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Patent License Agreement Confirmed a Covenant not to Sue¹

On May 2009, ATEN International (“ATEN”) and Uniclass Technology (“Uniclass”) entered into a license agreement in which ATEN authorized Uniclass to exploit three US patents: US 6,564,275, US 6,957,287, and US 7,035,112. In return, Uniclass agreed to pay ATEN a one-time lump sum of TWD 5.8 million as compensation, plus an ongoing royalty fee calculated at 7.5% of the actual sales price of the licensed products. Pursuant to the agreement, Uniclass was required to report to ATEN the amount of sales, the sales price and total sales within 30 days of the end of every quarter and to accordingly pay ATEN all royalties due. While Uniclass made the lump sum payment in accordance with the agreement, it had failed to pay any ongoing royalty since that time. When ATEN served a collection notice on March 14, 2013, Uniclass manifestly expressed that they refused to pay said royalty. Uniclass complained that a third party had filed an Inter Parte Re-examination (IPR) with the USPTO, challenging the practicability and validity of the '275 patent, which resulted in the subsequent revocation of some related claims. Uniclass also complained that since the '275 patent was one of the subject matters of the license agreement, the agreement should be void due to invalid subject matter and impossibility of contractual performance. However, not all of the claims of the three US patents at issue were deemed invalid by the USPTO. In May 2014, ATEN terminated the license formerly granted to Uniclass and sued Uniclass for breach of the agreement the two parties had entered into.

When the case went to trial, the court ruled in favor of the plaintiff ATEN. However, the appellate court reversed the previous judgement, instead ruling in favor of the defendant Uniclass. Owing to this conflict, the Supreme Court reversed and remanded the case to the IP Court. After the decision to remand the case to the IP court, Tsai Lee & Chen’s partner Jesse K.Y. Peng and his team took over as representative for ATEN, whereupon they argued the nature of a non-exclusive license agreement was “covenant not to sue,” and that the licensed patents were not materially limited or declared invalid in totality. After the arguments were made, the IP court supported ATEN’s rationale and ruled that Uniclass was not released from its contractual obligation to pay royalties. The case was finalized after the defendant Uniclass lapsed the statutory period of time to submit an appeal.

In both the proceedings for the first and second instances, the focus of the disputes in question revolved around whether the licensed patents at issue were materially limited, and whether the defendant Uniclass has ever “used” the licensed technologies in its products. In the annex of the agreement, there is a non-exhaustive list of licensed products, five of which were identified. Uniclass argued that its products did not use the licensed technology, claiming moreover that the '275 patent became defective and unfit for its beneficial use after the post-grant amendment during the

¹ 2018-CivPatAppRe(1)-No.3 Judgement

Inter Parte Re-examination. Allegedly, because ATEN could not perform its contractual obligations, Uniclass asserted that it was no longer obligated to pay the royalty fees based on the principle of simultaneous performance. However, the trial and appellate courts had different findings, which led both the plaintiff and defendant to take advantage of the ruling which was to their benefit.

Tsai, Lee & Chen's relay in the representation was a significant turning point which led the case back to the proper interpretation of the license agreement at issue. Firstly, it was reemphasized in the assessment that the issue of whether or not the licensed products fell within the claimed scopes of the patents at issue was not worthy of consideration. According to the preamble of the license agreement, the license was "made in full settlement" of the past and ongoing disputes with Uniclass, "as a compromise of possible infringement actions" ATEN may bring against Uniclass. It is obvious that the purpose of the agreement was to allow for an amicable settlement, so as to exclude Uniclass from the risk of patent infringement owing to possible exploitation of the patents at issue. In the annex of the agreement, it indicated that the licensed products "include, but are not limited to" the five listed products, which entails that the list is non-exhaustive and that the five listed products are only examples of licensed products pursuant to the agreement. In view of the fact that the agreement was written in such a way as to exempt any products from Uniclass from the risk of patent infringement, it would be odd to investigate whether the licensed products have fallen within the patented scopes of the claims.

Secondly, the principle covenant for a licensor in a license agreement is to tolerate the licensee on the exploitation of a licensed patent, so that the licensee obtains a promise from the licensor that it will not be sued. In the license agreement between ATEN and Uniclass, ATEN's principle performance was to ensure that the patents at issue were fit for beneficial use and not to claim patent infringement against Uniclass. Therefore, a covenant not to sue was the main purpose of the license agreement at issue so as to eliminate the licensee's potential obstacles in the marketplace. Thus, ATEN had performed its duty as a licensor by providing the US patents that were fit for beneficial use and did not enforce any patent right against Uniclass prior to its termination of the license agreement due to Uniclass' breach of contract. Uniclass was required fulfill its contractual duty to pay royalties during the term of the license agreement, which was agreed by both parties, regardless of whether or not they have practiced the patents at issue.

