

**Intellectual Property Valuation in Practice  
Symposium  
Budapest, 27<sup>th</sup>-28<sup>th</sup> November 2008**

**Valuation of IP rights before the Court of  
Justice using the example of patents**

by

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# Federal Patent Court in Munich



The Federal Patent Court (FPC) is

- ✓ an autonomous and independent Federal Court,
- ✓ located at the seat of the German Patent and Trademark Office (GPTO) in Munich

# IP valuation by the Courts of Justice

- Valuation of IP rights in practice like for patents, utility models, trademarks or other IP rights is difficult and of course the answer depends on various economic aspects. It could be helpful to have a look on the question of the assessment of IP rights before the court of justice in IP litigation.
- In relation to the field of my work at the FPC I want to focus this question for the **patent litigation**. We will see, that we can find some interesting indications for the economic valuation of patents in relation to the fixation of the amount of dispute or the damages, even if the results depend on the different proceedings in the German “Dual System” and even if the results are not always representative.
- What are the points of contacts in the different proceedings?
- Are the results relevant for the question of an economic assessment of IP rights?

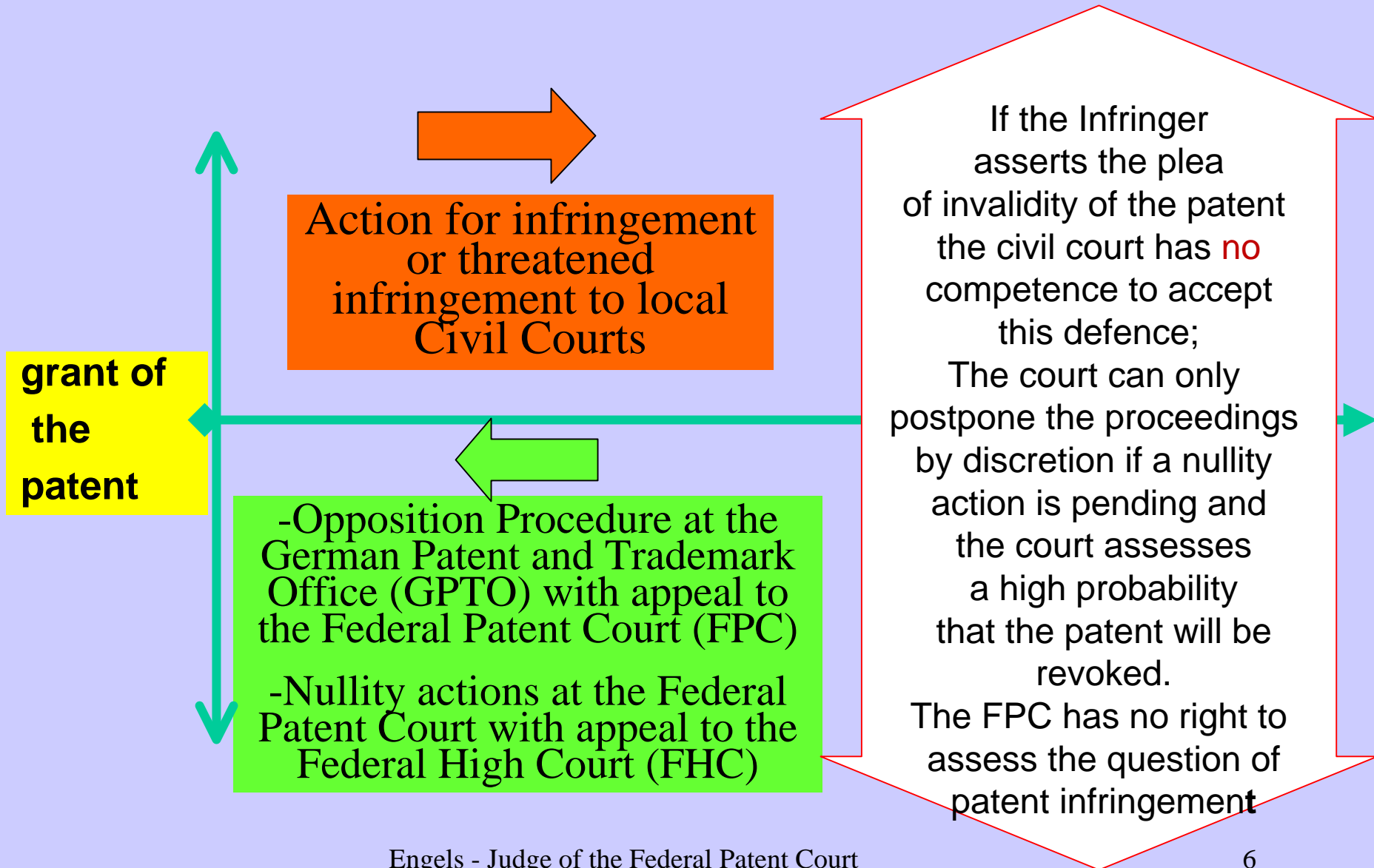
# Different criteria for assessment depending on the subject matter

