SPP Guiding Case No. 194: Case of a Shanghai Company, Xu Lin, and Tao Wei for Copyright Infringement

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Keywords

Intellectual property protection; crime of copyright infringement; computer software; binary code; reproduction and distribution; avoiding "secondary infringement".

Holding

Where, after obtaining the binary code in a chip through reverse engineering, a person manufactures and sells the rights holder's chips by reproducing the binary code without permission, this shall be determined as reproducing and distributing computer software; where the amount of illegal gains is relatively large or there are other serious circumstances, criminal liability shall be pursued for the crime of copyright infringement. For the manufacture and sale of the rights holder's chips by reproducing binary code, the binary code shall be the object of comparison, and whether the computer software constitutes substantive similarity shall be determined by comprehensively considering all the evidence in the case. In handling cases, the methods of evidence collection, appraisal, review and cross-examination of evidence involving trade secrets shall be improved to avoid "secondary infringement" of intellectual property.

Basic Facts

Defendant unit: a Shanghai company, domiciled in Xuhui District, Shanghai.

Defendant Xu Lin, male, general manager of the Shanghai company.

Defendant Tao Wei, male, sales department manager of the Shanghai company.

A Nanjing company enjoys the computer software copyright of the embedded firmware program software V3.0 of the C-type chip. The computer software is applied in the C-type chips produced and sold externally by the Nanjing company. C-type chips are widely used in navigators, barcode scanners, 3D printers, educational robots, POS machines and other fields.

The Shanghai company was established in 2003. In 2016, Tao Wei, as a salesperson of the Shanghai company, discovered in market research and promotion that the C-type chips of the Nanjing company had large sales volume and high market share, and obtained genuine C-type chips from the market for reproduction. Xu Lin, as the general manager of the Shanghai company, was responsible for all production and operation affairs of the company, and, fully aware that the Shanghai company had not obtained the authorization and license of the Nanjing company, entrusted other companies to crack the C-type chips, extracted the GDS files (graphic data system, i.e., the graphic data system, which is an industry-standard data file used for integrated circuit chips and records information such as the various layers of the chip, the planar geometric shapes within the layers, and text labels), and then organized the production of mask tools, wafers and packaging, and sold them externally as the Shanghai company's G-type chips to seek illegal gains.

From September 2016 to December 2019, the Shanghai company sold a total of over 8.3 million G-type chips, with an illegal business operation amount of over RMB 7.3 million, all of which belonged to the unit. Among them, Tao Wei sold over 7.8 million infringing chips externally, with an illegal business operation amount of over RMB 6.8 million.

Procuratorial Performance

Arrest review and guidance on evidence collection. On January 19, 2020, the Yuhuatai Branch of the Nanjing Municipal Public Security Bureau, Jiangsu Province (hereinafter the Yuhuatai Branch) requested the People's Procuratorate of Yuhuatai District, Nanjing (hereinafter the Yuhuatai Procuratorate) to approve the arrest of suspects Xu Lin and Tao Wei on suspicion of the crime of selling goods with counterfeit registered trademarks. Upon review, the Yuhuatai Procuratorate held that although the inner layer of the disassembled chips involved bore a mark similar to the Nanjing company's trademark, the mark was not used to indicate the source of the goods, and the Shanghai company had no intent to counterfeit the registered trademark, so it did not constitute the crime of selling goods with counterfeit registered trademarks; however, the embedded binary code in the C-type chip was a form of expression of computer software, and the case might involve the crime of infringing computer software copyright. It made a decision not to approve the arrest of Xu Lin and Tao Wei in accordance with the law, and at the same time suggested that the public security organs conduct supplementary investigation and evidence collection from the following aspects in respect of the two suspects' suspected crime of copyright infringement: retrieving electronic evidence such as the suspects' chat records, and documentary evidence such as the Shanghai company's internal meeting records, approval reports, test reports and external processing entrustment contracts, to ascertain whether they had subjective knowledge and objective conduct of imitating others' chips; and entrusting an appraisal institution to compare and appraise the internal structure, operating environment, supporting software and other technical content of the infringing chips and the genuine chips. On January 23, 2020, the Yuhuatai Branch released Xu Lin and Tao Wei on bail pending trial.

