Top Chinese Patent Litigations

-----2014 year review

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Top Patent Litigations in 2014

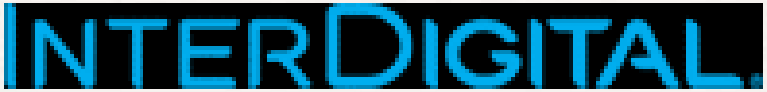
1. Huawei v. IDC

2. GoerTek v. Knowles

3. Nokia v. Huaqin

4. Shanghai Zhi Zhen v. Apple

Huawei v. IDC



1. Issues

- **Does InterDigital violate FRAND?**
- **Does InterDigital constitute antitrust?**
- **Can the Chinese court decide patent licensing fees directly?**
- **How to calculate the FRAND licensing fees for a SEP?**

Huawei v. IDC

2. Facts

- InterDigital and its related entities (collectively “IDC”) own more than 19,500 patents and applications, some of which are essential to the communication standards (e.g., 2G, 3G, 4G and IEEE802). Such patents are called “SEP”, and SEP owners are required to grant a license based on Fair, Reasonable, and Non-Discriminatory (FRAND) conditions.

- Huawei’s products are compliant with the above standards, thus implement IDC’s SEPs.

- IDC and Huawei negotiated but failed to reach agreement on the SEP’s licensing terms. In 2011, IDC sued Huawei for patent infringement before the U.S. court and ITC.

- In 2011, Huawei sued IDC in China for antitrust violation and requested the Chinese court to decide IDC’s SEP licensing fees.

Huawei v. IDC

3. Chinese Court's Ruling

(1) Being a SEP right holder, IDC has violated its FRAND obligations

(2) IDC constitutes antitrust violation by abusing its dominant market position.

(3) Chinese court has the authority to directly decide Chinese SEP's licensing fees.

(4) The Court decided that the FRAND licensing rate of IDC's Chinese SEPs shall be **0.019%** of sales revenue of Huawei's smart phones. High court affirmed.

Huawei v. IDC

4. Thoughts on Ruling (2)

The court defined that one SEP constitutes a relevant license market. Since the SEP owner has 100% share of the market, the court may make a presumption that each SEP owner has a dominant market position (Art. 19 of Chinese AML).

Further questions:

(1) When will a presumption of "predominant position based on market share" be applicable?

- In ***Qualcomm*** Antitrust investigation (2015), such NDRC presumes that Qualcomm has a dominant market position based on its over 50% share of relevant markets.
- However, in ***Qihoo v. Tencent*** (2014), the court didn't presume Tencent has a dominant position in spite of the fact that Tencent has over 80% share of the instant messaging market.

(2) Is such a presumption rebuttable?

Huawei v. IDC

5. Thoughts on Ruling (4)

Regarding FRAND rate, the Court's calculation is based on IDC's previous license rates:

- In 2007, IDC granted a 7-year license to Apple in exchange for 56 million, which is about **0.0187**% of Apple's 300 billion smart phone sales revenue between 2007-2014.

- In 2009, during litigation, IDC and Samsung reached a 5-year license in exchange for 400 million, which is about **0.19%** of Samsung's 210 billion smart phone sales revenue between 2007-2012.

Why choose Apple's rate 0.0187% instead of Samsung's 0.19% as a reference? The court says:

(i) No litigation threat between IDC - Apple negotiation, meeting "FRAND".

(ii) Apple's rate 0.0187% is for IDC's global patents, which should be more than Huawei's rate, which is for IDC's domestic patents only.

Huawei v. IDC

Questions:

(1) Does SEP owners need to justify their differentiating pricing policy?

The court assumes Apple and Huawei are licensees of the same/similar condition.

Next, If a licensor asks for different licensing rate for licensees “of same or similar condition”, it is discriminatory, violating its FRAND obligations. Following this reasoning, it seems that SEP owners need to justify their differentiating pricing policy.

(2) Is the 2007 IDC-Apple License comparable to the 2011 IDC-Huawei License?

(3) How to decide/rebut “licensees of same or similar condition”?