Thirdly, Article Four of the license agreement prescribes that "Uniclass shall have the right to be relieved from all further obligations hereunder should 'all claims' of the Licensed Patents be



‘materially limited or declared invalid’” In other words, the unilateral right for Uniclass to terminate the agreement is conditional. According to the provisions of the agreement, ATEN is solely obligated to ensure that each patent at issue- as opposed to each claim- is both valid and practicable. In a rare but extreme example, if only one claim of the patent(s) at issue survived not being materially limited or declared invalid, Uniclass would be deemed as not yet having been relieved from the obligation of royalty payment. Even in the worst scenario, such as if all claims were made invalid, the latter segment of the same Article reads that “[i]n such event neither party shall be entitled to any return or receipt of any payment made or due under this Agreement.” In other words, assuming all the claims of the patents at issue were already invalidated, Uniclass was prohibited from requesting a refund of its payment prior to this invalidation. This is because any and all of Uniclass’ payments were a consideration in return for ATEN’s performance of the license obligations during the term of the agreement. Furthermore, if, during the term of the agreement, and in view of ATEN’s fulfilment of its license obligations, at least some claims of the patents at issue survived, Uniclass was absolutely obligated to make its payments if they were due.

Moreover, Uniclass argued that by applying the contractual relationship based on a purchase agreement, ATEN should bear warranty against any defects of the subject matter. As such, ATEN had fault and did not complete its performance in the contract because the ‘275 patent at issue became defective after partial revocation and limitation of the claims. However, it must be noted that a patent license agreement is distinguishable from a purchase agreement. In a contract for a purchase agreement, the assignor’s obligation is to transfer the ownership and possession of the subject matter to the assignee, and the assignor is liable for defect warranty as stipulated by the Civil Code; the same rules should be applied to an assignment of rights. However, to perform a contractual obligation under a patent license agreement, a licensor is deemed as having performed its duty as long as it maintains the licensed patent right in a valid condition. ATEN underwent a re-examination proceeding to maintain the validity of the licensed patents, so as to lawfully keep its promise under the agreement it had entered into. By faithfully observing a covenant in which it had promised not to sue and by making efforts to maintain the validity of the licensed patent rights, ATEN had exercised its due care and diligence as a due licensor.

The IP court ruled that the license was effective and enforceable. Uniclass was then ordered to pay ATEN accumulative compensation for the royalty fee of nearly TWD 8,590,000, or approximately USD 290,000, including the accrued interest to the date of judgement. The decision was final and binding.

Brand-Labeled OEM Ruled as Constituting Use of a Trademark in Chinese Landmark Decision

Original equipment manufacture (“OEM”) continues to be one of the greatest contributors to China’s GDP growth since the advent of China’s economic reforms “reform and opening-up” in the late 1970s. Under the traditional OEM business model, a Chinese domestic manufacturer contracts with a foreign client to customize a line of ordered products for the purpose of selling those outside of China. In addition to receiving orders from foreign enterprises for the manufacture of specific components, OEMs often also engage in what is generally known as “overseas related brand labeling OEM”, in which an OEM labels specific brand names on products manufactured according to a given foreign enterprise’s (“consignor’s”) instructions, whereupon the products are exported. Although it is understood that all products made under an OEM contract are intended to be shipped overseas as opposed to being sold domestically, issues can arise when a brand name labeled by the OEM consignee is identical or similar to a registered Chinese trademark, entailing that the products manufactured are also identical or similar to the goods designated by the Chinese trademark registration.

Chinese courts had previously been divided as to whether the “overseas related brand labeling OEM” model constituted trademark infringement in instances in which a brand being labeled by this kind of OEM was similar to or the same as a registered trademark in China. According to a number of empirical, but as of yet uncorroborated studies, in more than two-thirds of similar cases, the courts

deciding cases involving this kind of OEM ruled against the trademark holders, whereas in roughly one-third of cases, the courts ruled in favor of the trademark holders. The balance of rulings unfavorable to trademark holders in China was particularly stark in the main industrial provinces such as Guangdong. In *Pretul* (2015)¹ and *Dongfeng* (2017)² the Supreme People’s Court held that “brand labeling and selling overseas” does not fall within the definition of trademark use under the Trademark Law because the OEM products in question are intended for export only.

