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## China – Law Firms

### A Chinese Company Takes The Initiative In Protecting Its Patents

*The Editor interviews Scott Stimpson, Partner and Co-Chair of the Intellectual Property Group at Sills Cummis & Gross P.C., and Kevin He, formerly of Morgan, Lewis & Bockius LLP.*

**Editor:** Would each of you describe for our readers your practice area of intellectual property?

**Stimpson:** My practice is largely patent litigation, consulting and licensing, primarily in the electronics, consumer products, and medical devices areas; I have also had some experience in other technology areas, such as vaccines and chemical products.

**He:** My practice area is mostly in patent litigation, consulting and prosecution in electrical engineering and the computer software area, including consumer electronics, computer networks, computer software and also flash memory devices.

**Editor:** You represented a most interesting Chinese client, Netac Technology Co, Ltd. in a litigation against an alleged infringer of its patent rights. Perhaps, you could tell us about the history of how Netac came to register its patent rights and protect them in China against an alleged infringer, Beijing Huaqi Information Technology Company, in 2002.

**He:** Netac basically felt that their original patent application in China in 1999 relating to flash-memory devices was valid. They also filed lots of corresponding patent applications in other countries,

including the United States. We did not handle the Beijing Huaqi litigation, which was handled by Netac's Chinese counsel. What we do know is that case was brought in 2002 in Shenzhen, a city in South China very close to Hong Kong which is basically a powerhouse of high-tech companies.



Scott  
Stimpson

**Editor:** Do you credit Frank Deng, an engineer with the company, who had worked in Singapore for an international company, Royal Phillips Electronics N.V., to have been the primary force in registering his company's flash drive patent and guiding his company to seek redress from a patent infringer?

**Stimpson:** Frank Deng deserves a lot of the credit for Netac's success. I have met Frank many times and even defended his deposition here in the U.S. He is a very entrepreneurial guy. A bulk of the credit does go to Frank Deng and his co-inventor, Steven Cheng, both of whom worked on some of the Netac patents. Frank is a remarkable person – he is a very good businessman and he knows the importance of patents for high-tech companies. He does deserve much of the credit for the Netac successes, and showed that Chinese companies can sue on their patents. Netac was one of the first to sue in the U.S., and it has brought actions in China as well.

**He:** Westerners often register surprise at the sudden turn where a Chinese company sues an infringer.

**Editor:** I understand that Huaqi, the alleged infringer, appealed the decision to the Intermediate People's Court, which had favored Netac Technologies. What was the outcome on appeal?

**He:** The case actually was settled but the details of the settlement are confidential.

**Editor:** I understand that you represented Netac in a case brought in the U.S. Was it the case brought against PNY in the U.S. Federal District Court in the Eastern District of Texas? And was it the device that Netac has been defending in all its cases, the USB flash drive?

**Stimpson:** Yes, it was the case that was brought in February 2006 against PNY on behalf of Netac in the Eastern District of Texas. The case did relate to USB flash drives. The patent rights that we asserted in that case were in the same family of patents as the patents that were at issue in China.

**Editor:** I understand that a subsequent suit was brought by Netac against Sony in China in 2004, thus becoming the first Chinese company to sue a foreign company for patent infringement in China. The case resulted in Sony settling and agreeing to purchase flash memory products from Netac. Was this suit handled by Chinese counsel? What

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**does this suit portend for U.S. and other foreign companies in protecting their patent rights in China?**

**Stimpson:** That case was handled by Chinese counsel. Any patent enforcement is a good sign for any company trying to protect patent rights in China. Kevin and I have spent a lot of time in China meeting with members of bar associations and the like. The message that we have been receiving is quite consistent, which is that the Chinese are determined to increase their enforcements of IP rights. It is not a perfect system but no system is, including our system, but China seems to be heading in the right direction.

