NTD Intellectual Property Attorneys

IP CASE EXPRESS

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In this edition, we scanned all the IP-related judgments and adjudications published at the Supreme Court's official website (http://www.court.gov.cn/zgcpwsw/) in April 2015, worked out the statistics based on all the IP-related judgments and adjudications published by the Supreme Court and the 32 Higher Courts, and shared with you our comments on some significant cases.

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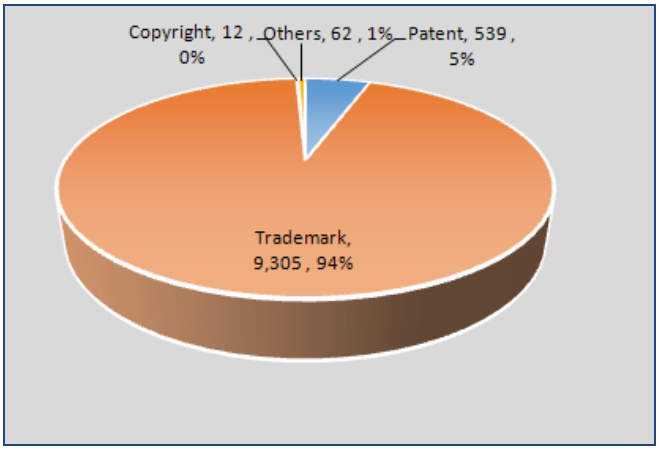
I. Statistics

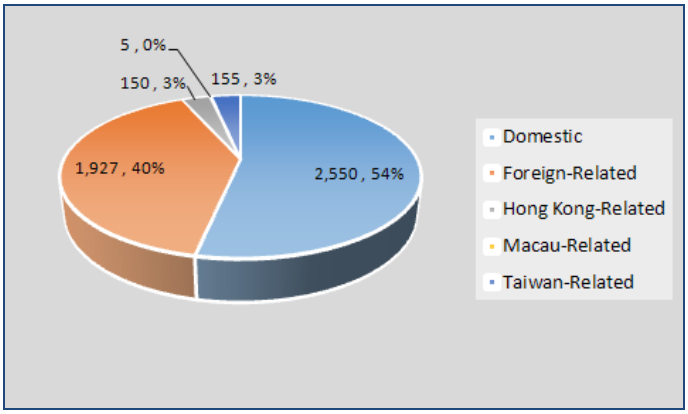
Summary of IP Litigations by Chinese Courts in 2014 (Part B)

- **IP Administrative Litigations:**

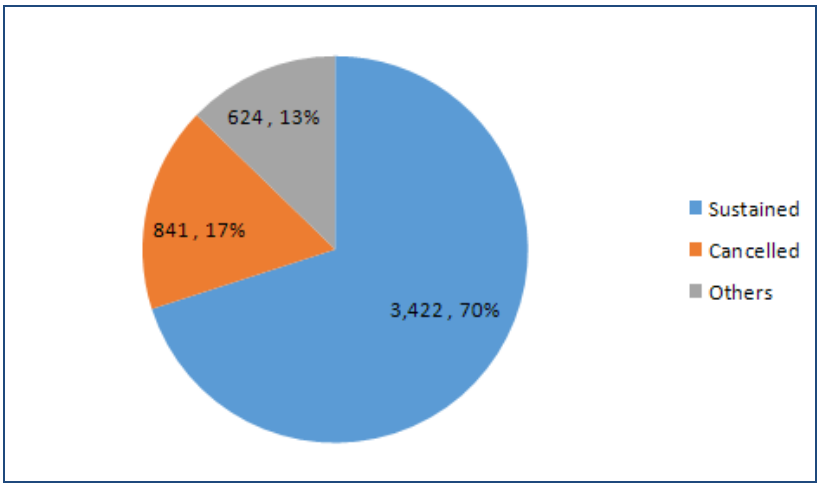
  - **In 2014, the number of first instance administrative intellectual property cases accepted and concluded by local courts was 9,918 and 4,887 respectively, and the respective year on year increases were 243.66% and 68.46%. The accepted cases are categorized as follows and trademark administrative litigations presented a fast growth momentum.**