The Supreme People’s Court departed from opinions rendered by lower courts in the *Hondakit* (2019) decision³, instead ruling on September 23, 2019, that “overseas related brand labeling OEM” constituted one type of trademark use, entailing that the defendant’s use of a brand name infringed upon a registered Chinese trademark. The origin of the case is that Honda Motor Co. Ltd. (“Honda”) owns a series of Chinese registered marks “HONDAKIT” (Reg. Nos. 314940, 1198975, and 503699) and that Hengsheng Xintai Trade Co. Ltd. (“Hengsheng”) was contracted with a Burmese third party to manufacture motorbike components bearing the texts “HONDA” and “KIT.” Notably, the text “HONDA” was conspicuously larger than the text “KIT” part. The letter H in “Honda” and its associated feathered-wing logo was colored red. Under the traditional OEM model, Hengsheng’s products were kept covertly packaged during either manufacture or land shipment until they had been delivered across the border into Myanmar. In response, Honda sued Hengsheng for trademark

¹ (2014) CivCert-No.38 Judgement

² (2016) SupCivRe-No.339 Judgement

³ (2019) SupCivRe-No.138 Judgement

infringement. The court of first instance ruled in favor of the plaintiff, Honda, while the appellate court ruled in favor of the defendant. As a last resort, Honda petitioned for its case to be reheard by the Supreme People's Court.

The Supreme People's Court centered its reasoning on the fundamental purpose of a trademark, which is to identify the origin of a specific product. The Supreme People's Court held that any "chance" of an indication of a product's origin at the time of manufacture could be construed as trademark use under the meaning of the Trademark Law.

Secondly, the span of the "relevant public" under the Trademark Law includes not only consumers of the accused products, but should also include business owners who are closely associated with the distribution and sales of the accused products.

The Supreme People's Court further elaborated that, due to the development of e-commerce and the Internet, the alleged infringing products exported abroad may possibly be imported back into China, thereby becoming exposed to domestic consumers. Meanwhile, as the number of Chinese citizens traveling overseas continues to increase, so does the opportunity for them to access to brand labeling OEM products. Therefore, the likelihood of confusion remains among the domestic relevant public.

Trademark infringement was a strict liability tort by requiring no actual damage as a constituent

element. By rendering the text "HONDA" much larger than the text "KIT," the defendant presented the mark in a way which was obviously malicious and constituted by passing off on Honda's goodwill. The accused "HONDAKIT" mark was therefore deemed similar to Honda's three registered marks. Since bearing "HONDAKIT" on motorcycle-related parts was a use of a similar mark on the same or similar products, the purpose of Honda's three registered trademarks to identify the origin of its genuine products was hence compromised. The defendant Hengsheng infringed Honda's trademark rights. The Supreme People's Court dismissed the appellate judgment and instead affirmed the trial judgement.

A clear signal of this case was that OEM was no longer a default exception from trademark infringement in China. As of this ruling, whether an act of brand labeling OEM violates a trademark right shall depend on whether the use of a mark on OEM products causes likelihood of confusion against a registered trademark.

The Honda case is undeniably a landmark case which unified the previously divergent opinions of courts of different levels. This recent ruling by the Supreme People's Court could be a positive development for holders of Chinese registered trademarks. Their enforcement of rights against brand labeling OEMs shall not be a negative.



Wayback Machine Aids to Ascertain Prior Art Availability Date

Cooler Master Development Corp. (“CoolerMaster”) owned Taiwanese utility model No. M409648 (“UM in dispute”), entitled “multi-segment speed control device of fan motor,” the application for which was filed on December 24, 2010. The novel idea on which the patent was based was a driving unit in a control device comprising an IC, a multiple control unit, or a chip. Enermax is a competitor engaged in the same industry. Represented by Taipei-based law firm Tsai, Lee & Chen, Enermax initiated an invalidity action against the UM in dispute. After a review followed by a public hearing, the Taiwan Intellectual Property Office (“TIPO”) determined CoolerMaster’s UM in dispute to be invalid.

