SPC Guiding Case No. 159: Shenzhen Dunjun Technology Co., Ltd. v. Shenzhen Jixiang Tengda Technology Co., Ltd. et al. (Invention Patent Infringement Dispute)

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Unofficial English translation prepared for reference only. The official Chinese text prevails.

Discussed and adopted by the Judicial Committee of the Supreme People's Court; issued on July 23, 2021.

Keywords

Civil / infringement of invention patent right / method patent implemented by multiple actors / calculation of damages for infringement / burden of proof / technical contribution of the patent

Holding

1. Where the alleged infringer, for the purpose of production and business operation, fixes the essential substance of a patented method into the alleged infringing product, and such act or its result plays an irreplaceable and substantive role in the full coverage of all technical features of the patent claim, so that an end user can naturally reproduce the patented method process through the normal use of the alleged infringing product, it shall be determined that the alleged infringer has implemented the patented method and infringed the patentee's rights.

2. Where the patentee claims that the amount of damages should be calculated on the basis of the infringer's profit from infringement and has completed preliminary proof of the facts concerning the scale of infringement, but the alleged infringer refuses, without justified reasons, to provide the corresponding evidentiary materials concerning the facts of the scale of infringement, so that the basic facts used to calculate the profit from infringement cannot be determined, the people's court may refuse to support the alleged infringer's defense that the contribution of the patent in issue to its profit from infringement should be taken into account.

Basic Facts

The plaintiff, Shenzhen Dunjun Technology Co., Ltd. ("Dunjun Company"), alleged that Shenzhen Jixiang Tengda Technology Co., Ltd. ("Tengda Company") had, without authorization, manufactured, offered for sale, and sold a number of models of commercial wireless routers (the "Alleged Infringing Products"), and that the Jinan Lixia Hongkang Electronic Products Business Department ("Hongkang Business Department") and the Jinan Lixia Haowei Electronic Products Business Department ("Haowei Business Department") had sold such products without authorization. Dunjun Company claimed that these products fell within the scope of protection of its invention patent entitled "A Method for Simplifying Access to a Network Operator's Portal Website" (Patent No. ZL02123502.3; the "Patent in Issue"), and requested an order that Tengda Company, Hongkang Business Department, and Haowei Business Department cease the infringement and compensate losses and reasonable expenses for stopping the infringement totaling RMB 5 million.

The defendant Tengda Company defended that: 1. The Patent in Issue and the Alleged Infringing Products differ in the manner in which they achieve directional access when visiting any website, and the access processes are not equivalent, so Tengda Company had not infringed Dunjun Company's patent right in issue. Moreover, the Patent in Issue protects a network access authentication method; Tengda Company had merely manufactured the Alleged Infringing Products but had not used the technical solution protected by the Patent in Issue, so its acts of manufacturing and selling the Alleged Infringing Products did not constitute patent infringement. 2. The amount of compensation claimed by Dunjun Company was excessively high and lacked factual and legal basis; in calculating the amount of compensation, the technical

contribution of the patent and the existence of alternative solutions to the patented technology should be considered.

Hongkang Business Department and Haowei Business Department jointly defended that the Alleged Infringing Products they sold were lawfully purchased from agents, and that they were not the producers of the Alleged Infringing Products and should not bear liability.

The court found upon trial that Dunjun Company expressly asserted its rights on the basis of Claims 1 and 2 of the Patent in Issue, the content of which was: 1. A method for simplifying access to a network operator's portal website, characterized by comprising the following processing steps: A. the underlying hardware of the access server directly submits, to a "virtual Web server," the first upstream HTTP message from a portal-service user device before authentication, the function of such "virtual Web server" being implemented by a "virtual Web server" module of the upper-layer software of the access server; B. such "virtual Web server" virtualizes itself as the website the user intends to access and establishes a TCP connection with the portal-service user device, and returns to the underlying hardware of the access server a message containing redirection information, whereupon the underlying hardware of the access server sends to the portal-service user device, according to the normal forwarding process, a message redirecting it to the genuine portal website Portal Server; C. after receiving the redirection message, the browser of the portal-service user device automatically initiates access to the genuine portal website Portal Server. 2. The method for simplifying access to a network operator's portal website according to Claim 1, characterized in that: in said step A, the portal-service user enters any correct domain name, IP address, or any digits in the browser to form an upstream IP message; in said step B, the "virtual Web server" virtualizes itself as the website at the IP address of that IP message.

