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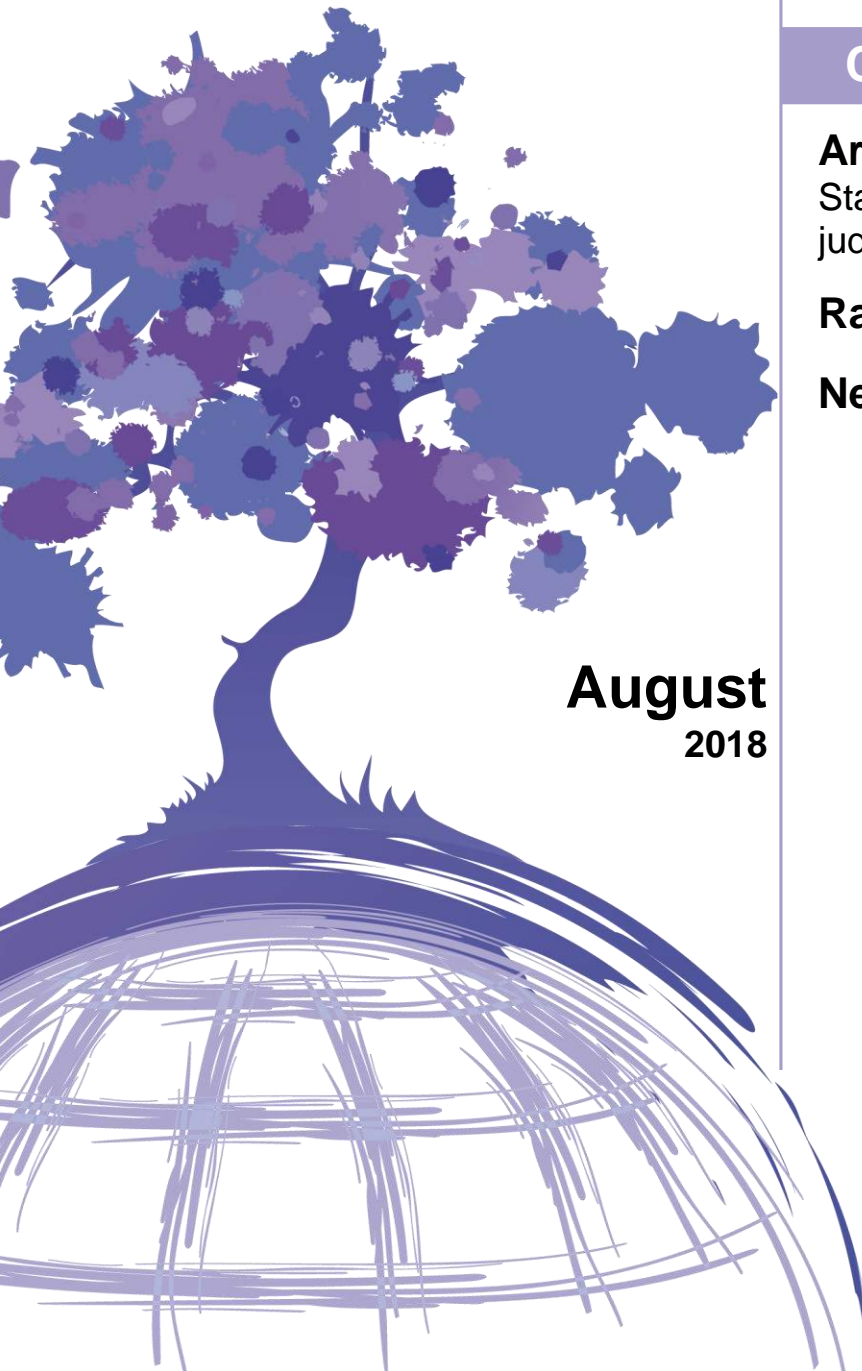
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## Article

### Standard Essential Patents - The *Philips* judgement & unanswered questions

By **Sutapa Jana**

*Koninklijke Philips Electronics N.V.* (Philips), being one of the first Standard Essential Patent holders to initiate SEP litigation in India, has secured a major victory in what is believed to be the first ever ‘post-trial’ judgment in an SEP litigation. Though the judgment has been embraced with enthusiasm by many, some important questions still remain unanswered.