- Hypothetical Negotiation, **Georgia Pacific factors** (1970)
- Georgia Pacific factors adjusted under FRAND terms, **Microsoft v. Motorola** (2012)

GoerTek v. Knowles

- ***Knowles (U.S.)*** manufactures micro-electrical-mechanical systems (MEMS). According to the 2012 Nomura report, Knowles (U.S.) has 15-20% market share in the smart phone industry. Knowles (Suzhou), being a Chinese subsidiary, manufactures and sells MEMS microphones in China.

- ***GoerTek*** also manufactures and exports MEMS. In 2013, GoerTek became a supplier of Apple's iPhone.

GoerTek v. Knowles

2. Facts

- On June 21, 2013, Knowles (U.S) filed a 337 investigation before ITC against the GoerTek and its California subsidiary based on three U.S. patents 7439616, 8018049 and 8121331. On the same day, the Knowles (U.S.) also filed a patent infringement lawsuit before the district court.

- As a counter measure, on July 12, 2013, GoerTek filed five patent lawsuits against the Knowles (Suzhou) in China based on its own five Chinese patents. The GoerTek demanded:

(1) Damages of RMB 170 million.

(2) Permanent injunction against

(i) Knowles' manufacturing and selling of infringing MEMS, and

(ii) local retailer's selling of Samsung's smartphone incorporating Knowles' infringing MEMS chips.

GoerTek v. Knowles

3. Ruling

Finding patent infringement, the court ruled that

(1) Local retailer, also co-defendant, shall immediately stop selling Samsung cell phone (model GT-I9500) containing the infringing products;

(2) Knowles (Suzhou), shall stop selling or manufacturing microphone products infringing the GoerTek's patents CN 20082018748.7 and CN 201020515145.2;

(3) Knowles (Suzhou) shall pay **RMB 74.4 million** as damages to the GoerTek.

The damages is calculated by multiplying the following two numbers:

- The plaintiff deduced the *number of infringing products* on the basis of two sources: the sales data disclosed by the Knowles (Suzhou) itself, and the importing/exporting data from the Customs.
- The plaintiff also gives an estimate of the industry's *reasonable profit per unit*.

GoerTek v. Knowles

4. Thoughts

(1) Injunction against local retailer's selling of Samsung's smart phone?

Shortly after the GoerTek case, the Supreme Court issued a draft of patent judicial interpretation regarding injunction, which largely absorbs the 4-factor injunction test set by US Supreme Court in ***eBay v. MercExchange***.

In particular, considering the infringing MEMS chip is only about 1 USD while the smartphone is about 400 USD, it constitutes "a huge imbalance of parties' loss caused by an injunction", the Chinese court might withhold the injunction in similar situation in future.

(2) Unfavorable factual presumption when defendant is refused to disclose (i.e. technical/financial information)

The court accepts the plaintiff's evidences and reasoning on the following two key issues:

(i) technical interpretation of Knowles' MEMS product, and

(ii) damages calculation,

partly because Knowles didn't provide/disclose relevant information to rebut.

GoerTek v. Knowles

5. Litigation Tips from *GoerTek v. Knowles*:

- **Patent invalidity is critical.**

Knowles failed in invalidating GoerTek's patents.

- **Chinese Utility Model patents are powerful.**

Two infringement rulings of the court are both based on UM patents.

- **Being a defendant, when/how/what to disclosure, is a tricky issue.**

Non-disclosure may be considered as non-cooperative in court investigation, and thus cause an unfavorable presumption against the defendant.

However, on the other side, disclosure of infringing products should be extremely careful. In ***Holly v. Samsung*** (2007), Samsung submitted its RF and base-band technical figures as evidence 8 to prove non-infringement. Said figure was later used against Samsung to find infringement, and the court awarded 50 million yuan damages.