Dunjun Company purchased, through notarized purchases, one "Tenda Router W15E" and one "Tenda Router W20E Enhanced" from Hongkang Business Department and Haowei Business Department, and, under the supervision of a notary, conducted a technical demonstration of the process by which the "Tenda Router W15E" accesses the network operator's portal website. The demonstration results showed that the process of using the "Tenda Router W15E" contained method steps corresponding to Claims 1 and 2 of the Patent in Issue.

The Alleged Infringing Products were sold in the official flagship stores on the JD.com mall and the "Tmall" website, and the sales volumes were enormous. The official flagship store page on the JD.com mall displayed a picture of the "Tenda W15E" router, a JD.com price of RMB 199, and 10,000-plus cumulative reviews; a "Tenda W20E" router with a JD.com price of RMB 399 and 10,000-plus cumulative reviews; and a "Tenda G1" router with a JD.com price of RMB 359 and 10,000-plus cumulative reviews. The Tenda flagship store page on the "Tmall" website displayed a picture of the "Tenda W15E" router, a promotional price of RMB 179, monthly sales of 433, 4,342 cumulative reviews, installation instructions, and technical support information.

On December 13, 2018, the court of first instance lawfully issued a notice, the main content of which was to order Tengda Company to submit, within 10 days, complete materials and complete financial account books concerning the production and sales of the "router" products in issue since July 2, 2015, and that failure to submit them within the time limit would result in corresponding legal liability. However, up to the time the second-instance judgment was rendered, Tengda Company had not submitted the relevant evidence.

Judgment

On May 6, 2019, the Jinan Intermediate People's Court of Shandong Province rendered the civil judgment (2018) Lu 01 Min Chu No. 1481: 1. Tengda Company shall immediately cease manufacturing, offering for sale, and selling the router products in issue; 2. Hongkang Business Department and Haowei Business Department shall immediately cease selling the router products in issue; 3. Tengda Company shall, within ten days from the effective date of the judgment, compensate Dunjun Company for economic losses and

reasonable expenses totaling RMB 5 million; 4. the remaining claims of Dunjun Company were dismissed. The case acceptance fee of RMB 46,800 for the first instance was borne by Tengda Company. After the judgment was pronounced, Tengda Company appealed to the Supreme People's Court. On December 6, 2019, the Supreme People's Court rendered the civil judgment (2019) Zui Gao Fa Zhi Min Zhong No. 147, dismissing the appeal and affirming the original judgment.

Reasoning

The Supreme People's Court held that the issues of focus in this case included three aspects:

I. Whether the process of using the Alleged Infringing Products falls within the scope of protection of the claims of the Patent in Issue.

First, the "first upstream HTTP message" in Claim 1 of the Patent in Issue should not be interpreted as the first message in the process of establishing a TCP "three-way handshake" connection between the user device and the actual website it intends to access, but should instead be interpreted as the first upstream HTTP message sent by an unauthenticated user device to the access server. Second, according to the notarized test results of the Alleged Infringing Products, the forced Portal process of the Alleged Infringing Products was identical to the step method defined in Claims 1 and 2 of the Patent in Issue, and the process of using the three models of the Alleged Infringing Products in the "Web authentication enabled" mode fell entirely within the scope of protection of Claims 1 and 2 of the Patent in Issue.