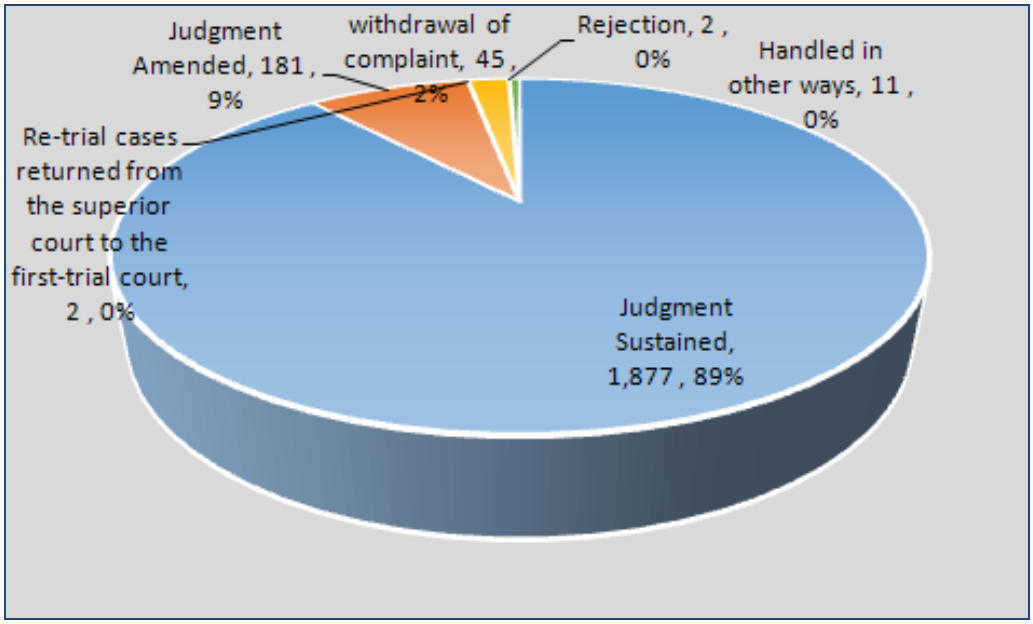
  - **In 2014, local courts concluded a total number of 2,237 cases involving foreign interests, taking up 45.77% of the concluded IP administrative first instance cases, including 1,927 foreign-related cases, 150 cases involving Hong Kong parties, 5 cases involving Macau parties and 155 cases involving Taiwan parties.**



- **Among all the concluded IP-related first instance administrative cases, specific administrative acts were sustained in 3,422 cases and cancelled in 841 cases.**

