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-  **Federal Constitutional Court Rules *Ex Parte* Preliminary Injunctions Violate the Right to be Heard – Federal Constitutional Court, 1 BvR 1783/17 and 1 BvR 2421/17**
-  **IPR Not Instituted Because Petitioner Used Another’s Earlier-Decided IPR as “Road Map” – *United Fire Protection Corp. v. Engineered Corrosion Solutions, LLC* (15 November 2018)**
-  **No Inventive Step When Patented Teaching Accepts Disadvantages in Prior Art – “Belt Tensioner” (“Gurtstraffer”), 1129/17**
-  **Federal Circuit Says Demand Letter from Patent Owner Provides Personal Jurisdiction for Declaratory Judgment – *Jack Henry & Assocs. v. Plano Encryption Techs. LLC* (7 December 2018)**
-  **Regional Court of Munich on International Jurisdiction and Statute of Limitations Regarding Vindication Claims For a European Patent Application – Regional Court of Munich, 21 O 11279/17**
-  **USPTO Announces Revised Guidance on Determining Subject Matter Eligibility (4 January 2019)**
-  **Only Two Months Left for German Federal Constitutional Court to Decide on German UPCA Complaint before Brexit**
-  **Federal Circuit Further Defines Contours of Standing to Appeal PTAB Decisions**

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**Spotlight**

**Federal Constitutional Court Rules *Ex Parte* Preliminary Injunctions Violate the Right to be Heard – Federal Constitutional Court, 1 BvR 1783/17 and 1 BvR 2421/17**

The Federal Constitutional Court (FCC), the highest court in Germany, has issued two decisions (1 BvR 1783/17 and 1 BvR 2421/17 – 30 September 2018) on preliminary injunction proceedings. Even though both decisions relate to the area of media law, they may also have importance on preliminary injunctions in patent matters in Germany. The decisions were rendered against the background of two preliminary injunction proceedings before the District Court Cologne (1 BvR 1783/17) and the Higher Regional Court Hamburg (1 BvR 2421/17). In both proceedings, the first instance / appeal courts issued preliminary injunctions ordering the respondents to cease-and-desist from making certain statements or taking certain actions. As not ordered in Germany in cases of great urgency, both preliminary injunctions were issued *ex parte*, i.e., without a prior oral hearing.

The respondents filed constitutional complaints against the court decisions before the FCC. The FCC ruled in favor of the respondents, and found that both decisions violated the respondents’ rights to be treated equally in court proceedings regarding the equality of arms, which is guaranteed in Art. 3 (1) and Art. 20 (3) of the German Constitution, and the right of a fair hearing set out in Art. 103 (1) of the German Constitution. The court emphasized that even though preliminary injunction proceedings are time-sensitive, this does not allow courts to deny defendants any opportunity to present their arguments. The court also noted that even though the German Code on Civil Procedure explicitly allows issuing a preliminary injunction without a prior oral hearing due to reasons of urgency under Sec. 937 (2) Code of Civil Procedure (“*Dringlichkeit*”), respondents nevertheless must still be heard in some form. The defendants in preliminary injunction proceedings must be heard in some way prior to issuing a preliminary injunction. The only exception set out explicitly by the FCC is if the purpose of the proceedings could otherwise be thwarted (*e.g.*, seizure proceedings). The FCC, however, also emphasized that the right to present arguments does not necessarily require a hearing. A defendant’s rights are also preserved if the applicant has issued a warning letter, to which the respondent had an opportunity to respond, prior to the preliminary injunction proceedings. If such a letter is issued and the respondent answers, then this answer must be submitted to the court. Furthermore, the court can also consider the respondent’s defense arguments set out in a protective letter, if filed.

The FCC decisions were based on press-related issues, but the core statement refers to fundamental rights of respondents in general. These rights are also applicable to other types of proceedings—in particular to analogous IP proceedings. Patent infringement courts in Germany have, in recent years, become more reluctant to grant preliminary injunctions without a hearing, if the defendant has not had an opportunity to present its defenses, at least in response to a warning letter. It is to be expected that in the future, “pure” *ex parte* preliminary injunction proceedings will become even less frequent. As a consequence, both applicants and respondents should reconsider their strategy, as warning letters and protective letters offer both chances and risks.