- It is very important and instructive to be aware that the **amount of dispute fixed by the Court of Justice** represents the economic value of the dispute and that in patent litigation like in other IP litigation this criterion depends on **the matter of dispute that is claimed**.
- Therefore the criteria for an assessment necessarily differ in the German “Dual System” of patent litigation.
  - While the subject matter of the **Civil Courts** is determined by the **economic interest of the parties**, the patent holder as the plaintiff and the infringer as the defendant,
  - the subject matter **in invalidity proceedings** at the FPC is **not** determined by the subjective interests of the plaintiff in relation to the patent holder. Relevant is the **objective economic interest of the public**, which is **represented by the plaintiff’s action**.

# Points of contact for valuation of patents by the Courts of Justice

- If we look for relevant criteria for patent valuation by the Courts of Justice, which could represent or indicate the economic value of patents, we can find three possible connecting factors:
  - **the amount of dispute** – the FPC and the Civil Courts have to fix e.g. for the fees - depending on the different matter of dispute in nullity actions at the FPC and actions for infringement at the Civil Courts,
  - **the distribution of costs** - the FPC or the Civil Courts have to decide - in respect of the matter of dispute and the result of the examination (e.g. partially invalidity of the patent),
  - **the calculation of the damages** as a question of substantial law by the Civil Courts in infringement proceedings, but also in respect of the amount of dispute in actions for nullification at the FPC.

# The dual system – infringement and validity



# Jurisdiction of the FPC for patents

**Federal Court of Justice  
(FCJ „Bundesgerichtshof“)**

**BPatG**

**Actions  
for a declaration of  
nullity of a patent  
and supplementary  
protection certificates  
(SPC)  
(first instance and  
exclusive jurisdiction)**

**Appeals against**

**From January 2002 to 30 June  
2006 the Technical Boards of  
Appeal were also responsible  
for the decisions in opposition  
proceedings**

**decisions of the German Trademark and Patent Office (GPTO) in all matters related to  
patents, utility models , to semiconductor chip protection, Plant Varieties, trade marks**

# Supplementary aspect of IP litigation

- Before I will point out my aspect of IP valuation by the direct points of contacts in IP litigation before the Court of Justice I want to mention another aspect and issue of IP valuation that deals with the aspect of the **legal value of the IP rights**. With a regard to patents to have to ask the very important questions of
  - **trivial patents as an obstacle to innovation – a discussion we have in USA and in Europe at the national courts and the EPO**
  - **the quality and harmonization of examination and post examination standards for patentability**
- Therefore it is very interesting to have a look on the **invalidity quota at the FPC in nullity proceedings for patents**. The – expensive – disputes patent litigations **represent** the situation for used inventions and patent with a high economic value and a high interest in invalidation by the competitors.