While TIPO ruled in favor of Enermax, its ruling was not necessarily entirely to Enermax’s benefit either. On one hand, as a result of TIPO’s decision, CoolerMaster’s utility model was invalidated. Claim 1 of the UM in dispute involved a control device comprising five elements, one of which was a “multi-segment switch.” CoolerMaster attempted to narrowly interpret this specific element as being not a general, but a “mechanical” multi-segment switch, a tactic which failed to overcome TIPO’s rejections. The result of the proceedings was that all 10 of CoolerMaster’s claims were rejected by TIPO and the utility model was revoked on account of lack of inventiveness, as CoolerMaster could only provide a schematic diagram of the motor control device (“Exhibit 2”). Nevertheless, TIPO declined to accept two pieces of evidence which Enermax used in its argument to disclose three elements of Claim 1. These were a Wayback Machine screenshot for chip TC642’s datasheet (“Exhibit 3”) and a past version of the same datasheet found on www.arrow.com, respectively (“Exhibit 3-1;” not shown here). TIPO did not accept this evidence as it contained no credible dates of publication.

After having its utility model invalidated, CoolerMaster filed a lawsuit with the Taiwan Intellectual Property Court against TIPO’s decision. Enermax joined as a third-party intervener. The main points of attention in the litigation were the evidence admissibility of both Exhibits 3 and 3-1 and the claim construction for the element, the “multi-segment switch.”

The IP Court’s treatment of Exhibits 3 and 3-1 differed significantly. The court verified the source webpage for chip datasheets, which was www.alldatasheet.com, via the Wayback Machine, which showed that the chip TC642’s datasheet as a full document of 28 pages was publicly available for download since February 21 of 2007; this was before the filing date of the UM in dispute. Although the hyperlink on Exhibit 3 (“Click Here View TC642 Datasheet”) could no longer direct a user to the full document, the fact that it was previously available could in no way suggest that the



webpage, as recorded by Wayback Machine, never existed in the first place. The Wayback Machine's automatic snapshot system should not be distrusted simply because it did not save some pages on the Internet due to various causes outside of its control. Given this reasoning, the IP Court found Exhibit 3 admissible.

As for Exhibit 3-1, the court denied its evidentiary capability because the Wayback Machine did not have the date of availability on record. Although Exhibit 3-1 showed the word string "Data Published 31 JAN 2001" on the Notary printed webpage, the court remained doubtful as to whether it indicated the availability date for either Exhibit 3-1 or other information on the webpage as there were no more corroborative references for the court to cross examine.

The next item of attention to which the IP Court turned was matter about which it determined TIPO was in error, namely, TIPO's interpretation of the claim regarding the narrowed interpretation for the UM in dispute from a "multi-segment switch" down to a "mechanical multi-segment switch." In both the specification and the claims, CoolerMaster failed to mention the "mechanical" nature of the switch in question, while also failing to provide instructions regarding the use of the switch, which it decided to regard as simply mechanical and non-electronic. According to the description provided by CoolerMaster, the technical means of the UM in dispute was to replace pulse width modulation (PWM) with a constant voltage, regardless of any use of a mechanical control switch. Any switch able to selectively connect a resistance element to the constant voltage source and also serve as a replacement for PWM would be an ideal switch. A mechanical, electronic, or other kind of switch was covered in the literal scope of "multiple switch" recited in Claim 1. The court therefore held that TIPO had wrongfully narrowed the scope of the claim language.

The proceedings concluded with the IP Court determining that all of the 10 claims of the UM in dispute lacked inventive step. Even though the IP Court's reasoning did diverge from that of TIPO, it affirmed TIPO's decision to invalidate the UM in dispute.

Despite the IP Court's ruling, this case has not been definitively concluded because the plaintiff Cooler Master filed an appeal in January of 2020.

It is important to note that the case involving CoolerMaster and Enermax was the first in a series of 11 cases in which TIPO held public patent invalidation hearings pursuant to the recently amended Article 59 of the Administrative Procedure Act. Another aspect of the Act is that it allows

a party which is unsatisfied with an invalidity decision to directly file a lawsuit with the court to seek judicial remedy, thereby sparing that party from having to undergo an administrative appeal at the executive agency against which the lawsuit is being filed.