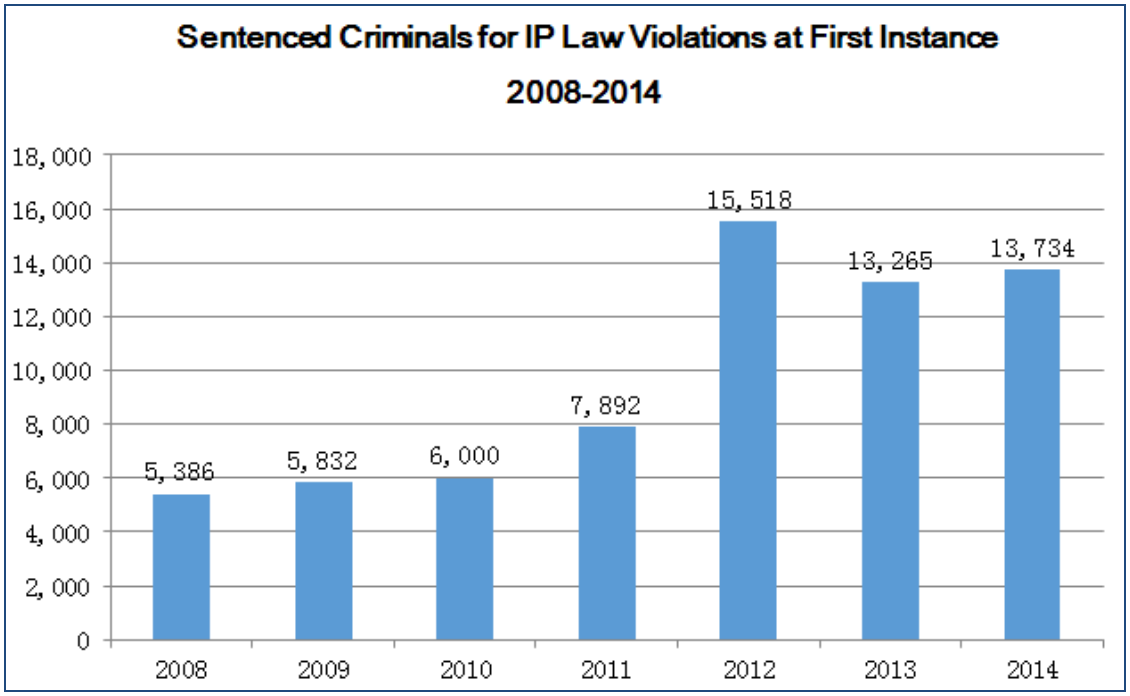


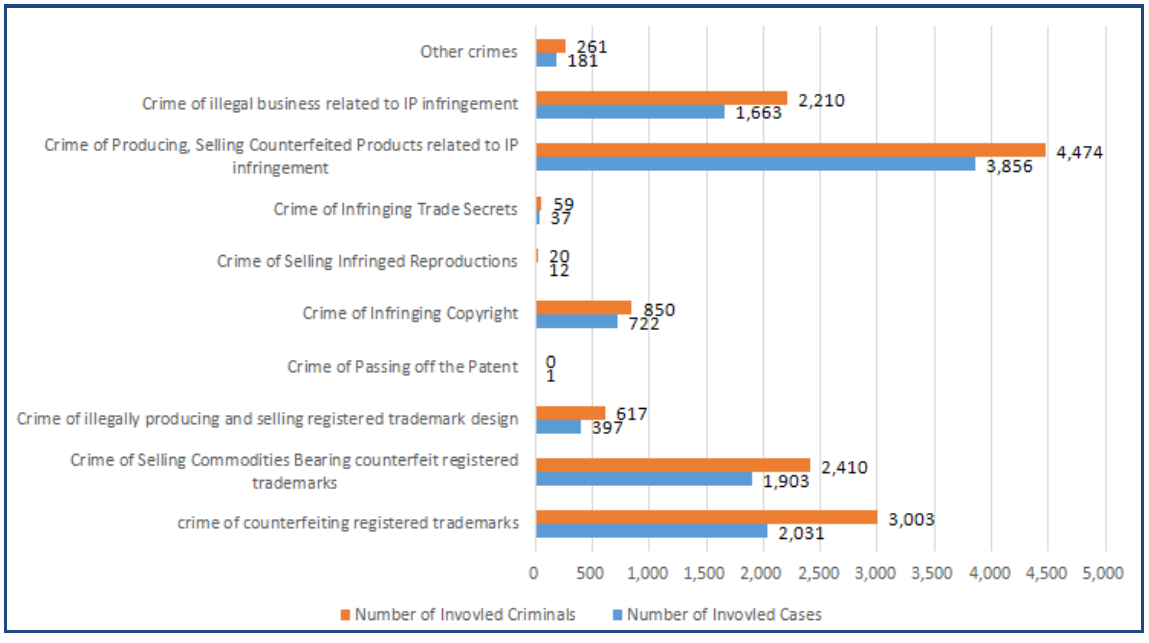
- **In 2014, the number of second instance administrative intellectual property cases accepted and concluded by local courts was 2,435 and 2,118. Among the concluded cases, review decisions were upheld in 1,877; judgments amended in 181; 2 cases returned for retrial from the superior court to the first instance court; 45 cases withdrawn; 2 cases dismissed and 11 cases concluded in other ways.**