**Editor: What are the best procedures for foreign companies to follow to protect their patent rights in China? What are the tribunals to which cases of infringement can be appealed?**

**He:** Of course, the first thing is to file a patent application in China to obtain a patent. Then after you receive the patent, there are basically three ways to enforce your patent rights in China. The first one is very quick and effective, which is to file an administrative proceeding. That administrative proceeding is handled by the local Chinese patent offices. Officers in the local patent offices have the right to adjudicate by way of an administrative proceeding like an arbitration. The intent is to help parties resolve their disputes very quickly. Of course, the result of the arbitration is not necessarily final since the parties can appeal to a local court.

The second way of enforcing patent rights is through customs protection procedures. Basically the owners of IP rights can register their IP rights with Chinese customs. Chinese customs will help the IP owners to monitor the products going in and out of customs. If they, or the IP owners, see that there is a product that is likely to be infringing, they can put that product "on hold" in customs. The patent owner, after being informed of this potentially infringing product being "on hold," has 20 days to decide whether or not he wants to file a lawsuit. The potential infringer may on the other hand post a bond equivalent to the value of the product under dispute, thus allowing the product to go through customs. If the patent owner files a lawsuit, then it will go through the regular court procedures. If

the patent owner does not file a lawsuit within the specified time limit, then customs will release the product for shipment.

The third way to proceed against a patent infringer is to undertake a civil lawsuit, as in the United States. There is virtually no discovery in China, since China has a civil law system. However, the patent owner does have as a weapon the use of an injunction. Right now he can even get a preliminary injunction in the early stages of a dispute if the patent owner can show a very strong likelihood of infringement – a very powerful tool to enforce patent rights.

**Editor: With the inevitable rise in Chinese patents, do you expect to see a growth in patent litigation in China?**

**Stimpson:** That is possible, but it doesn't necessarily follow. As more patents issue, that increases the likelihood statistically that there may be more infringements. But patents can be used as both a sword and in some respects as a shield. For example, if a company is contemplating bringing a patent infringement suit against a Chinese company, the company might hesitate before bringing that suit if it realizes the Chinese company has accumulated its own significant patent war chest. While an increase in patent litigation is certainly a possibility, in some situations more patents might tend to reduce the amount of litigation.

**Editor: Do you expect Chinese companies to have difficulty pursuing their rights against infringers in the U.S. because of the greater intricacies of the appeal process and the difficulty of registering patents here?**

**Stimpson:** I don't think so. The Chinese companies are going to face many of the same hurdles as any company from any other country faces. But I do think that Chinese companies need to get used to the different processes used in the United States. The United States judicial system is very different from that of China. It can be quite expensive to litigate compared to litigations in China and other countries. As Chinese companies market their products in the United States, they need to get used to the costs of patent enforcement as a necessary business expense associated

with marketing in the United States.

**Editor: Why is building a patent portfolio important for Chinese companies?**

**Stimpson:** It is important for Chinese companies for the same reason it is important for other companies from other countries. It provides a barrier to entry. You can enjoin infringers and get significant damages. That is an obvious benefit, but there are also not so obvious benefits as well. As I mentioned, patents can be both a sword and a shield. A good patent portfolio owned by Chinese companies might prevent other companies from bringing litigation. Short of litigation, if there are threats of litigation or negotiations where other companies are demanding royalties, the ability of Chinese companies to pull out their own patent portfolios gives them some leverage at the bargaining table. There are many benefits to Chinese companies to building up a good strong patent portfolio in the United States as well as in China.

**Editor: Do you expect your IP practice at Sills to grow exponentially as a result of greater interchanges between U.S. and Chinese high-tech companies?**

**Stimpson:** The Sills Cummis & Gross (Sills) IP practice will continue to grow, not only in the U.S., but also in China and other parts of Asia. Just yesterday we hosted about twenty representatives of the Chinese patent office here in the New York office of Sills, where we discussed American litigation issues. It is a topic of great interest to the Chinese. But as more and more Chinese companies market in the United States and as more and more patents for Chinese companies are filed and obtained here, there will be more patent disputes. Whether it is litigation or negotiation, our firm is very well positioned to assist. We have broad technology backgrounds, and we specialize not only in patent litigation but also in patent prosecution and counseling. I am very excited about the future of the IP group here at Sills.

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*The views and opinions expressed in this interview are those of the interviewees and do not necessarily reflect those of Sills Cummis & Gross P.C.*