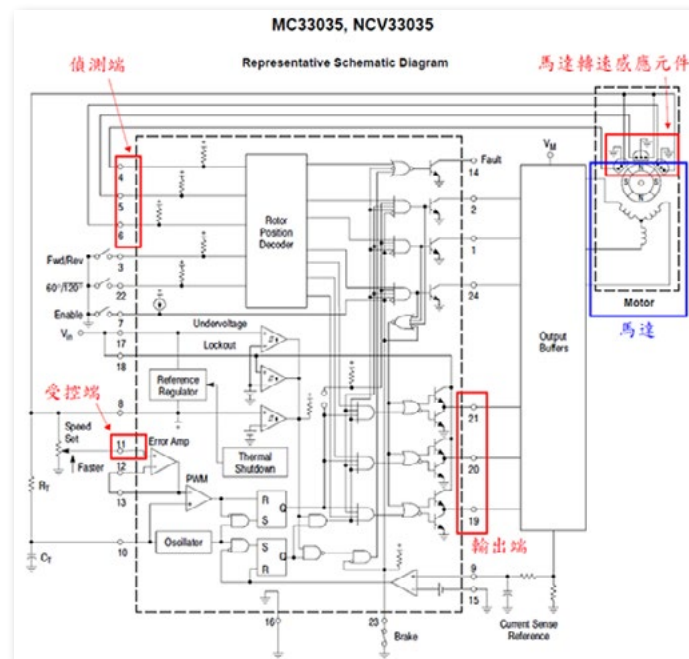


EXHIBIT 2



EXHIBIT 3

Patentee Using a Straw Man Not Eligible to Invalidate its Own Patent

Appointing a nominal opponent in what is metaphorically termed a “straw man,” is quite a popular strategy in a patent invalidity proceeding, especially when the real controlling party behind the curtain wishes to conceal its identity for various business purposes. In February of 2020, Taiwan’s Supreme Administrative Court made a judgment affirming a lower court’s decision to hold that a patent invalidation raised by a patentee using the disguise of a designated nominal person was unlawful in accordance with the Patent Act.

The Supreme Administrative Court’s decision is the result of a case which began with a matter involving the theft of trade secrets, the genesis of which was competition between two major players in Taiwan’s optoelectronic industry, Largan Precision Co. Ltd. (“Largan”) and Ability opto-Electronics Technology co. Ltd. (“AOET”). Prior to 2012, four employees of Largan resigned from that company, having invented a kind of block-associated multi-needle dispenser device. Immediately upon resigning from their positions at Largan, the four former employees joined AOET, which later filed for a utility model patent for the device, which was granted as No. M438320 titled “dispensing needle head structure” on July 9, 2012 (the ‘320 utility model). Largan subsequently sued AOET for trade secret misappropriation and won. As a consequence, the Taiwan Intellectual Property Court granted an injunction against AOET from any disposals of the ‘320 utility model.

On August 14, 2014, an unknown individual named Chian-Chung Lu (“Lu”) raised an invalidity

action (Case “N01”) before the Taiwan Intellectual Property Office (“TIPO”) against the ‘320 utility model. Upon learning of Lu’s action, Largan requested to join the N01 proceeding by asserting itself as the true owner of the invention in dispute. However, TIPO rejected Largan’s request. On September 26, 2014, Largan raised another invalidity action (Case “N02”) on the grounds that it was the true owner of the invention in dispute according to Articles 71(1)(3) and 71(2) of the Taiwan Patent Act.

The decision for case N01 was rendered first on March 22, 2017. The ‘320 utility model was found invalid on the basis that it lacked inventive step. The N01 decision further impacted the N02 proceeding, which was deemed moot on May 5 of 2017 since the ‘320 utility model was cancelled. Largan sought remedy against the N01 decision. After the trial, the IP Court ruled in favor of Largan, reversing the N01 decision.¹ Lu appealed it to the Supreme Administrative Court, which rendered a judgment in favor of Largan again and dismissed Lu’s appeal.

An invalidation proceeding is a post-grant public review mechanism established to inspect the quality of a patent. Any person may make a request for such a proceeding according to Article 71(1) of the Taiwan Patent Act. However, there is one exception. “Any person” does not include the patentee him or herself due to the nature of a two-party rivalry. In an invalidation proceeding, both the patentee and the opponent are required to participate. Under TIPO’s supervision, the patentee defends the validity of its own patent while the opponent seeks to prove that the patent in dispute is invalid. The opponent submits the grounds of invalidity accompanied by any related

evidence and reasoning. In order to prove that the patent in dispute is valid, the patentee must rebut the opponent's claims through the use of counter evidence and/or arguments. When a claimed ground for invalidity of a patent in dispute in association with evidence and reasoning is rejected (which will be effective against any third party) the disputed claim(s) will survive *ne bis in idem*; in other words, no legal action can be instituted with respect to the disputed claim(s) again for the same cause. Therefore, an invalidity action raised by the patentee him or herself will be inadmissible because it will deprive the opportunity for a public review.