- **IP-Related Criminal Cases：**

  - **In 2014, the number of intellectual property-related criminal cases of first instance concluded by local courts was 10,803; the number of individuals on whom the courts' decisions became effective was 13,904, of which, 13,734 were sentenced to criminal punishment, 3.54% more than last year.**





Source： ***Intellectual Property Judicial Protection by Chinese Courts in 2014 issued by the Supreme Court***

II. Comments on Typical Cases

Patent

SUN Junyi vs. Zhengning

- Dispute Regarding Utility Model Patent Infringement
- The Supreme Court [Case No.: (2014) Min Shen Zi No.1036]
- The Liaoning High Court [Case No.: (2013) Liao Min San Zhong Zi No.79]
- The Shenyang Intermediate Court [Case No.: (2013) Shen Zhong Min Si Chu Zi No.802]
- This case was selected as one of Top 10 Innovation IP Cases by Chinese Courts in 2014

Rule:

To identify whether the seller already knows the product sold is infringing product which is made and sold without the authorization of the patentee, one should make comprehensive judgment based on the relevant circumstance. The seller could be identified as already knowing the product sold is infringing product if the seller has sold the patented product before selling the accused infringing product or the seller purchases the accused infringing product at a price unreasonably lower than the market price of the patented product, etc. In case the patentee sends warning letter to the seller, the content of the warning letter needs to be considered. If the information about the accused infringing product, patented product (Patent No., Title, Copy of patent certificate etc.), comparison of the patented product and infringing product as well as contact person is contained in or attached to the letter, and the letter has been received by the seller, it is presumed principally that the seller already knows the product sold is infringing product.

Remarks:

The Patent Law stipulates the exemption of liability of compensation for the seller under the following conditions: (1) sell the infringing product without knowing it is made and sold without permit by the patentee; (2) can prove that he or it obtains the infringing product from a legitimate channel. In practice, it is relatively easy for the seller to prove the legitimate source of the infringing product unless both the manufacturer and seller have contributory intent of infringement or the seller directly engages others to make the infringing product. Therefore, if the seller wants to be exempted from the liability of compensation or the patentee wants to pursue the seller's liability of compensation, it is critical to prove that the seller has or does not have idea about whether the product sold are authorized by the patentee.

With respect to identifying whether the seller knows the product sold is infringing product which is made and sold without authorization by the patentee, the judgment of the case indicates that an overall consideration should be taken, such as whether the seller has sold the patented product before, whether the price at which the seller purchases the infringing product is reasonable, and whether the content of warning letter sent to the seller is clear and sufficient, also the judgment denied the high standard adopted by the trial court that judgment or administrative decision ruling on the infringement should be provided by the accusing party.

This case clarifies that under what circumstance the seller's liability of compensation could be pursued, and further provides instructive idea with regard to the content and wording which should be included in a waning letter in relation to potential patent infringement dispute.

Copyright

Hainan Haishi Travel Channel Media Co., Ltd. vs. Zhejiang Aimeide Tourism Supplies Co., Ltd.

- **Court: the Beijing Daxing District Court**

Rules:

When it is difficult to determine the losses suffered by the right owner or the benefit gained by the infringer, and the evidence could prove either exceeds the maximum statutory compensation significantly, the compensation amount shall be determined reasonably more than the maximum statutory compensation according to the overall evidence in the case.