# Statistics

- **GPTO 2007**
- Applications: 57394 (47012 Inland)
- Granted patents: 17739
- Opposition procedures: 807 (4,5%)

- **EPA 2006**
- Applications : 208500
- Granted patents : 62780
- Opposition procedures : 2641 (4,2%)

## Nullity proceedings 2007 :

<b>Caseload FCP</b>	234 (235) ;103 controversy decisions
<u>EU patents</u>	75% gesamt
nullification	59%
partially nullification	21%
demission	20%
<u>DE patents</u>	25% gesamt
nullification	58%
partially nullification	17%
demission	25%
<u>Appeal to the FCJ</u>	ca 60% (success about 12-15%)

# Valuation of the amount in dispute at the FPC

- Therefore - according to the permanent legal practise of the FCJ - the Nullity Boards of the FPC have to fix the **amount of dispute** relating to **the objective value** of the contested patent or patent claims, which are determined by the **general public interest in the nullification for the future and the past** (*vgl Schulte PatLaw 8. Edit. Sec. 2 PatKostG marg. note 36; Rogge in Benkard PatLaw 10. Edit. Sec. 84 marg. note 21*). This valuation is conditioned by the
  - **real value of the contested patent for the future**, that means the period beginning from the service of the action until the expiry of the patent protection and - as the case may be - inclusive the expiry of a granted supplementary protection certificates (SPC) for medicinal products (*Council regulation No 1768/92*) or for plant protection products (*Council regulation No 1610/96*).
  - additionally the claimed damages, beginning from the service of the action, whereas the amount of dispute of an infringement proceeding is only an indication.

# The real value of the patent in the past and future-factors for valuation

- Theoretically we can sum up and distinguish **two different factors** which represent **the real value** of the contested patent until its expiry:
  - a calculation of the expected patent holder's profit - based on the real profit in the past or the profit in the past calculated on the turnover and a percentage of due fictive royalties (*FHC GRUR 1985, 511 – Stückgutverladung*),
  - the expected real revenue of the patentee's profit or of licence contracts in respect of the contested patent, beginning from the service of the action until expiry of the patent,
  - whereas the Court has to take in account a deduction of risk for the future (*Rogge in Benkard PatLaw 10. Edit. Sec. 84 marg. note 21*).

# Valuation in practise at the FPC - rules

- In practise it is very difficult for the nullity boards to calculate the amount of dispute by sufficient facts and especially the patent holder has no interest to disclose his income. Fortunately the court can estimate the amount due to *Sec. 287 CCP* by own discretion.
- Therefore in nearly 100% of the cases the boards orientate their assessment of the real value of the contested patent in the past and for the future by an estimation of the value in respect of
  - the fixed amount of dispute in the case of a pending or finished infringement proceeding as a minimum
  - and their experience of average royalties in the relevant field of technology.
- In practise the amount of dispute in nullity proceedings is very high, in 1995 in average 0,75 million €, to my assessment a current statistic should account twice of this amount, whereas the amount of dispute is limited to 30 million € (*Sec. 39 GKG*) and therefore is not always representative for the real economic value of the patent.

# Valuation of the amount in dispute at the Civil Courts - damages

- In contrast to actions for annulments at the FPC we have to state, that in infringement proceedings at Civil Courts the amount of dispute is determined by the economic interest of the patent holder in relation to the infringement only partially or not depending on the duration of the protection in the future, depending on different claims like injunctive relief, information or accounting.
- Therefore the amount of dispute is only a indication of the patent's value and it is necessary to interpolate the calculation of the Court to get a significant valuation.
- We need to know that the amount of dispute for injunctive relief represents  $\frac{2}{3}$  of the whole amount of dispute and that action for information represents 20-25% of the main request.
- On the other hand the valuation of damages is of high interest, because the result can be interpolated as a relevant criteria for the current value of the patent until its expiry.

# Rules for damages at the infringement court

- In infringement proceedings the plaintiff (patentee or exclusive licensee) has three options to calculate his damages (permanent legal practise, e.g. *FCJ GRUR Int. 2008, 960, 962-963 - Tintenpatrone*):
  - the lost profit (profit which probably would have been made),
  - the lost reasonable royalties (account on an imaginary license of the real value) in respect of sales and the whole device or the part of the device as a way of easier way of calculating damages (common law),
  - the account of the profit generated by the infringer: general expenses can be subtracted insofar as they are directly in connection with the account of profit (*FCJ GRUR 2001, 329 – Gemeinkostenanteil; details in Kühnen PatLaw 8. Edit. Sec. 139 marg. note 125*),
- The plaintiff can select these options until the performance of the demanded relief or the decision of the court becomes final.
- The court can estimate the damage by means of its free consideration of evidence according to *Sec. 287 CCP*.