Nokia v. Huaqin

Specific question:

- **How to interpret "*configured to/for*" in claim construction?**

More general questions:

- **How to decide a functional feature in a claim?**
- **How to determine the scope of a functional feature in a claim?**
- **How to draft claim for software-implemented invention?**

Nokia v. Huaqin

2. Facts

- **In 2011, Nokia filed patent infringement lawsuits against Huaqin based on the following 8 Chinese patents, asking for 90 million yuan damages.**

序号	专利号	专利名称
1	ZL99107167	带有照相机的移动通信装置
2	ZL200480001590.4	选择数据传送方法
3	ZL200410044761.3	通信终端
4	ZL93109642.1	无线电装置
5	ZL98810085.1	根据在移动通信系统中确定的协议在确定的层中处理数据的方法和设备
6	ZL95190620.8	移动通信系统中的用于语音传输的方法和设备
7	ZL94193864.6	蜂窝无线网中的位置更新
8	ZL95100020.9	无线电话网络中的数据传输

- **Huaqin filed invalidity requests to Nokia's patents before Patent Reexamination Board (PRB).**

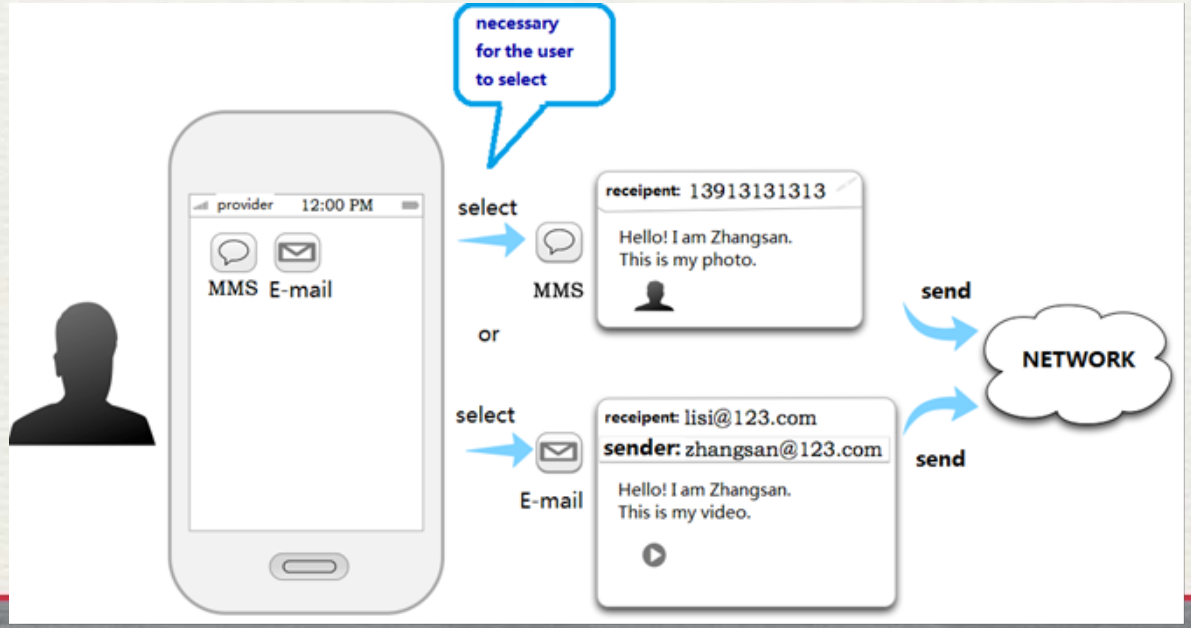
Nokia v. Huaqin

- **Patent ZL200480001590.4 "Selecting a data transfer method", claim 7 reads:**

7. A terminal device of claim 6, the terminal device is further *configured to:* apply the data transfer method selection to a message editor used for entering messages;

the terminal device is *configured to*: transmit the message, based on the selection of the data transfer method carried out in the message editor, to a data transfer application supporting the selected data transfer method;

the terminal device is *configured to*: transmit the message, according to a data transfer protocol used by the data transfer application, to a telecommunications network.



Nokia v. Huaqin

3. Issue: Split between SIPO and Court in functional claim construction rule

(1) Court's approach

Shanghai court ruled the claim construction of claim 7 is impossible, because there is no embodiment of the underlined functional element "configured to…".