Remarks:

Hainan Haishi Travel Channel Media Co., Ltd. (herein after as "the Travel Channel") began to use the art work designed by others which consists of four 4-pointed stars joined together end to end in a centrosymmetric distribution as its TV logo since July 2004, and the Travel Channel had obtained the copyright of this art work as an assignee. The Travel Channel found that Zhejiang Aimeide Tourism Supplies Co., Ltd. (herein after as "Aimeide company") applied to register the mark composed of its TV logo and the English words "travelhouse" on the travelling bags and other goods in class 18, and registration was approved on November 28, 2008. Besides, Aimeide company also registered the TV logo of the Travel Channel separately as trademark. The Travel Channel sued Aimeide company for deliberately infringing its copyright for the TV logo by using the above trademarks on the travelling bags produced by Aimeide company and gaining lots of interests through promoting and selling the travelling bags to public on Jingdong company's website and other large online shopping malls.

Considering that the marks involved in the case were essentially similar with the work transferred to Travel Channel as its TV logo and there was possibility that Aimeide company could approach and know the TV logo, the court held that the Defendant Aimeide company had infringed upon the copyright of the Travel Channel for its TV logo by using the marks involved on the travelling bags and selling the products without authorization of Travel Channel, and Aimeide company should be liable to stopping the infringement and compensating for the losses suffered by the Travel Channel.

On the issue of determination of compensation amount, although the Plaintiff Travel Channel did not provide relevant evidence to prove the actual losses it suffered or the benefits Aimeide company obtained, the court supported the Plaintiff's claim and decided that the Defendant should compensate RMB 2 million yuan to the Plaintiff for its economic losses and reasonable expenses, because the court held the benefit obtained by Aimeide company as a result of the infringement exceeded the maximum statutory compensation 500,000 RMB significantly, after considering comprehensively such factors as the originality degree and the popularity of the Plaintiff's TV logo, the way Aimeide company used the marks, the duration of the use and the size of Aimeide company and so on.

Another highlight in this case is that the penalties made by Beijing Daxing District People's Court against the Defendant and the witness according to the provisions of the new Chinese Civil Procedure Law for their serious disrupting civil proceeding activities such as fabricating evidence, making false testimony and so on. The Defendant Zhejiang Aimeide Tourism Supplies Co., Ltd. was fined RMB 1 million yuan, the witness --- the National Leather Industry Standardization Technical Committee was fined RMB 100, 000 yuan; and the directly responsible person of the above committee ---the secretary general was fined RMB 10 thousand yuan. The fine in this case is the first "million class fine" made by the court in Beijing, which fully shows the determination and the strength of the court to protect intellectual property rights and is also a powerful punishment for the dishonest acts conducted by the parties in the litigation.

Trademark

Zhou Lelun vs. New Balance Trading (China) Co., Ltd. and Guangzhou Shengshi Changyun Commerce and Trade Chain Co., Ltd.

- Court: the Guangdong Province Guangzhou Intermediate Court

Rule:

The compensation shall be determined after examining the overall related evidence and considering the factors such as the actual use of the related trademark, the significance degree of the trademark, the bad faith of the infringer and so on. If the infringer is in bad faith, the amount of the compensation shall be increased.

Remarks:

Zhou Lelun is the owner for the No. 865609 "百伦" trademark and No. 4100879 "新百伦" trademark . The trademark "百伦" was applied in August 1994 and registered in August 1996. The trademark "新百伦" was applied in June 2004 and registered in 2011 after the opposition procedure. The two trademarks are registered on clothing, shoes and other goods in class 25. At the same time, Zhou Lelun established a company to produce men's shoes under the two trademarks and set up special selling counters in super malls. The brand "NEW BALANCE" is a

famous foreign brand for sneakers, and is acknowledged as one of the "Top Four Running Shoes" in the world, which also enjoys a great popularity in China.

Zhou Lelun filed a lawsuit with Guangzhou Intermediate People's Court in July 2013 against New Balance Trading (China) Co., Ltd. (herein after as "New Balance company"), the affiliated company of America New Balance Company in China, for infringing his trademark right by using the mark "新百伦" in commerce. Guangzhou Intermediate People's Court holds that:

1. The use of "新百伦" by the Defendant in marketing its products sale in the stores and online flagship store, and promoting sales on its official website and video advertising, is the behavior for identifying the source of goods, and therefore is the use of the trademark.

