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Spotlight

Recall of Infringing Products Is Disproportionate Remedy If Future Patent Infringement Can Be Avoided by Design-Around, 15 U 43/15 (Higher Regional Court Düsseldorf) – “Heated Floor” (“Beheizbarer Boden”)

This recently-published judgement of the Higher Regional Court Düsseldorf clarifies whether a plaintiff can successfully claim a recall of infringing devices from his customers where future patent infringement can also be avoided by less severe measures.

According to German patent law, a patent infringer can be ordered to recall products from the market if these products are found to infringe a patent. Recall means that the infringer is required to offer to his commercial customers (not private end users) to take back infringing devices and refund the purchase price. This obligation does not apply only to German patent infringers, but also to non-German patent infringers importing products into the German market and selling them there. Section 140a subsection 4 German Patent Code states that requests of a patent owner to recall infringing products may be dismissed, if the claim is disproportionate in the individual case. The requirements for disproportionality are unsettled under the German Patent Act, however.

In the case at hand, the manufacturer of patent infringing products for cattle farming had been compelled to recall all infringing products from customers. He appealed the decision and stated that, as a foreign-based company, he has never had possession or ownership of the infringing products in Germany and that the decision to recall the products was disproportionate.

The Higher Regional Court Düsseldorf—the appellate court for this matter—rejected the argument. The court confirmed prior case law, which held that a non-German infringer may be ordered to recall infringing products. The court further ruled that a rejection of the request for recall based on disproportionality considerations should be a rare exception. The interests of the infringer and the patent owner must be weighed against each other. A recall may be rejected only if legitimate interests of the infringer clearly prevail. The court in this case, however, also ruled that a recall can be rejected as disproportionate if the infringing part of a device can be replaced with a design-around. If the infringer has a design-around solution at hand that does not infringe the plaintiff’s patent, and is able to provide this alternative solution to his customers, a recall of the infringing product can be considered disproportionate.

Design-arounds are, therefore, not only relevant in order to avoid injunctions for future sales, but also relevant in order to overcome claims for a recall of infringing products that are already on the market.

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U.S. patent updates

PTAB Has Discretion to Join Parties and New Issues in “Limited Circumstances” – Proppant Express Investments, LLC v. Oren Technologies, LLC (13 March 2019)

Late last year, the Patent Trial and Appeal Board (PTAB) established a Precedential Opinion Panel (POP) to decide issues of importance involving PTAB policy and procedure. In its first decision, the POP reviewed whether a party may be joined to a proceeding in which it is already a party and whether new issues may be joined into an existing proceeding.

The issue of a party seeking to join a proceeding to which it is already a party is peculiar, but in this case arose due to a deficiency in an earlier filed IPR petition. Petitioner, Proppant, filed an IPR petition that failed to account for all limitations of a particular challenged claim. After recognizing the deficiency, Proppant filed a second IPR petition that corrected the deficiency of the first petition, and then sought joinder of the two IPRs. The PTAB initially denied the second petition because it was filed more than one year after Proppant had been served a complaint for infringement.

On rehearing, the POP held that the PTAB has the “discretion to allow a petitioner to be joined to a proceeding in which it is already a party” and “to allow joinder of new issues into an existing proceeding.” It noted that the one-year time bar is “one of several factors that may be considered when exercising [such] discretion” to join parties or issues. The POP explained that exercise of joinder discretion should occur “only in limited circumstances—namely, where fairness requires it to avoid undue prejudice to a party.” An appropriate circumstance might be, according to the POP, when patent owner in a co-pending litigation belatedly adds new asserted claims to the case.

In the case here, the POP found that joinder was not warranted. It concluded that this was not one of the “limited circumstances” where joinder was required out of fairness and to avoid undue prejudice. Indeed, the POP noted that Proppant’s joinder request was the result of its own errors, and thus there was no prejudice to Proppant in denying its motion for joinder.

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PTAB Establishes New Precedent and Pilot Program for Motions to Amend – Lectrosonics, Inc. v. Zaxcom, Inc. (25 February 2019, Designated Precedential 7 March 2019)

Motions to amend patent claims have been a focal issue at the PTAB for a while. At the end of 2018, the PTAB published proposed rule changes for motions to amend and accepted comments from practitioners on the same. The *Lectrosonics* case provides precedential guidance regarding many aspects of motion to amend practice, including (1) burden of persuasion, (2) volume of proposed amended claims, (3) scope of proposed amended claims, and (4) default page limits.