Shanghai court adopts a test similar to "means plus function" of 112(f) of US patent law, which has two steps: (i) recognize a functional element; (ii) decide the scope of the functional element on the basis of the embodiments and equivalents thereof.

(2) SIPO's approach

In invalidity proceedings, PRB held Nokia's claim 7 has sufficient disclosure and its claim breadth is clear.

In either examining a patent application before SIPO, or a post-grant validity proceeding before PRB, the examiner adopts a broadest interpretation of a functional element, covering all possible implementations.

Nokia v. Huaqin

- In 2013, Shanghai Intermediate Court held Nokia's patent "Selecting a data transfer method is un-enforceable, and dismissed this case.
- Nokia appealed, Shanghai High Court affirmed in 2014.
- Nokia appealed, Supreme Court granted a retrial in 2014, still pending.

4. Relevant questions presented to Supreme Court:

(1) Is "configure to/for" presumed to be an indicator of claim functional element?

(2) If yes, is such a presumption rebuttable?

(3) What is the scope of a claim functional element,
   (i) embodiments plus equivalents or
   (ii) all possible implementations?

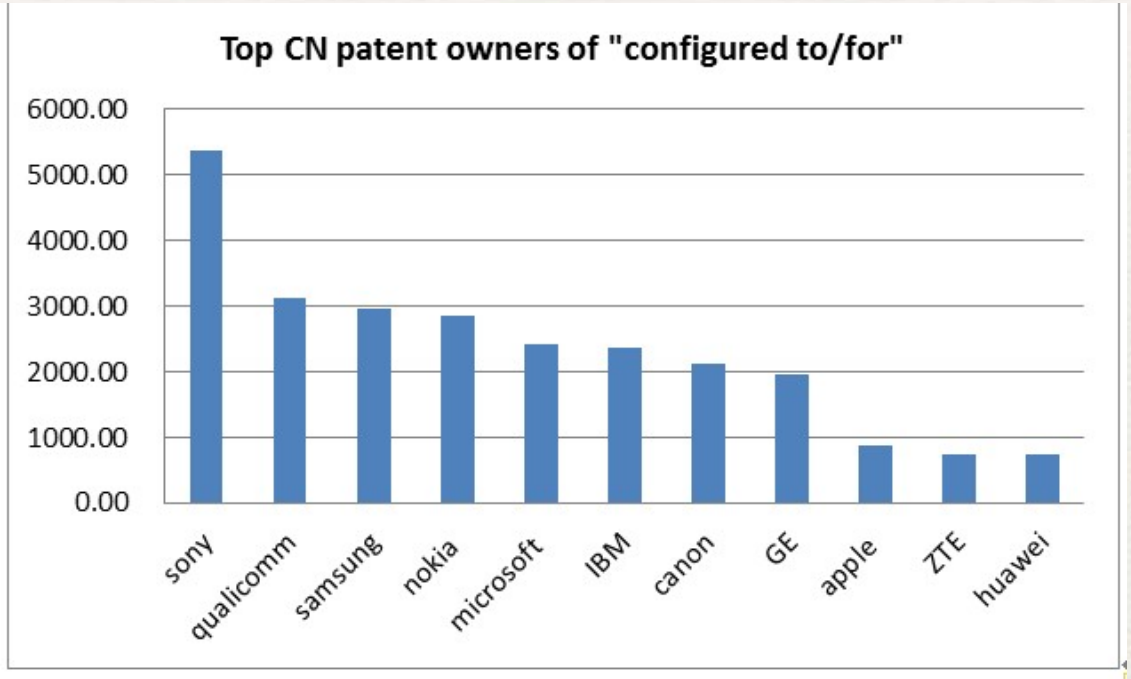
(4) What kind of written description (flow chart, functional block, general structure chart, or specialized structure chart) qualifies as an "embodiment"?

(5) Does the functional element construction rule apply to process/method claim?