2. The Defendant did not use its business name standardly. There is no unique correspondence between "新百伦" and "New Balance", so the Defendant had no legal reason to use "新百伦". Moreover, the Defendant once raised opposition against the Plaintiff's mark "新百伦", so the Defendant was aware of the existence of the trademarks of plaintiff's. But the Defendant did not take actions in good faith to avoid using the marks similar or identical to the Plaintiff's trademarks, in order to avert the confusion of the relevant public, which revealed that the Defendant infringed the trademark right of the Plaintiff in bad faith.

3. That the Defendant's use of the mark "新百伦" similar or identical to the trademarks of Plaintiff's on its sneakers would lead to the confusion of the relevant public that the goods with the marks "百伦" and "新百伦" are the products by the Defendant. The above confusion would deprive the Plaintiff's trademarks ("百伦" and "新百伦") of the basic distinguishing function, and restrain the space and value for the Defendant to seek market reputation and build up brand image, which shall be regarded as "reverse confusion". Therefore, the use of the mark "新百伦" by the Defendant constitutes infringement upon the Plaintiff's trademarks "百伦" and "新百伦".

The Guangzhou Intermediate People's Court made a ruling on April 24, 2015 and decided New Balance company shall stop the infringement immediately and compensate 98 million RMB to the Plaintiff for the economic losses, which amounts to half of the benefits obtained by the Defendant in the course of infringement. The compensation amount in this case is not only the highest decided by the Guangzhou Intermediate People's Court with regard to the intellectual property disputes, but also the highest in the nation-wide trademark infringement cases in the past few years. At present, it is unclear whether New Balance company will appeal or not.

Unfair Competition

Blizzard Entertainment, Shanghai EaseNet Network Technology Limited vs. Shanghai Youease Network Technology Co., Ltd.

- **Regarding unfair competition**
- **The Shanghai No. 1 Intermediate Court [Case No.: (2014) Hu Yi Zhong Min Wu (Zhi) Chu Zi No. 22]**
- **This case was selected as one of the Top 10 IP Cases by Shanghai Courts in 2014**

Rule:

The conducts by the business operators in the same industry to possess others' intellectual work by unfair plagiarism shall be deemed as unfair competition if the conducts violate the principle of good faith and exceed the proper reference and imitation.

Remarks:

Blizzard Entertainment is a game software developer and publisher, having issued plenty of best-selling games since 1994, such as the serial games of *Warcraft* and *World of Warcraft*. On March 22, 2013, Blizzard Entertainment published a newly-developed e-card game *Hearthstone: Heroes of Warcraft* at an American game exhibition. Afterwards Shanghai EaseNet Company introduced the game into mainland China under the authorization of Blizzard Entertainment and held an open test to the Chinese public on October 23, 2013. Thanks to the widespread domestic and foreign reports, the game *Hearthstone: Heroes of Warcraft* had gained high recognition once it entered into mainland China. On October 25, 2013, the defendant Shanghai Youease Company displayed an on-line game *Legend of Wolong: Heroes of the Three Kingdoms* to the public. The

two plaintiffs noticed that *the Legend of Wolong* game completely copied and used the decoration designs and other elements substantially similar to the layouts of the plaintiff's game (including the expression of the game, the fight scenes and 382 pieces of card and the combination thereof), plagiarized the rules of the plaintiff's game. Shanghai Youease Company even published an on-line article in the title of "*Emergence of the Chinese version of Hearthstone---Too slow for Blizzard or Too fast for Chinese Company*?" to claim that *the Legend of Wolong* was the Chinese version of *Hearthstone*, almost 100% identical with the original *Hearthstone*. The two plaintiffs deemed that the defendant's acts constituted unfair competition and filed a lawsuit with the Shanghai No. 1 intermediate court.