Burden of Persuasion: The PTAB held, in accordance with Federal Circuit case law, that the patent owner does not bear the burden of persuasion to demonstrate the patentability of substitute claims presented in a motion to amend. Rather, the burden of persuasion ordinarily lies with the petitioner to show that proposed substitute claims are unpatentable by a preponderance of the evidence. The PTAB reserves the right to *sua sponte* find proposed substitute claims unpatentable as well, provided there is enough evidence in the record to support such a finding.

Volume of Proposed Substitute Claims: Under the patent statute, a patent owner may propose only a “reasonable number” of substitute claims. The PTAB clarified that there is a rebuttable presumption that a reasonable number is one proposed substitute claim per challenged claim. A patent owner may challenge the presumption, but must explain why it would need to propose more than one substitute claim for each challenged claim.

Scope of Proposed Substitute Claims: The PTAB did not articulate anything about claim scope that was not previously understood, and merely reemphasized that proposed substitute claims may not enlarge the scope of the claims of the patent and must have written description support in the original disclosure of the challenged patent.

Page Limits: The PTAB cemented the proposed rules for page limits: 25 pages for motions to amend; 25 pages for any opposition; and 12 pages for patent owner’s reply.

Shortly after the release of the *Lectrosonics* opinion, the PTAB published a notice that it would be instituting a pilot program for motion to amend practice in PTAB proceedings. The pilot program provides patent owners with two options not previously available. **Option One:** After institution of the proceeding, the patent owner may file a motion to amend along with a request for preliminary guidance from the Board on whether to file a revised motion. **Option Two:** The patent owner may choose to file a revision motion to amend after receiving petitioner’s opposition to the original motion to amend or after receiving the PTAB’s preliminary guidance (if requested). If a patent owner does not elect either of those options, the motion to amend practice is essentially unchanged from current practice.

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PTAB May Evaluate Validity of Proposed Substitute Claims on All Statutory Grounds – Amazon.com, Inc. v. Uniloc Luxembourg (18 January 2019, Designated Precedential 18 March 2019)

Continuing its focus on motions to amend, the PTAB designated a second precedential decision in *March*. In *Amazon*, the patent owner, Uniloc, filed a contingent motion to amend, which sought to substitute three challenged claims, if such claims were found unpatentable. The PTAB found the challenged claims unpatentable on prior art grounds and rejected the proposed substitute claims as lacking patent-eligible subject matter under 35 U.S.C. § 101. The patent owner requested rehearing, urging that the PTAB improperly considered the patentability of the proposed substitute claims on non-prior art grounds—i.e., under § 101.

On rehearing, the decision to reject the proposed substitute claims was affirmed. The PTAB acknowledged that a patent owner does not bear the burden of persuasion on issues of patentability in a motion to amend, but that does not foreclose the PTAB from analyzing whether substitute claims comply with all requirements under the Patent Act. A petitioner is limited to requesting the cancellation of a patent’s original claims only on prior art grounds (under §§ 102 and 103); however, on motions to amend, the PTAB may evaluate patentability on all statutory grounds, including for patent-eligible subject matter under § 101. It is notable that in this case, a district court in a co-pending litigation found the original claims, which were structured similarly to the proposed substitute claims, unpatentable under § 101.

Accordingly, when defending against a patent challenge at the PTAB, it is important to draft proposed substitute claims in a motion to amend such to comply with all statutory requirements. It may not be sufficient to simply draft proposed substitute claims around the prior art at issue in the PTAB proceeding. And, further, if a petitioner, it is important to point up all deficiencies in proposed amended claims.

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Live Testimony Permissible at PTAB Oral Hearings in Limited Circumstances – K-40 Electronics, LLC v. Escort, Inc. (21 May 2014, Designated Precedential 18 March 2019) and DePuy Synthes Products, Inc. v. Medidea, LLC (23 January 2019, Designated Precedential 18 March 2019)

The Precedential Opinion Panel recently designated two decisions as precedential concerning live testimony at PTAB oral hearings. Together, the decisions stand for the proposition that live testimony will not typically be required, but is permitted in “very limited circumstances.”

The *K-40* opinion provides general guidelines for when live testimony is permissible during oral argument in a PTAB proceeding. The PTAB set forth two factors to consider in determining whether to allow live testimony: (1) the importance of the witness’s testimony to the case, i.e., whether it could be case-dispositive; and (2) whether the witness is a fact or expert witness. As to the first consideration, if the witness’s testimony could be case-dispositive, then live testimony might be more critical to allow the PTAB to assess the credibility of the witness. As to the second consideration, it may be more important for fact witnesses to testify live, so that the PTAB can assess demeanor and credibility. Credibility of experts, by comparison, can be more readily evaluated on the merits of their rationale and opinions, without as much need for live testimony.