Nokia v. Huaqin

5. Significance of *Nokia* retrial case:

- **Split between SIPO and the court**
- **Split between different high courts (shanghai, Beijing, Zhejiang, etc.)**
- **Enforceability of a large pool of CN patents and pending applications using the term “configured to/for”, in particular, for “object/function-oriented” software industry.**



Zhi Zhen v. Apple

1. Legal issue:

- **Standard for "sufficient disclosure" in patent invalidation**

2. Facts:

- **Shanghai Zhi Zhen Inc. ("Zhi Zhen) is the patentee of Chinese patent 200410053749.9, titled "Chat robot system".**

- **Zhi Zhen alleged that iPhone *Siri* feature has infringed the patent, and sued Apple (China) for patent infringement before Shanghai court.**

Zhi Zhen v. Apple

- **Apple filed invalidation against the patent, based on the following grounds**
  - Insufficient disclosure
  - Novelty
  - Obviousness
  - Indefiniteness

- **In 2014, a five-member panel of PRB held the patent is valid (2014).**
  This case is selected as one of the TOP 10 Patent Decisions in 2014 by PRB.

- **Apple appealed, a five-judge panel of Beijing No.1 Intermediate Court affirmed (2014).**
  The court hearing was given a online live broadcast.

- **Apple appealed, Beijing High Court vacated and remanded (2015).**

Zhi Zhen v. Apple

- **Claim 1**

1. A chat robot system comprising at least:

a user; and

a chat robot, the robot has artificial intelligence chat servers and their corresponding database with artificial intelligence and information services,

said chat robot also has a chat robot communication module,

said user having various conversations through instant messaging or texting platform with the chat robot,

characterized in that the robot also has its corresponding database ***query server* and *game server***, and the chat robot is equipped with a filter to use communication module to distinguish the received user input into format input or natural language input, and forward user input towards corresponding servers based on distinguished results, said corresponding servers include artificial intelligence server, the query server or game server.

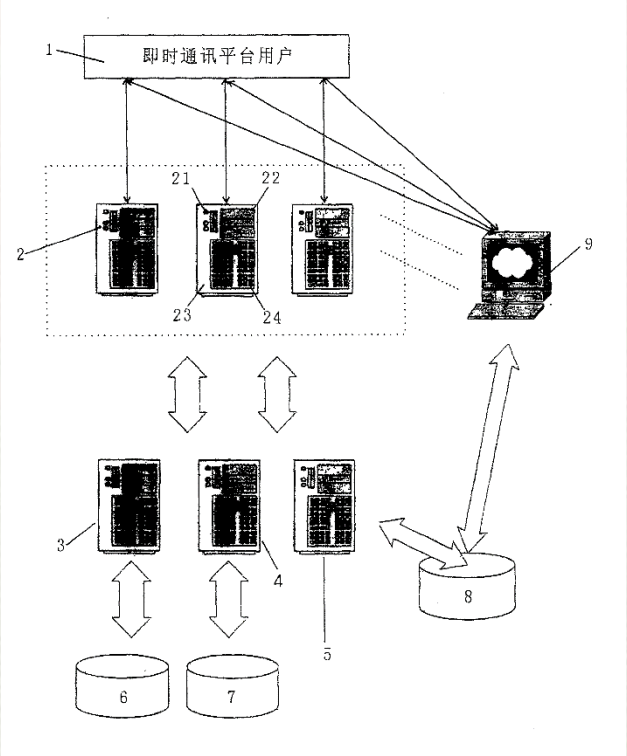


Fig. 1

Zhi Zhen v. Apple

3. Question at issue

- **Does the feature "game server" have sufficiently disclosure, given the fact that the specification does not teach how a game server will interact with other parts of the chat system?**

4. Beijing High Court's Reasoning

(1) In prosecution, the applicant argued that "game server" is a non-obvious feature and distinguishes the invention from the prior art. Further, applicant's such statement is material to the issuance of the patent.

(2) A higher standard shall be adopted in deciding whether said "game server" has sufficient disclosure. The patentee's argument based on prior art disclosure failed.

5. Zhizhen appealed to Supreme Court for retrial, case pending.

Thank You!

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