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First Instance Judgment on the Patent Infringement Dispute Between IWNCOMM and Sony China

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Case Express

✧ First instance judgment on the patent infringement dispute between IWNCOMM and Sony China

I. Summary of the Case

Acceptance Data: July 2, 2015

Trial Court: Beijing Intellectual Property Court

Collegiate Bench: Su Chi, Jiang Ying, Rui Songyan, Yang Jing, Xu Bo

Trial Date: February 25, 2016; December 21, 2016

Date of Judgment: March 22, 2017

Patent in issue: WAPI SEP – a national compulsory SEP, a method patent

Brief introduction:

On July 2, 2015, IWNCOMM complained that 35 models of mobile products produced and sold by Sony China use its WAPI SEP. Sony China contended that Defendant did not need to use the patent in issue during any step of its production; the way Defendant provided

mobile phones to the user does not constitute joint infringement; the patent of Plaintiff has been included in the national standard and Plaintiff has promised to license the patent in issue under the FRAND principle, therefore, the action of Defendant to exploit the patent in issue does not constitute infringement; and under the condition that the loss of Defendant could be fully compensated economically, it is against the principle of balancing of interests to request to stop infringement.

The court has found that the two parties have confirmed the patent in issue as a SEP; Defendant confirmed that the 35 models of mobile phones it produced and sold are with the WAPI function, and the technology adopted to realize the WAPI function is exactly the patent in issue; and through the test of four models of mobile phones by the State Radio monitoring center Testing Center, the method and steps for Internet access via the WAPI function options by Defendant's mobile phones are the same with the technical solution required by the patent in issue.

Besides, the two parties negotiated on the licensing of the patent in issue during March 2009 to March 2015. Plaintiff provided the patent list to Defendant, but Defendant had always been insisting on the claim that "Plaintiff should provide the claim charts" throughout the negotiation till March 13, 2015, by which the negotiation ended. During this period, Plaintiff held that the claim charts can be provided to Defendant upon the signing of a Non-Disclosure Agreement ("NDA"), but Defendant insisted that Plaintiff shall provide the said claim charts with no NDA involved.

Plaintiff's requests: 1. Defendant be ordered to stop the use of Plaintiff's patent immediately, and stop the production and sales of mobile products using Plaintiff's patent; 2. Defendant be ordered to reimburse the Plaintiff with economic loss of RMB 32,887,179 and reasonable expenses of RMB 474,194, which totaled RMB 33,362,373.

Decision of the court: the court ruled that Sony China shall stop the infringement on the patent in issue immediately and upheld Plaintiff's claim that "reimbursement amount shall be 3 times of the royalties" and the amount of compensation for economic losses is determined to be RMB 8,629,173. Moreover, the RMB 474,194 reasonable expenditure claimed by Plaintiff is fully supported. Thus, the total compensation amounted to RMB 9,103,367.

II. Court's Opinion

A. Regarding infringing acts

1. Direct infringement committed solely by Defendant

Defendant adopted WAPI function, by using the subject patent without obtaining a license from Plaintiff, in the design and development, manufacturing, factory testing procedures for the accused infringing products, which has infringed upon Plaintiff's rights.

Both parties acknowledged that the subject patent is a SEP. Considering that Defendant refused to submit the testing specification for realizing the WAPI function, which was ordered by the court to be submitted, apart from some of the accused infringing models on which Defendant confessed to conducting the WAPI function testing during the R&D procedure, the court reasonably inferred that Defendant also followed said Standard, i.e. conducted the WAPI function testing, during manufacturing, factory testing, and other related procedures for the accused infringing products, under which the subject patent was used.

2. Contributory infringement

Defendant was aware of the accused infringing products have the WAPI function module combination, and such a combination was specifically adopted by the accused infringing products. Defendant's demeanor that offered the accused infringing products, without obtaining a license from Plaintiff, to others in order to implement the subject patent for production and business purposes has constituted contributory infringement.

General speaking, indirect infringement should be determined on basis of direct infringement. However, it does not mean Patentee should prove that the other subject in effect committed direct infringement. Instead, Patentee only needs to prove that the default means for using the accused infringing products by users will cover all technical features of the subject patent. As for whether the user has constituted infringement, it is irrelevant to indirect infringement.

B. Regarding exhaustion of patent right

The WAPI function chips in the accused infringing products are provided by the chip maker, and Plaintiff's selling and testing activities will not lead to the exhaustion of patent right.

Exhaustion of patent right for the method patent only applies to "the product directly obtained from the patented method", namely, applies to the "method patent of processing" rather than the pure "method patent of using".

C. Regarding the SEP defense

The subject patent has been incorporated in the National Standard and Plaintiff has also made the FRAND declaration, which cannot be applicable to the non-infringement defense.

Firstly, the subject patent is a SEP, which has been incorporated in the National Standard. On the one hand, in fact, the Standard in question is the compulsory standard, which is indicated by the "GB" mark on said Standard. On the other hand, in fact, the subject patent has been enforced since around 2009.

Secondly, whether the subject patent is a SEP or not will not affect the determination of infringement. Under the current legal framework, determination of infringement should refer to Article 11 of the Patent Law, and the specific rule for determination is "the principle of overall coverage" provided for by the Interpretations of the Supreme People's Court Concerning Certain Issues on the Application of Law for the Trial of Cases on Disputes over Infringement on Patent Rights. However, said law and interpretations do not distinguish between a patent and a SEP, namely, the main factor for determining infringement will not be affected by whether a patent is a SEP.