After examination, the court rules that *the Legend of Wolong* game used the same game rules as that of *Hearthstone's* and the defendant completely copied and imitated the plaintiff's game in the game signs and layouts, etc. The court points out that the plaintiffs and the defendant were competitors in game industry and each party shall conform to the unfair completion law and the game industry's self-disciplinary convention for fair competition. However, the defendant did not compete in the game industry based on its own legitimate intellectual work, while stole the intellectual property of the plaintiff through unfair plagiarism and used it as a catching point to promote the game. The accused acts violated the principles of equality, fairness, good faith and recognized business ethics and exceeded the proper reference and imitation among competitors in the game industry, which should be defined as unfair competition. In the meantime, the court indicates that although game rules could not get protection under the copyright law, it does not mean this kind of intellectual work could not be protected by law.

Finally, the Shanghai No. 1 intermediate court ordered the defendant to stop the unfair competition acts immediately, stop operating and distributing *Legend of Wolong: Heroes of the Three Kingdoms* on internet or by any other means, eliminate adverse influences and compensate the Plaintiffs' economic loss to the amount of RMB 335,000 yuan.

III. NTD Case Selection

Snap-on vs. Nantong Ke Xun Electronic Technology Co., Ltd, Shanghai Long Bang Electronic Technology Co., Ltd, Mr. QIN and etc

- **Dispute of Copyright Infringement**
- **The Jiangsu Nantong Tongzhou District Court [Case No.: (2014) Tong Zhi Xing Chu Zi No.00018]**
- **This case was selected as one of the Top 10 Typical IP Cases by Jiangsu Courts in 2014**

Snap-on released an innovative Ultra V3D 3-dimentional imaging four-wheel locator in 2006. China Copyright Registration Center issued a copyright registration certificate for the operating software of this product. From June 2011 to July 2012, the defendants, Mr. XU, Mr. PAN and Mr. LIU, after conspiracy, bought pirate Snap-on operating software from third parties, made several

copies after disguise, and applied them in the LB-96 computerized four-wheel locator produced by Nantong Ke Xun Electronic Technology Co., Ltd, which were subsequently sold to Nantong He Tong Automobile Service Co., Ltd through Nantong Ke Xun Electronic Technology Co., Ltd and Shanghai Long Bang Electronic Technology Co., Ltd. Snap-on reported this case to the local police for criminal prosecution. Through investigation, the local police found the defendants had sold 11 units of four-wheel locators installed with the pirate software, with the illegal turnover amounting to RMB 419, 000. The procuratorate then filed a criminal lawsuit against the defendants before Nantong Tongzhou District People's Court.

This case involves legal issues such as how to determine the amount of illegal turnover for computer software and related mechanical products. NTD lawyers represented Snap-on throughout the criminal proceedings, participating in court hearings as its representatives to present the opinions, to protect Snap-on legal rights and interests.

Nantong Tongzhou District People's Court holds after adjudication that, firstly, the value of copyright to a computer software consists of interests realized through release, rental, license, transfer and etc. of the computer software itself, as well as values of the products developed for purpose of performing the computer software's function. In this case, in view of the function of the computer software involved, the software and the hardware installed with the software are inseparable given they serve the same purpose, and values of the software are reflected in the values of the accused products after being put into commercial circulation Values of the accused locators mainly lie in the software installed therein to achieve the designed objective. For this reason, values of the accused products almost equal to values of the computer software involved, and therefore the illegal turnover in this case shall be the total selling incomes of the accused products.

Secondly, Snap-on's analysis of the accused software obtained by means of purchase of the accused locators is a legitimate method to evaluate and attain relevant evidence of infringement, rather than an illegal act of inducing the crime. However, when it has obtained preliminary evidence to prove the infringing nature of the accused software, which is basically enough for instituting an administrative or court action, Snap-on made a second purchase to get evidence again, costs of which should be excluded when determining amount of compensation.

In the end, the court decides that the total illegal turnover in this case is RMB 258,000, the defendants' acts constitute crime of impinging on copyright, and imposed criminal penalties against all the defendants.

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