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**U.S. patent updates**

**IPR Not Instituted Because Petitioner Used Another’s Earlier-Decided IPR as “Road Map” – *United Fire Protection Corp. v. Engineered Corrosion Solutions, LLC* (15 November 2018)**

The Patent Trial and Appeal Board (PTAB) decided to institute an IPR petition that was filed more than one year after an earlier-filed IPR had ended with a final written decision, upholding the validity of the same challenged patent. The unique aspect of this case is that the petitioner, United Fire, was not the same entity that filed the earlier IPR. It appears, however, that United Fire used the earlier IPR to inform how to frame its petition. Indeed, the PTAB found that the invalidity grounds presented in United Fire’s petition—albeit different than the grounds in the earlier IPR—“strongly suggest” that United Fire considered the PTAB’s decision from the earlier IPR and used that “as a road map” in drafting its petition.

Under the Patent Act, institution of an IPR is left to the discretion of the PTAB. When determining whether to institute an IPR, the PTAB may consider certain factors (called the *General Plastic* factors), including: (1) whether the same petitioner previously filed a petition directed to the same claims of the same patent; (2) whether at the time of the second petition, the petitioner already received the patent owner’s preliminary response to the first petition or received the Board’s decision on whether to institute review in the first petition; and (3) whether the petitioner provided adequate explanation for the time elapsed between the filings of multiple petitions directed to the same claims of the same patents. The PTAB acknowledged that the *General Plastic* factors typically have been used to evaluate situations where the *same party* files multiple IPR petitions challenging the same patent. But, it also noted that the first factor mentioned above is the only *General Plastic* factor that presumes multiple IPR petitions by the same party against the same patent, and that nothing precludes an assessment of all factors when multiple IPRs are filed by different parties.

Here, United Fire was not a party to the first-filed IPR. Nevertheless, the PTAB performed a full analysis of the *General Plastic* factors and found that, on balance, the circumstances weighed in favor of denying United Fire’s IPR petition. The PTAB held that the fact United Fire was not a party to the first-filed IPR “weigh[ed] moderately” against denying institution, but the other two factors above (nos. 2 and 3) “weigh[ed] strongly in favor” of denying institution. (Four other factors were deemed neutral.) United Fire filed its IPR petition more than two years after the earlier IPR was filed and more than one year after the PTAB had issued a final written decision in the earlier IPR. Therefore, it had access to everything from the first IPR, including the patent owner’s responses and expert testimony, and the PTAB’s final written decision, which involved substantive analysis of some of the same prior art United Fire incorporated into its proposed invalidity grounds. The PTAB took issue with the fact that these materials provided United Fire a “road map” for its petition, and United Fire’s lack of explanation for the lapse in time between the first IPR decision and its filing (it merely stated that it was not involved in the first IPR). The PTAB suggested that such delay and use of prior IPR materials raises the potential for abuse.

This is a notable case because, before now, most IPRs denied institution based on the *General Plastic* factors involved the same petitioner seeking a second attempt to invalidate the same patent. This case is a departure from that factual scenario and raises some controversy. Indeed, one of the judges on the PTAB panel dissented, stating that United Fire’s actions did not violate the interests of fairness that the *General Plastic* analysis is designed to protect. United Fire filed a request for rehearing in December 2018. It will be interesting to see if the PTAB accepts that request and perhaps reverses to align with the dissent.

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**Federal Circuit Says Demand Letter from Patent Owner Provides Personal Jurisdiction for Declaratory Judgment – *Jack Henry & Assocs. v. Plano Encryption Techs. LLC* (7 December 2018)**

In this case, the patent owner, Plano Encryption, mailed demand letters to a collection of banks, alleging the banks were infringing Plano’s patents covering electronic banking procedures. The demand letters offered the banks the opportunity to engage in licensing arrangements. Jack Henry & Associates (Jack Henry) provides software systems for the banks’ mobile applications. Jack Henry and the banks responded to Plano’s demand letters and requested a meeting to discuss the infringement allegations and the banks was nonresponsive, so Jack Henry and the banks filed a declaratory judgment (DJ) action in the Northern District of Texas. (The banks all have their principal offices in that district.) Plano immediately filed a motion to dismiss for lack of personal jurisdiction (among other things), which the district court granted. Jack Henry appealed.

On appeal, the Federal Circuit reversed, finding that Plano “ha[d] met the minimum contacts requirement without offense to due process” necessary for personal jurisdiction. The court noted that Plano is a patent enforcement entity whose “sole business is to enforce its intellectual property.” And, while its registered business address is in the Eastern District of Texas, the business registration allows Plano to do business throughout Texas. With these facts, the court weighed the following factors to determine whether the Northern District of Texas had personal jurisdiction: (1) whether Plano “purposefully directed” its activities at residents of the forum; (2) whether the claim “arises out of or relates to” Plano’s activities within the forum; and (3) whether assertion of personal jurisdiction is “reasonable and fair.” Plano conceded that the first two factors were met by Plano’s sending demand letters to banks in the forum (i.e., in the Northern District of Texas). The third factor was thus the focus of the Federal Circuit’s analysis.