# Helpful tool for the assessment : the German Law of employee inventions

- A helpful tool for the assessment of damages and the real value of the patent on the basis of lost reasonable royalties is the regulation of employee inventions in the German “Arbeitnehmer-Erfindungsgesetz” (*internet: <http://transpatent.com/gesetze/arbnerfg.html>; compare Keukenschrijver in Busse PatLaw Sec. 139 mar. Note 158*).
- In the regulation we can find different rules and references e.g. Sec. 11 in conjunction with the guidelines for the compensation. ( *see internet <http://transpatent.com/gesetze/rlarberf.html#6> )* )
- You will find detail rules and references for the value of a patentable invention (or a utility model) and the evaluation of the value e.g. with lost reasonable royalties, the benefits for the enterprise or other methods, e.g. examples for usual royalties in different branches of industry, like (percent of turnover)
  - 1/2 - 5% in electrical industry
  - 10% in machine - and tool industry
  - 2 - 5% in the chemical industry
  - 2 - 10% in pharmaceutical industry

# Conclusion

- For a valuation of IP rights under economic aspects it can be very helpful to orientate at the amount of dispute in IP litigation, especially at the assessment of the Court of Justice in actions for annulment of IP rights e.g. patents at the FPC, because there we will find the same connecting factor: the real economic value of the IP right.
- On the other hand we can use assessments of damages in the past and the relating amount of dispute in IP litigation at the Civil Courts to interpolate the current economic value of IP rights.
- The detailed rules for the assessment of employee inventions - we can find for example in the German Law - are very helpful.



# End

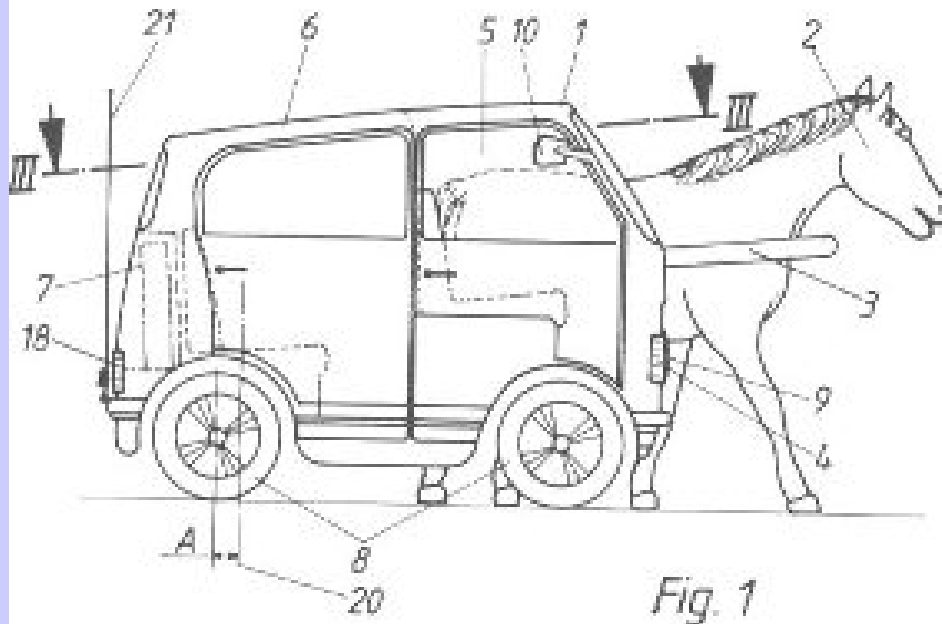
AT 17.12.84 – OT 24.07.86.

B: Taxi, insbesondere für die Personenbeförderung in verkehrsberuhigten Zonen und Erholungsgebieten.

A: Zwick, Joachim, 4600 Dortmund, DE.

E: Antrag auf Nichtnennung, PRÜF.

1. Taxi für die Personenbeförderung, dadurch gekennzeichnet, daß an Stelle eines Motors ein Pferd (2) wirkt.



- Thank you very much for your attention.