Lastly, Plaintiff's FRAND declaration cannot be Defendant's excuse for non-infringement defense. The FRAND declaration is the commitment undertaken by Patentee, which belongs to the unilateral civil legal act and does not mean any licensing agreement has been made, namely it cannot be determined based on the FRAND declaration that the parties has reached a patent licensing agreement.

D. Cessation of infringement

Subjective faults in the licensing negotiation should be taken into account when determining whether a defendant should stop infringement in the case involving SEPs. To be specific, in case that both parties have no faults, or the patentee has fault while the implementer has no fault, the court should not support the patentee's motion to stop infringement; in case that the patentee has no fault while the implementer has fault, the court should support the patentee's motion to stop infringement; and in case that both parties have faults, the court should consider the degree of faults committed by both parties to balance the parties' interests when deciding whether the patentee's motion should be supported or not.

First of all, whether it is reasonable for the defendant to request claims charts from the plaintiff. In this case in question, the subject patent is the core patent for the WAPI technology, and is a standard essential patent. The Standard in question has in effect been implemented since around 2009, and Plaintiff explained technologies related to WAPI and provided the Patent List as well as the licensing agreement, upon which Defendant could have made a reasonable judgement on whether the WAPI function software running in the accused infringing phones fall into the protection scope of the subject patent, instead of requesting the claims charts from Plaintiff. Nevertheless, Defendant repeatedly denied that its products used the WAPI patent at issue in the negotiations with Plaintiff, which shows the apparent intention of delaying negotiations, and Defendant's request for such claim chart is unreasonable.

Secondly, whether it is reasonable for the Plaintiff's to request the Defendant to sign a NDA. In practice, claim charts involve the comparison of technical features covered by the patent claims and that of the accused infringing products, and may also involve Patentee's observations and assertions thereabout. Under this circumstance it is reasonable that Patentee required the adverse party to sign a NDA. Thus, it is reasonable for Plaintiff to request the Defendant to sign a NDA on the condition that Plaintiff agreed to provide claim charts.

For the foregoing reasons, the faults lie in the patent implementer, namely Defendant in the case in question, for not entering into a formal licensing negotiation

for so long a time. Therefore, the Plaintiff's claim of stopping infringement has factual and legal basis, the court shall support it.

E. Regarding determination of damages

In the case in issue, neither of the two parties submitted relevant evidence to prove the loss suffered by Plaintiff or the benefit obtained by Defendant. And as Plaintiff claimed that the reimbursement amount shall be 3 times of the royalties, the court made a reasonable decision on the reimbursement amount for Defendant's infringing of the patent in issue based on the times of royalties.

The four patent exploitation license agreements referred to stipulate the royalty as 1 yuan/piece. Although such a royalty is directed at patent portfolio, patents in such patent portfolio are all related with the WAPI technology, especially the patent in issue. Thus, the 1 yuan/piece royalty as stipulated in the above four agreements could be used as the standard to determine the royalties of the subject patent. The 2,876,391 mobiles phones of Defendant had acquired the Telecom Equipment Network Access License from Jan. 1, 2010 to December 31, 2014. In view that the patent in issue is a basic invention of the wireless LAN security filed, has acquired relevant technical prizes, has been included in the national standard, and considering the fault of Defendant during the negation between the two parties, the court supported the claim of Plaintiff that "the reimbursement amount shall be 3 times of the royalties", and have determined a total reimbursement amount for economic loss of RMB 8,629,173 (2,876,391×3).

III. Comments

Determination of infringement upon a method patent

Where the accused infringing products involve the method patent of SEP, the manufacturer may be presumed to have tested the products in the processes of design and R&D, manufacturing and pre-delivery inspection so as to meet the relevant standards, and such testing acts will be determined as the use of said method.

Determination of contributory infringement

Indirect infringing acts still need to be established on the precondition that direct infringing acts exist. However, the establishment of direct infringing acts does not require that the other subject (e.g. user) has actually committed direct infringing acts for the purpose of production and business operation, but is determined only based on the fact that whether the corresponding direct infringing acts have represented all technical features of the patent in issue.

Defense of patent right exhaustion

Merely "application method patent" does not involve the issue of right exhaustion.

Conditions for supporting injunction

Regarding whether injunctive relief shall be supported, this case shed light on the circumstances where article 24.2 of the Interpretations of the Supreme People's Court Concerning Certain Issues on Application of Law for Trial of Cases on Disputes over Patent Infringement (II) is silent, that is, where the patentee has no faults but the implementer has faults, the patentee's request for ceasing infringement shall be supported; where both parties have no fault, the patentee's request for ceasing infringement shall not be supported; where both of them have faults, the court should consider the degree of faults committed by both parties to balance the parties' interests when deciding whether the patentee's motion should be supported or not.

Determination of comparable royalties

The case indicates the factors that may be taken into account by the court in determining whether the license agreement provided by the patentee is comparable, such as the applicable geographical area, the time frame, and the patent involved.

The case involves a number of hot issues regarding SEPs and method patents, and the Beijing Intellectual Property Court has systematically responded to these hot issues through the form of judgments, which may have important guiding significance for future similar intellectual property trials.

IMPORTANT INFORMATION

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