In *DePuy*, the issue was whether a witness is permitted to offer live testimony without earlier submitting a written declaration. The PTAB trial practice guide plainly states that “[n]o new evidence or arguments may be presented at the oral argument.” The PTAB in *DePuy* considered live testimony from the proposed witness who had not earlier submitted a declaration to be “new evidence,” and therefore denied the request for live testimony.

In sum, there appear to be few circumstances in which the PTAB would be likely to allow live witness testimony at oral argument. However, the opportunity may present itself if, for example, a particular witness would testify about factual matters that could be case-dispositive. If such a witness is key in the case, it is important to have the witness submit a written declaration before the oral hearing, so that the proposed live testimony is not excludable as “new evidence.”

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Germany patent updates

German Federal Supreme Court on Validity of Transfer of Priority Rights, X ZR 14/17 (Federal Supreme Court) – Wireless Communication Network

In a recently-published decision, the German Federal Supreme Court ruled on the question of which national law governs the transfer of priority rights. According to the Court, the validity of the transfer is governed by the law of the country where the priority application is filed. However, the obligations between the original priority rights owner and the party to whom the rights were transferred are governed by the law applicable to the transfer agreement.

The priority right – as governed by Art. 87 (1) of the European Patent Convention (EPC) and Art. 4 of the Paris Convention (PC) – is the right to claim the priority of an earlier application (i.e., priority application) in a subsequent application covering the same invention within a period of twelve months from the date of the priority application.

The priority right is owned by the applicant of the original application or its successor. Priority can be easily claimed if the applicant of the priority application and the applicant of the subsequent application are identical. Problems can occur, however, when the applicants are not identical. In the latter case, the question arises as to whether the priority right has been successfully transferred to the applicant of the subsequent application. It is important to understand that under German law, the rights to the priority application (i.e., the question of who owns the priority application) are distinguished from the priority rights (i.e., the right to rely on the priority of the priority application). Thus, it is possible to transfer the rights to the priority application without transferring the priority right. Further, it is also possible that the applicant of the subsequent application becomes the proprietor of the priority application, but does not hold the priority right.

The question of transferring the priority right becomes even more complicated when, as is often the case, the original application and the subsequent applications are filed in different countries. Neither Art. 87 (1) EPC nor Art. 4 PC state, for this case, which national law governs the transfer of the priority right. Therefore, the rules of private international law apply. Which statute is applicable can be highly controversial. It has been argued that the law governing the transfer contract, the law of the country where the priority application was filed, and the law of the country where the subsequent application has been filed should be applied.

When filing a lawsuit against the validity of the subsequent application, the plaintiff typically attacks the validity of the transfer of the priority right. If this attack is successful, documents which have been published in the time period between filing the priority application and the subsequent application become prior art, which can be used to attack the validity of the subsequent application. In the case at issue (*Wireless Communication Network*), the plaintiff initiated a lawsuit against the validity of a European patent that claims the priority of a U.S. patent application. One question that the German Federal Patent Court had to deal with was whether the defendant was entitled to claim priority, as it had not filed the priority application. The original U.S. application had been filed by three inventors. One of the inventors was employed by a German company, which transferred his rights to the defendant (proprietor of the European patent). The question was whether the priority right had been transferred from the inventor to the German company first.

In the decision issued by the German Federal Supreme Court, the Court first ruled that the ownership rights of the German inventor to the invention were transferred to the employer. However, this did not necessarily affect the priority right, as the priority right and the ownership rights to the invention were distinguished. Whether the priority right was nevertheless transferred to the employer when the employer obtained the invention remained an open question. The Federal Supreme Court then confirmed that the transfer of the priority right is governed by the right of the country of the priority application. However, this question must be distinguished from the question which law governs the obligation between the original and the new right holder. This is the law governing the agreement relating to the transfer of the priority right.

The decision teaches that precision should be taken into account when drafting contracts relating to employee inventions and that priority rights should be dealt with explicitly.

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Higher Regional Court Düsseldorf on Entitlement of Co-Inventor to License Out Patent, I-15 U 2/17 (Flammpunktprüfung)

The Higher Regional Court Düsseldorf (I-15 U 2/17), in a recently-published judgment, clarified the controversial question of under which conditions one of two co-inventors can grant a license to a third party without consent from the other co-inventor(s).