Prior to this case, there was precedent—in particular, *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*, 148 F.3d 1355 (Fed. Cir. 1998)—supporting the proposition that a patent enforcement demand letters did not provide a basis for personal jurisdiction for DJ actions. The Federal Circuit rejected the premise that *Red Wing* established such a bright-line rule, and explained that it must “consider a variety of interests” to determine, on a case-by-case basis, whether the exercise of personal jurisdiction over a particular defendant is “reasonable and fair.” The Federal Circuit further stated that it was Plano’s burden to make a “compelling case” that personal jurisdiction over it would be unreasonable and unfair. In the Federal Circuit’s view, Plano did not make such a showing, and held that Plano’s targeted pursuit of a licensing program, with threats of litigation, involving banks located in and conducting business in the Northern District of Texas made it reasonable for the court in that district to have personal jurisdiction of the DJ action.

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**USPTO Announces Revised Guidance on Determining Subject Matter Eligibility (4 January 2019)**

The USPTO recently announced revised guidance for determining subject matter eligibility under § 101 of the Patent Act. The goal for the revised guidance is “to improve the clarity, consistency, and predictability” of the patenting process at the PTO. Examiners currently apply the Supreme Court’s *Alice/Mayo* test, which involves two prongs: (1) examiners determine whether a claim is “directed to” a non-patent eligible judicial exception (*e.g.*, abstract idea, law of nature, natural phenomena) and (2) if the claim is directed to a judicial exception, examiners determine whether the claim recites additional elements that integrate the exception into a practical application of that exception. The PTO’s new guidance makes two primary changes to how examiners will apply the test moving forward.

The first change concerns the analysis of whether a claim is “directed to” a judicial exception, specifically an abstract idea. The guidance explains that an abstract idea can be grouped into one of the following categories: mathematical concepts (*e.g.*, mathematical relationships and/or formulas); methods of organizing human activity (*e.g.*, fundamental economic practices, commercial interactions, managing personal behavior and interactions); and mental processes (*e.g.*, observation, evaluation, judgment that can be performed in the human mind). This portion of the revised guidance effectively defines what constitutes an “abstract idea”; a more concrete definition promotes the PTO’s goal of improving clarity and predictability. If the claim can be characterized as falling into one of these categories, then it is an abstract idea, and the examiner must proceed to prong two of the analysis.

The second change created by the guidance concerns evaluating whether a judicial exception (*e.g.*, an abstract idea) is claimed such in a way that combines the exception into some practical application. Examiners are now instructed to evaluate this by: (a) identifying whether there are any additional elements in the claim beyond the judicial exception; and (b) evaluating whether those additional elements use or apply the judicial exception in some practical application. Some examples of claims that present practical applications are those that: reflect improvement in the function of a computer or other technology; implement the judicial exception with a machine that is integral to the claim; and transform a particular article to a different state or different article entirely. If a claim, as a whole, uses or applies the judicial exception in this way, then the claim is eligible. At a high level, it seems the revised guidance seeks to prevent a patent applicant from monopolizing a judicial exception, and appears instead to promote making claims eligible that apply, rely on, or use a judicial exception in a meaningful way.

The PTO has begun to train examiners on these changes, but it is still too early to know exactly how the new guidance will affect examiners’ evaluation of patent eligibility. Public comments have also been requested, so the guidance may continue to evolve as the PTO obtains feedback from practitioners.

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**Federal Circuit Further Defines Contours of Standing to Appeal PTAB Decisions**

Parties faced with adverse decisions at the PTAB do not have automatic standing to appeal to the Federal Circuit. All appellants must have Article III standing, which requires a “real,” “concrete,” and “immediate” “injury in fact” to the appellant. In situations where a party has been sued for patent infringement and then files an IPR challenging the validity of the asserted patent, the injury in fact is clear—it is the pending infringement suit and threat of money damages and injunction. However, whether there is a concrete and immediate injury in fact becomes less clear where parties file IPRs absent co-pending litigation, particularly if the IPR filer does not market, sell, or have ongoing development efforts for a potentially infringing product. The Federal Circuit last year decided multiple cases dealing with these situations, further defining what is required for standing to appeal PTAB decisions.