During the trial, the court rejected the idea that Lu had any real involvement in the N01 case. Evidence showed that Lu had filed four invalidation cases over the past three years against patents of diverse and unrelated fields of technologies ranging from wheat flour compositions to DRAM. Lu's choices of targets were random in nature, unlike those of a normal scientific expert who would have one or more related specialties with which to involve him or herself. Furthermore, while Lu's physical address on paper was Taipei City, his entry and exit records revealed that he frequently entered and exited Taiwan through Kaohsiung City. More importantly, records revealed that Lu earned no income in Taiwan from 2013 to 2015. According to other financial documents, AOET appeared to have borne the entirety of the litigation costs throughout the proceedings, including the cost to hire a patent law firm. All of this information indicated that Lu was merely a nominal person in the N01 case, serving as a proverbial straw man, meaning that his actions regarding the patent in dispute were done at the behest of AOET.

The straw man strategy is frequently employed in invalidations in Taiwan, often when the competing parties wish to ease the degree of possible consequences, such as being exempt from criminal and civil liabilities. The straw man's actions in the '320 utility model case indicates an intent to avoid the court's injunctive relief, which ordered AOET not to dispose the same patent. As the Patent Act prohibits the patentee from invalidating its own patent, this case signals that it may no longer be possible for any entity to use a straw man to evade this ban.



C N I P A : No Paper Copy for Letters Patents Granted as of March 3, 2020

The China National Intellectual Property Administration (CNIPA) released an announcement no. 349 concerning electronic letters patents and electronic seals of e-filing notifications. The main point of the announcement is that **letters patents in paper form will no longer be issued** for patent applications filed online and whose grant publication date is on or after March 3, 2020.

The CNIPA will issue electronic letters patent through the online filing system instead. However, the applicant may still request for a paper copy of the letters patent through the online filing system if a certificate in paper form is needed.

Moreover, as of February 17, 2020, all electronic notifications and decisions made by the CNIPA have already been issued without official seals or providing paper copies. An official notification and decision with electronic seals is still available for download upon a request filed with the online patent filing system. The applicants may also verify the authenticity of e-letters patents, e-notifications and e-decisions through the CNIPA online filing system.



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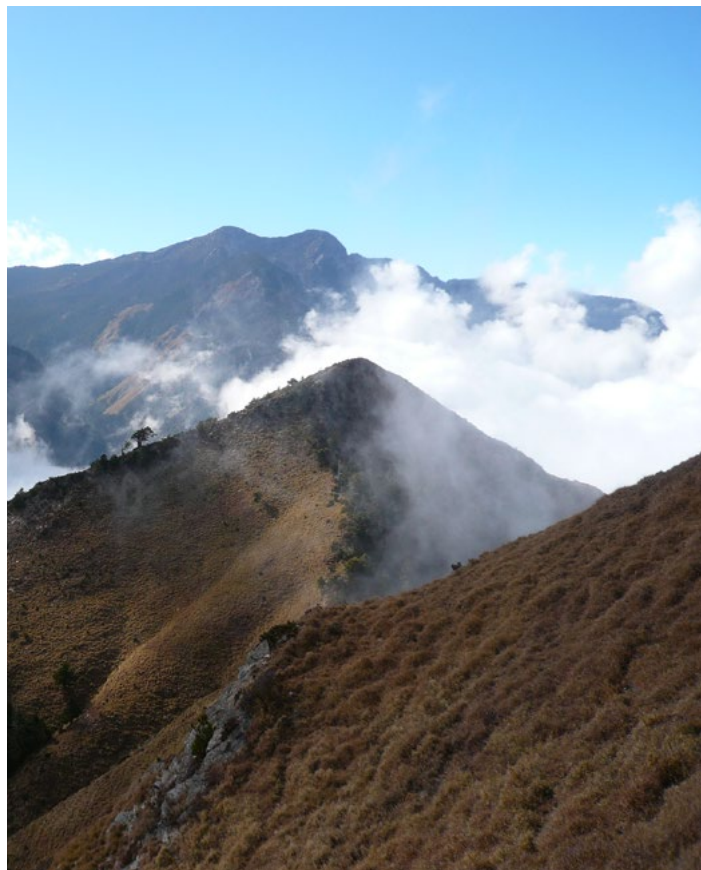


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