect to the mandatory enforcement of licence rights.

It has also not been contested that the pool members had merely granted a non-exclusive license to [REDACTED] and reserved the right for themselves to grant licenses with respect to their patents. Considering its position as a mere licensee, [REDACTED] would have required the authorization of the relevant patent holder of the pool to enforce prohibitory rights with respect to patent infringements. The enforcement of any other claims (particularly claims for damages) would have required an assignment under substantive law. Neither has been demonstrated by the Defendants. To the contrary, the actual manner in which pool patent rights have been enforced (in these proceedings, the parallel proceedings and in proceedings that are currently pending before or have been adjudicated by this Chamber) demonstrates that it has always been the patent holders themselves who have taken action with respect to their prohibitory rights.

2.

It can also not be claimed that the Defendant's infringements were not detected by the Plaintiff due to gross negligence. Although the Plaintiff is aware of the fact that the Defendant as to 1) operates one of Europe's largest pressing facilities, and the Plaintiff has stated that the Patent at Issue falls under the MPEG-2 Standard, with which all pressing facilities must comply to assure that the DVDs produced in those facilities can be properly played on normal, commercially available DVD players, it was, consequently, immediately obvious to the Plaintiff that the Defendant as to 1) would have in the past needed and in the future will continue to need to use the MPEG-2 Standard. Testimony, however, has not been given either with respect to the point in time at which the Defendant as to 1) began to press DVDs, especially those complying with the MPEG-2 Standard, in volumes beyond the Plaintiff's assessment capabilities, or to the point in time from which use of the MPEG-2 Standard was made so that it could be ascertained with certainty that the pressing facilities were availing themselves of the Standard. Although it has been stated, with reference to other matters in connection with these proceedings, that the numbers of DVDs produced increased from 55,000 [sic] in 1997 to 1,800,000,000 in 2004, it is unclear what the number was in 2002. It is similarly unclear whether, and if so

the extent to which the Defendant as to 1) was engaged in the pressing of DVDs prior to 2002. There is no indication of a credible reason to believe that the circumstances prior to 1.1.2002 could have reasonably caused the Plaintiff to assume that the Defendant as to 1) was operating in accordance with the MPEG-2 Standard.

VIII.

Costs are awarded pursuant to § 92, Sec. 1, ZPO. The extent to which the Plaintiff has succeeded – in commercial terms – in its complaint and the extent to which the Defendants have been unsuccessful have been taken into account.

The orders for provisional execution are given pursuant to §§ 709, 108 ZPO.

IX.

The Defendants' pleadings of November 6, 2006 were only received subsequent to the oral hearings. Due to the delay, they were not included. This also does not justify reopening these properly concluded proceedings.

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