Review for prosecution. On December 4, 2020, the Yuhuatai Branch transferred Xu Lin and Tao Wei for review and prosecution on suspicion of the crime of copyright infringement. The procuratorial organs focused on the following work: First, accurately determining the charge. Upon review, it was held that the Shanghai company, without authorization, reproduced the binary code in which the Nanjing company enjoyed copyright to manufacture chips and sold them externally, which constituted the reproduction and distribution of computer software; the number of reproductions and the amount of illegal business operations both reached the "especially serious circumstances" threshold, constituting the crime of copyright infringement. Second, reviewing the substantive similarity appraisal opinion. When reviewing the appraisal materials commissioned during the investigation stage, the procuratorial organs found that the source of the inspection materials was unclear. After full communication with the public security organs and appraisers, the public security organs' investigators presided over the random extraction of 10 chips for inspection from the 170,000 infringing chips seized at 5 locations. Upon appraisal and comparison, the infringing chips and the Nanjing company's genuine chips were more than 90% similar in surface layout; the binary code of the ROM layer of the GDS files used to produce the infringing chips was identical to the binary code generated by compiling and converting the Nanjing company's source code, with a similarity of 100%, and was identical to the binary code of the ROM layer of the GDS files of the Nanjing company's chips, with a similarity of 100%, thereby determining that the more than 8.3 million chips mass-produced by the Shanghai company were all infringing products. Third, additionally naming the Shanghai company as a defendant unit. Given that the case was carried out in the name of the Shanghai company and the illegal gains belonged to the company, the procuratorial organs additionally named it as a defendant unit in accordance with the law. Fourth, doing a good job of protecting the trade secrets involved. The Nanjing company protected the source code of the computer software involved as a trade secret. To prevent the leakage of the source code and accommodate the rights holder's confidentiality demands, the procuratorial organs suggested that the investigators conduct the inspection, extraction and sealing of the relevant electronic evidence within the Nanjing company. In the subsequent litigation procedures, after signing confidentiality agreements, the appraisers, defenders and other litigation participants carried out appraisal comparison and evidence review and cross-examination work in the company's confidential area specially used for sealing evidence.

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Accusation and proof of crime. On April 26, 2021, the Yuhuatai Procuratorate initiated public prosecution against the Shanghai company, Xu Lin and Tao Wei with the People's Court of Yuhuatai District, Nanjing, Jiangsu Province (hereinafter the Yuhuatai Court) for the crime of copyright infringement. During the trial, defendant Tao Wei retracted his confession, claiming that he did not know that the Shanghai company had directly reproduced the binary code of the chips it purchased. At the same time, the defenders raised: First, Xu Lin and Tao Wei, in the process of imitating the chips, only knowingly knew that they might infringe the integrated circuit layout design right, and did not knowingly know that they were infringing the copyright of the embedded firmware. Second, the chip firmware program only accounted for a small part of the chip's value, and there was insufficient basis to determine the amount of the crime based on the chip's sales price. Third, the appraisal opinion could not lead to the conclusion that all 8.3 million chips were infringing products. The public prosecutor responded: First, after reverse-cracking the C-type chips purchased by Tao Wei, the Shanghai company mass-produced G-type chips, and Tao Wei himself promoted and sold them externally at a significantly lower price, claiming that the product could fully replace the C-type chips; Xu Lin and Tao Wei had professional knowledge backgrounds in chips and had been engaged in the chip industry for many years, and during the commission of the crime, Xu Lin had told Tao Wei that "we cannot mark the Nanjing company's trademark, and must ship blank to prevent infringement... do not ship too many at once, to prevent being discovered by the Nanjing company", so the defense that they subjectively did not knowingly know of the copyright infringement was not established. Second, the core value of the chip lay in the software program that realized the product's functions, i.e., the software copyright value was its main value component, so the overall sales price of the chip should be used as the basis for determining the amount of illegal business operations, and the number of infringing reproductions and the amount of illegal business operations in this case both reached the "especially serious circumstances" threshold. Third, for chips with a high degree of mass production, multiple comparisons on the basis of scientific sampling were all 100% similar; the appraisal method was scientific, the procedure transparent and the comparison sufficient, and the defendant unit could not provide original code, so it could be determined that all the chips sold were infringing products.