The plaintiff and witness A were both employees of the defendant. As part of their work, the plaintiff and witness A jointly made inventions that could be used in the mineral oil industry. Allegedly, witness A’s co-inventorship share was approximately 70-80%. Since the defendant, as the employer, did not claim the service inventions under the rules of the German Employee Invention Act, i.e., did not achieve a transfer of the inventors’ rights to itself, the inventions remained owned by the inventors. Nevertheless, the defendant applied for a respective German patent.

The defendant then paid witness A almost EUR 100.000 for the use of the patent. Witness A, in return, transferred his co-inventorship share to the defendant; the plaintiff was not involved in this transfer. The plaintiff, which rejected several offers from the defendant to use the patent, then sued the defendant for damages and rendering of accounts, due to an allegedly unauthorized use of the invention.

The Higher Regional Court Düsseldorf held that the defendant made use of the plaintiff’s share of the invention and was thus liable to damages and rendering of accounts. The defendant’s use of the invention would only be justified if the defendant was validly granted a license by witness A to use the patented invention. Since the plaintiff and witness A were co-inventors, the Court had to decide whether A’s granting of a license to the defendant would also bind the plaintiff as the other co-inventor.

The Court’s ruling clarified the following three controversial issues:

First, the court ruled that in cases of co-owners or co-inventors to a patent, it is not necessary that all consent to the granting of a license. Rather, it is sufficient if the majority of the co-inventors consent to the grant. The court clarified that witness A, having the majority share of the co-invention, could therefore have passed a majority resolution and have granted a license to a third party.

Second, any such majority resolution is invalid if the omitted co-inventor is not granted the right to be heard by his co-inventor. Since this did not happen in this case, the granting of the license by witness A to the defendant could have only been valid if the licensing was also in the reasonable interest of the plaintiff.

Third, the court held that it has to be shown that the licensing was in the reasonable interest of the omitted co-inventor. The court clarified that this has to be an *actual* interest, specifically proven, e.g., what would be a concrete interest be of the omitted co-inventor and why—as opposed to only a general monetary interest associated with every licensing transaction.

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Antibiotic Substance Not Patentable If Inevitably Obtained Through Process Suggested by Prior Art X ZR 110/16 (German Federal Supreme Court) – “Rifaximin α”

In its recently-published decision, “*Rifaximin α*,” the German Federal Supreme Court ruled on the question of inventive step, stating that where a product is inevitably obtained by conducting a process that is suggested by the prior art, such product is not patentable.

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 the case at hand, the plaintiff filed a nullity suit against a patent regarding the crystal form of a polymorphic substance of an antibiotic called “Rifaximin α.” According to the patent-in-suit, the antibiotic Rifaximin and a process for the production of the same were known in the art. What was not known, however, was the fact that Rifaximin was a polymorphic substance and occurred in various crystalline appearances, e.g., Rifaximin α. The patent-in-suit did discover that this purified form of Rifaximin occurs in particular due to a drying process after crystallization.

The Federal Supreme Court ruled that the patent lacked inventive step and declared the patent null and void. The Court confirmed that the purified form of “Rifaximin α” was not known in the prior art. However, it found that the prior art suggested a process, which if followed, would cause “Rifaximin α” to inevitably occur. Hence, the Court reasoned that the provision of a crystal form of a substance, which the person skilled in the art inevitably obtains if he uses a process suggested by the prior art for the production of the substance, does not involve an inventive step, even though the crystal form of the substance had not been recognized. It was sufficient, according to the Court, that the production process suggested in the prior art reliably led to the crystal form being obtained (even though unrecognized).

With the ruling at hand, the Federal Supreme Court confirmed its previous case law (Federal Supreme Court, judgement of 24 July 2012 – X ZR 126/09 – *Leftumomid*). It is noteworthy, however, that in this case, the Federal Supreme Court held that the important step of “drying” was well-known to the person skilled in the art, even though it was not mentioned in the prior art document describing the general process for crystallization.

For the future, it remains to be seen what requirements must be fulfilled in order for a known manufacturing process to be considered reliable. What is certain is that in light of this case law, it will be very challenging to defend a patent that merely covers what is basically a product of a process known in the art. In such cases, the patentee may have to argue why the person skilled in the art would have refrained from conducting the manufacturing process described in the prior art.

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