II. Whether Tengda Company's alleged infringing acts constituted infringement.

In determining infringement of a method patent in the field of network communication, the characteristics of the field and the laws governing innovation and development in the field should be fully considered, so as to ensure that the lawful rights of the patentee are substantively protected and that sustainable innovation and fair competition in the industry are realized. Where the alleged infringer, for the purpose of production and business operation, fixes the essential substance of a patented method into the alleged infringing product, and such act or its result plays an irreplaceable and substantive role in the full coverage of all technical features of the patent claim, so that an end user can naturally reproduce the patented method process through the normal use of the alleged infringing product, it shall be determined that the alleged infringer has implemented the patented method and infringed the patentee's rights. In this case: 1. Although Tengda Company had not implemented the patented method in issue, the Alleged Infringing Products it manufactured, offered for sale, and sold for the purpose of production and business operation had the function of directly implementing the patented method, and played an irreplaceable and substantive role in the process by which end network users completely reproduced the patented method using the Alleged Infringing Products. 2. The improper benefits obtained by Tengda Company from manufacturing, offering for sale, and selling the Alleged Infringing Products were closely related to the Patent in Issue. 3. Because the act of end network users using the Alleged Infringing Products to implement the patented method does not constitute infringement in the legal sense, the patentee's innovation investment could not obtain due returns from the end network users who directly implement the patented method; if the patentee's interests could not be compensated, research and development innovation activities would inevitably become difficult to sustain. On the other hand, as stated above, Tengda Company had obtained, by virtue of the Patent in Issue, benefits that originally belonged to the patentee, resulting in a serious imbalance in the distribution of benefits, which was unfair. Taking the above factors together, under the circumstances of this case, it should be determined that Tengda Company's acts of manufacturing, offering for sale, and selling the Alleged Infringing Products were infringing in nature and that it should bear civil liability for ceasing the infringement and compensating losses.

III. Whether the amount of compensation determined in the first-instance judgment was appropriate.

Where the patentee claims that the amount of compensation should be determined on the basis of the profit from infringement, the scale of infringement is the basic fact for calculating damages. The patentee bears the

initial burden of proof for such basic fact. Where the patentee has completed preliminary proof and the alleged infringer refuses, without justified reasons, to provide the corresponding evidentiary materials concerning the basic facts of the scale of infringement, the defense that the contribution of the patent in issue to its profit from infringement should be considered may be disregarded. Specifically in this case: 1. Dunjun Company claimed that the amount of compensation should be calculated according to the profit obtained by the infringer from infringement, and submitted in the first instance evidence of the sales volume and prices of the Alleged Infringing Products sold by Tengda Company in its official flagship stores on the JD.com and Tmall websites. Given that such sales volumes and prices all originated from Tengda Company's own official flagship stores on regular e-commerce platforms, the data were relatively credible; although Tengda Company pointed out the possibility of double counting and false reporting in using cumulative reviews as sales volume, it did not submit definitive evidence, and considering Dunjun Company's ability to prove this fact, it should be determined that Dunjun Company had completed its initial burden of proof concerning the basic facts of the scale of infringement. 2. In the first instance, Dunjun Company, relying on the preliminary evidence of the scale of infringement it had submitted, applied for Tengda Company to submit financial account books and materials related to the Alleged Infringing Products, and the court of first instance, based on the actual circumstances of the case, lawfully ordered Tengda Company to submit complete financial account books and materials capable of reflecting the production and sales of the Alleged Infringing Products, but Tengda Company did not submit them. Even after the court of first instance fully supported Dunjun Company's high compensation of RMB 5 million by applying the relevant judicial interpretation, and Tengda Company raised objections in the second instance, it still did not submit the relevant financial account books and other materials. Since there was no objective obstacle preventing Tengda Company from submitting the evidence in its possession related to the scale of infringement, it should be determined that Tengda Company had not completed its final burden of proof concerning the basic facts of the scale of infringement. 3. Based on the existing evidence, there were reasonable grounds to believe that the actual sales volume of the Alleged Infringing Products far exceeded the volume claimed by Dunjun Company. In summary, where the facts of infringement were relatively clear and the existing evidence already showed that Tengda Company's actual scale of infringement far exceeded the scope of compensation claimed by Dunjun Company, if Tengda Company objected to the full compensation determined by the court of first instance, it should first raise a substantive defense as to whether the basic facts on which Dunjun Company calculated the compensation were objectively accurate, and could not evade the basic facts of the scale of infringement and instead raise other defenses such as the technical contribution of the patent; accordingly, the Supreme People's Court disregarded all of Tengda Company's second-instance defenses that the amount of compensation determined in the first instance was excessively high.

Relevant Legal Provisions

Article 1, Article 11(1), and Article 64(1) of the Patent Law of the People's Republic of China (2020 Amendment) (the case applied Article 1, Article 11(1), and Article 59(1) of the Patent Law of the People's Republic of China, 2008 Amendment).

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