In *Altaire Pharmaceuticals, Inc. v. Paragon Biotech, Inc.*, 889 F.3d 1274 (Fed. Cir. 2018), the patent challenger, Altaire, had been manufacturing hydrochloride products for several years before entering a co-development agreement with patent owner, Paragon, in 2011. Paragon filed for the patent-at-issue covering a hydrochloride drug product in 2013, which issued a couple of years later. The relationship between the parties soured around 2015, and that year, Altaire filed a post-grant review (PGR) of the patent that had issued to Paragon. The PTAB upheld the validity of the challenged claims, and Altaire appealed. At the time of the appeal, Altaire was still bound by the co-development agreement, which protected it from an infringement suit by Paragon. The agreement, however, was set to expire three years thereafter, which would lift the protection from an infringement suit. It was likely that Paragon would sue Altaire at the expiry of the agreement because of Altaire previously demonstrating its production, marketing, and sales capacity for hydrochloride products. The Federal Circuit held that Altaire had standing to appeal the PTAB decision in this situation, even despite the threat of suit being years away.

In *JTEKT Corp. v. GKN Automotive, Inc.*, 898 F.3d 1217 (Fed. Cir. 2018), the situation differed in that the patent challenger, JTEKT, had not finalized its planned product at the time of the appeal. JTEKT and GKN are competitors in the automotive space, and GKN owned a patent covering a type of drivetrain for a four-wheeled vehicle. Absent being sued and any threat of suit, JTEKT filed an IPR against GKN’s patent. The PTAB upheld the validity of some of the challenged claims, and JTEKT appealed. At the time of the appeal, JTEKT was developing a drivetrain product to compete with GKN. JTEKT’s engineers admitted at that time, however, that the specifics of the final product “will continue to evolve and may change until it is completely finalized.” Because the details of JTEKT’s proposed competing product were not final, the Federal Circuit said it was impossible to fully assess the potential for infringement liability. Because of this uncertainty, the court found that JTEKT could not show that the alleged imminent threat of infringement liability was concrete enough to support standing. Accordingly, the appeal was dismissed.

This doctrine is likely to continue to evolve this year, as there are a couple of additional cases pending at the Federal Circuit that may evaluate similar standing issues. There is also a petition at the Supreme Court on whether an IPR petitioner has standing to appeal an adverse PTAB decision if it is dissatisfied with the decision (*RPX Corp. v. ChanBond LLC*). In the meantime, it is important for parties that are considering patent challenges at the PTAB to evaluate the merits of whether they will have standing to appeal an adverse decision. The current landscape, as shaped by the cases discussed above, advise that parties without a concrete product may have a lower likelihood of having standing to appeal PTAB decisions. Such parties may be more likely to be without recourse if they decide to proceed with a patent challenge and lose at the PTAB—a risk that should be carefully considered.

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**Germany patent updates**

**No Inventive Step When Patented Teaching Accepts Disadvantages in Prior Art – “Belt Tensioner” (“Gurtstraffer”), 1129/17**

The recently published judgment of the Federal Supreme Court, “*Belt Tensioner*,” deals with the question of whether a patented teaching can be non-obvious—and thus inventive—when the teaching is associated with foreseeable disadvantages. According to German patent law, an invention shall be deemed to involve an “inventive step” if, having regard to the state of the art, it is not obvious to the person skilled in the art. In order to determine inventive step, disadvantages in the prior art can play an important role, as the person skilled in the art will aim at overcoming known disadvantages.

In the case at hand, the plaintiff filed a nullity suit against a patent relating to a “belt tensioner drive,” which essentially consists of two so-called worm gears connected in series. Challenging the novelty of the patent-in-suit, the plaintiff mainly referred to one prior art document that disclosed a “belt tensioner drive” consisting of one worm gear and one crown gear connected in series. According to the plaintiff, the alleged invention of the patent-in-suit was obvious in light of this document because, in order to overcome the known disadvantage of noise of a crown gear, a person skilled in the art would simply replace a crown gear with a worm gear—thus arriving at the patented teaching. The patent owner objected and urged that using two worm gears, instead of only one, results in a disadvantageous high conversion of the motor. In view of this, the patent owner argued that a person skilled in the art would not have opted for such configuration.

The Federal Supreme Court rejected the patent owner’s argument and found that for inventive step, it was insufficient that the patent-in-suit merely accepted disadvantages in the prior art. The court indicated that a patented teaching that addresses a disadvantage known in the art, and shows how to overcome such disadvantage, may constitute an inventive step. But, on the contrary, a patent that merely ignores and accepts a known disadvantage (*i.e.*, by being silent about the disadvantage) might not lead to inventiveness, even if the disadvantage might not have been a real option to a person skilled in the art.