Handling result. On July 14, 2021, the Yuhuatai Court sentenced the defendant unit Shanghai company to a fine of RMB 4 million for the crime of copyright infringement; sentenced defendant Xu Lin to fixed-term imprisonment of 4 years and a fine of RMB 360,000; and sentenced defendant Tao Wei to fixed-term imprisonment of 3 years and 2 months and a fine of RMB 100,000. The defendant unit and defendants refused to accept the first-instance judgment and appealed. On October 28, 2021, the Nanjing Intermediate People's Court ruled to dismiss the appeals and affirm the original judgment.

Guiding Significance

(1) Pay attention to grasping the standards for determining different charges, and accurately characterize criminal cases involving computer software. Criminal acts infringing the intellectual property of computer software may involve the crimes of infringing trademark rights, infringing copyright and infringing trade secrets. When handling such cases, procuratorial organs shall accurately characterize the case based on the case facts and evidence, in accordance with the constitutive elements of different charges, and precisely crack down on criminal acts. In judicial practice, where, after obtaining the binary code in a chip through reverse engineering, a person manufactures and sells the rights holder's chips by reproducing the binary code without permission, this shall be determined as reproducing and distributing computer software; where the amount of illegal gains is relatively large or there are other serious circumstances, criminal liability shall be pursued for the crime of copyright infringement. Where the chips manufactured and sold by the person bear a mark identical to another's registered trademark, but the mark is enclosed within the product and is not used to distinguish the source of goods, this does not constitute the crime of infringing trademark rights. For persons who purchase chips from public channels and extract the binary code therefrom, attention shall be paid to examining whether their reverse engineering defense is established, and comprehensively determining whether the crime of infringing trade secrets is constituted.

(2) For the manufacture and sale of the rights holder's chips by reproducing binary code, the binary code shall be the object of comparison, and whether the computer software constitutes substantive similarity shall be determined by comprehensively considering all the evidence in the case. The determination of substantive similarity of computer software is a difficulty in handling criminal cases of copyright infringement, and in judicial practice it is mostly examined and determined through source code comparison. Where the person reproduces and distributes computer software by reproducing the embedded binary code in the chip, substantive similarity appraisal cannot be carried out through computer software source code comparison. Because the source program and object program of the same computer program are the same work, the problem of determining substantive similarity of computer software can be resolved by comparing the binary code in the chip. Where the number of infringing products seized is relatively large and sample appraisal is adopted, it shall be ensured that the samples are representative and random, and the processes of sample extraction, preservation and submission for inspection shall be standardized.

(3) Improve the methods of evidence collection, appraisal, review and cross-examination of evidence involving trade secrets, so as to avoid "secondary infringement" of intellectual property. Trade secrets are the core competitiveness of innovation and development of high-tech enterprises and have significant commercial value. When handling cases involving computer software, where procuratorial organs come into contact with core technical information of enterprises such as software source code, and the relevant information may be a trade secret, they shall fully consider the realistic needs of the rights holder to protect intellectual property and business achievements, and, together with the relevant departments, give consideration to case-handling requirements and the actual demands of enterprises, promptly adjust the ideas of evidence fixation and review according to the characteristics of the objects of evidence collection, innovate the methods of electronic data evidence collection, review, sealing and cross-examination involving software source code, avoid the rights holder suffering "secondary infringement", and ensure that the case evidence collected and fixed is lawful, authentic and relevant. Procuratorial organs may, upon the written application of the parties, defenders, litigation agents or outsiders, or according to case-handling needs, take necessary confidentiality measures such as organizing litigation participants to sign confidentiality commitments.

Relevant Legal Provisions

Article 217 and Article 220 of the Criminal Law of the People's Republic of China (as amended in 1997).

Article 3 and Article 10(1) of the Copyright Law of the People's Republic of China (as amended in 2010).

Article 5(2) and Article 12 of the Interpretation of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning the Specific Application of Law in Handling Criminal Cases of Intellectual Property Infringement (effective 2004).

Article 4 of the Interpretation of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning the Specific Application of Law in Handling Criminal Cases of Intellectual Property Infringement (II) (effective 2007).

Article 3(1) of the Regulations on the Protection of Computer Software (as amended in 2013).

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