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DAWN RAIDS ON SUSPECTED PATENT INFRINGERS: GERMAN FEDERAL SUPREME COURT CONFIRMS PATENT OWNER'S ACCESS TO COMPETITOR'S PREMISES

German courts are popular for litigating patents because they are known to be competent, fast, comparatively inexpensive, and generally patent-owner friendly. Until recently, however, the drawback remained that the German legal system did not provide for a discovery process, as is common in the United States and the United Kingdom, for example. Furthermore, a plaintiff in Germany must collect and present all evidence needed to prove its case, no matter how difficult this may be. For many years, therefore, a suspected infringer in Germany simply could rely on practicing a patented method behind closed and locked doors, with only a marginal chance of facing legal dispute with a patent owner.

This situation already had been gradually changing over the past few years, and now those days are over once and for all. With a decision published on February 23, 2010, the German Federal Supreme Court has confirmed that the "dawn raid" procedure against suspected patent infringers that has emerged under case law recently is in accordance with German law, and it has set out clear guidelines for the procedure.

"DAWN RAIDS" ON SUSPECTED PATENT INFRINGERS

If they can show a certain likelihood of infringement, patent owners can obtain an *ex parte* order from a German court granting them access to the premises of a competitor who is suspected of infringing their patent. This covers in particular production facilities, laboratories, and R&D sites, no matter how secret and protected the premises may be.

Such inspection proceedings or "dawn raids" are carried out by a court-appointed expert, accompanied by a court marshal or sometimes even police officers, and two to three attorneys as counsel for

the patent owner, usually a litigation-focused attorney and a patent attorney. This larger team can appear without prior warning at the site that is to be inspected and enforce access, usually simultaneously serving a court order on the management of the facility. The expert will then proceed to inspect the allegedly patent-infringing device or process and may take pictures, partially dismantle devices, and take samples. After completing this inspection, the expert will summarize its findings in an expert opinion, which will be admissible as binding evidence in subsequent patent infringement proceedings.

PROTECTION OF DEFENDANT'S BUSINESS SECRETS?

Obviously, such an intrusion into the heart of the premises of a competitor raises concerns about protection of business secrets, in particular since counsel for the patent owner are allowed to be present during the inspection. Even though the procedure is based on the European Enforcement Directive, neither the Directive nor the newly created provisions of the German Patent Law (§ 140c PatG) specify details regarding the implementation of the procedure, thus leaving it to case law to find an adequate solution.

The procedure developed under case law over the past few years addressed this concern by obliging plaintiff's counsel to keep secret all details observed during the inspection. This has raised much controversy, as it has remained unclear whether legal counsel who are regularly advising their clients will—and, even more so, are able to—keep knowledge gained during such inspection separate from their general knowledge, or whether they will inevitably and perhaps inadvertently disclose such information to their clients.

A second problem has been how to handle concerns about trade or business secrets contained in the expert opinion. In proceedings before German courts, such expert opinion will be brought to the attention of the patent owner. If the alleged infringer asserts that this opinion contains business secrets that ought not be disclosed to the patent owner—likely its competitor—then the court must find adequate means to protect such business secrets. For example, this may be achieved by redacting parts of the expert opinion. However, in the course of determining whether there is a business secret at all, and whether the interests of the patent owner in documenting patent infringement may justify disclosure of any such business secrets, the patent owner must be able to exercise its procedural right to be heard. The practice developed under case law solved this conflict by allowing plaintiff's counsel to inspect the expert opinion and comment on any secrecy concerns, while obliging the counsel to keep the expert opinion confidential and not share it with their clients at this stage. Obviously, this led to the same concerns outlined above regarding inadvertent and indirect disclosure of the counsel's observations made during the inspection.

A solution proposed by the Munich courts was to hold a mandatory hearing prior to any such inspection and to order specific measures before any participant was exposed to sensitive information. Even if this would safeguard the interest of the defendant, such a hearing would give an alleged infringer sufficient warning, which could make finding any meaningful object to inspect impossible in many cases.

In practice, this uncertainty had caused courts to withhold the release of expert opinions prepared following inspection proceedings, pending the ruling of the Federal Supreme Court.

THE DECISION (*BGH X ZB 37/08 – LICHTBOGENSCHNÜRUNG*)

The Federal Supreme Court has now, for the first time, confirmed that the inspection procedure developed under case law is in accordance with German law and balanced the interests of the patent owner and the suspected patent infringer. The Court confirmed that a court order obliging attorneys to keep information confidential and not disclose it even to their own clients is permissible, thus allowing the release of expert opinions to plaintiff's counsel to comment on alleged business secrets in such opinions. The same

rules apply with respect to counsel's observations during the inspection itself. With this ruling, the core structure of the inspection procedure has been confirmed, thereby allowing plaintiff's counsel to take part in the inspection. Furthermore, the Court provided a clear set of rules that have to be met in order to qualify information as a business secret, bringing the standard protection in line with long-tested provisions of German criminal law.

To protect the interests of the alleged infringer, the Court ruled that it is mandatory in every case to balance the interests of both parties. However, the Court also clarified that even if business secrets were contained in such expert opinion, they need not necessarily prevent the expert opinion from being released, as the impact of their disclosure on competition may in fact be more or less insignificant. It can be assumed that courts will follow the approach developed under existing case law, where the outcome of the expert opinion is a significant factor in determining the balance of interests: The greater the likelihood that a patent infringement has occurred, the greater the chance that the interests of the patent owner would prevail over any concerns of secrecy raised by the alleged infringer.

CONCLUSIONS AND STRATEGIC CONSIDERATIONS

With the inspection procedure now approved in detail by the German Federal Supreme Court, it can be expected that even more patent owners will make use of the procedure. Companies with business activities or subsidiaries in Germany should thus be aware that a raid on their manufacturing or R&D facilities in Germany is a possible scenario in a patent dispute. As any such inspection would likely come without prior warning, it is advisable to have an "emergency plan" in place, outlining the steps that responsible personnel at the site should follow.

Similarly, patent owners who suspect infringement of their patents in Germany should consider such inspection proceedings as an option in their multijurisdictional litigation strategy and as an efficient way to obtain evidence.

In practice, inspection proceedings also can be expected to be carried out during trade fairs that take place in Germany. As this may result in a court marshal and attorneys being present at the booth to supervise an inspection of a device by an expert, it is advisable to consult with local counsel prior to attending a trade fair to evaluate strategic options.

On the whole, the decision by the Federal Supreme Court is beneficial for all parties as it has brought long-sought clarity regarding the details for implementing such inspection proceedings. The closer the decision's guidelines are taken into consideration, the greater the benefit to those who are prepared.

LAWYER CONTACT

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