The decision also confirms German case law regarding the scope of protection for a claim containing a purpose feature, like “belt tensioning device.” The court made clear that when a claim recites a purpose feature—*i.e.*, not a description of a physical characteristic of a device, but instead only a description of a functional purpose—an accused device does not actually have to serve the stated purpose in order to infringe the patent. However, to infringe, the accused device must objectively be suitable for realizing the purpose or the function.

Accordingly, in the case at hand, the scope of protection for the claimed “belt tensioning device” includes only devices that were suitable for tensioning a belt. German courts have repeatedly held that this so-called “suitable for achieving the purpose” test applies both when assessing the validity and the infringement of a device patent with claims including a purpose feature. When asserting such a patent in an infringement proceeding, the patent owner must prove that an allegedly infringing device is at least suitable to be used for the claimed purpose; the patent owner does not have to show that the accused device is actually used for the claimed purpose. At the same time, when attacking the validity of such a patent, a nullity plaintiff must show that the prior art discloses devices that are suitable to achieve the claimed purpose; the nullity plaintiff does not have to show that the prior art devices are actually used for the claimed purpose.

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**Regional Court of Munich on International Jurisdiction and Statute of Limitations Regarding Vindication Claims For a European Patent Application – Regional Court of Munich, 21 O 11279/17**

For the first time, the Regional Court of Munich (21 O 11279/17) addressed the disputed question of the statute of limitations regarding vindication claims relating to a European patent. In this case, the plaintiff alleged she was a co-owner of the European patent and brought a so-called vindication action against the registered patent owner, alleging that she should be registered as the true co-owner, instead of the defendant.

The Regional Court of Munich assumed jurisdiction under the special jurisdiction of tort, as the court held vindication claims to be tort claims. Since the seat of the European Patent Office is in Munich, and the corresponding patent application was filed in Munich, the tortious act (*i.e.*, the filing of the patent application with the allegedly wrong owner) was committed within the court’s district in Munich.

The court held that vindication claims relating to a European patent application are covered by the general rules on statute of limitations of the German Civil Code, resulting in a three-year period of limitation. The limitation period commences at the end of the year in which the claim arose and the obligee obtains knowledge of the circumstances giving rise to the claim and of the identity of the obligor, or would have obtained such knowledge if she had not shown gross negligence. Notwithstanding knowledge or a grossly negligent lack of knowledge, claims become barred ten years after the date upon which they arise.

Here, the application in suit was a divisional application. The corresponding parent application was filed in December 2004. According to the court, neither was the unjustified filing of the divisional patent is of relevance regarding the grant of the divisional patent by the defendant nor the grant of the divisional patent is of relevance regarding the beginning of the statute of limitations period. Instead, the court held that the present claim had become time-barred ten years after the filing of the parent application, at the latest—namely, in December 2014. The court, however, explicitly left unanswered the question of whether the publication of the patent resulted in a grossly negligent lack of knowledge by the claimant.

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**Only Two Months Left for German Federal Constitutional Court to Decide on German UPCA Complaint before Brexit**

Unlike many in the German patent community expected, the FCC did not hand down a decision regarding the constitutional complaint against the German law that ratified the Unified Patent Court Agreement (UPCA) by the end of 2018. With only a few weeks remaining until Brexit on 29 March 2019, all eyes are once again on the FCC to clear the way for German ratification of the UPCA. So far, only the First Senate of the FCC has issued published rulings in 2019. The Second Senate, which is handling the ratification of the UPCA, has not yet made any announcement about when the awaited decision of the constitutional complaint can be expected.

Upon a positive outcome, the German ratification law could, in theory, enter into force shortly thereafter, only requiring the formal execution of the law by the German Federal President, who was previously asked by the FCC to suspend its execution. If the UPC then becomes effective before 29 March 2019, the UK would be an EU member state for the purposes of the UPC. In that case, the necessary amendment and adoption of relevant provisions of the UPCA could likely be achieved much more easily than if the UK had already withdrawn (which would require it to request participation as a non-member state). Meanwhile, the UPC Preparatory Committee declared at the end of December that the technical and operational preparations for the court system are continuing, despite the uncertain outcome of the FCC decision. Following a positive outcome of the FCC decision and German ratification of the UPCA before Brexit, the UPC project could move into the next phase: the period of provisional application, where the organization of the UPCA is established, including the start of operation of the UPC’s formal governing bodies and judicial interviews and appointments.

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