On July 12, 2018, Hon’ble Delhi High Court delivered a judgment in favour of Philips in the consolidated matters namely *Koninklijke Philips Electronics N.V. vs. Rajesh Bansal & Ors.*,<sup>1</sup> and *Koninklijke Philips Electronics N.V. vs. Bhagirathi Electronics & Ors.*<sup>2</sup>. After a long trial, the defendants were found liable for infringement of Standard Essential Patent (SEP) of Philips. The Defendants were directed to pay damages, and one of the Defendants was directed to pay punitive damages as well.

#### Facts

Phillips had filed two suits against the defendants, K.S. Negi, Manglam Technology in one suit; and Bhagirathi Electronics, Big Bazar and Home Solutions Retail (India) Limited in another suit, for the infringement of its essential patent i.e. Indian Patent No. 184753, on DVD Video Player, seeking the reliefs of permanent injunction, directions to the defendants to provide complete details, delivery, rendition of accounts, damages, etc. However, during the interim stage, there was a reshuffling of defendants whereby

the remaining contesting defendants in the two suits were Rajesh Bansal and KK Bansal who were running the manufacturing proprietorship concerns namely Manglam Technology and Bhagirathi Technology, which manufactured the infringing DVD players under various bands such as “Soyer”.

The patent i.e. Indian Patent No. 184753, titled as, “Decoding Device for converting a Modulated Signal to a series of M-Bit Information Words”, was on Channel (De)coding technology used for DVD Video Playback function in a DVD Video Player. The invention concerned ‘channel modulation’ technology which involved a coding step that is performed directly before the storage of the data in a DVD Video Player. This coding ensures that the data to be stored on the disk has a particularly suitable structure for storage. The decoding of 16-bit code words to 8-bit information words is performed by “looking ahead” to the next code words. It was claimed that the impugned patent was an essential patent of the plaintiff corresponding to US 5696505 and EP 745254B1, which had been already declared as essential.

Since the suit patent was an essential patent, any party interested in manufacture of DVD Video players ought to have sought licenses for all essential patents of the patent pool. In this regard, Phillips offered two types of patent licenses to DVD Video players manufacturers, in one type of licensing, i.e., the PHILIPS ONLY type, only patents of Philips were offered and, in

<sup>1</sup> CS (COMM.) 24/2016 initially filed as a ‘Civil Suit’ in 2009

<sup>2</sup> CS (COMM.) 436/2017 initially filed as a ‘Civil Suit’ in 2009

another type, i.e., the JOINT version, under which patents of Philips, Sony, Pioneer and LG were offered.

Phillips alleged that the defendants were engaged in manufacture, assembly and sale of DVD Video players under various brands which essentially employ Decoders especially meant for decoding contents stored on optical storage media in accordance with the methods described in IN-184753, thus infringing the suit patent.

### *Contentions of the parties & observations of the court:*

To prove proprietorship of suit patent no. 184753, Phillips exhibited the certified copy of the certificate of patent registration along with a certified copy of the complete specification of the patent suit. The contention of the defendants was that the suit patent pertained to an algorithm and thus not an invention under Section 3(k) of the Act. However, the argument raised by the defendants was not considered by the Court as there were neither any pleadings, nor any evidence presented by the defendants in the written statement. Hence, issues related to proprietorship of the suit patent and also validity of the patent were decided in favour of the plaintiff.

On the issue of essentiality of the impugned patent, the Court relied primarily on the essentiality certificates of the US and EP Patents. It was observed that claims in the US and EP standard essential patents were similar to that of suit patent. Also, the Court considered that DVD Forum Standard (formulated in 1996) was adopted by the independent standard setting body ECMA in April 2001 and was termed as ECMA Standard No. 267, 3rd Edition – April 2001 for 120 mm DVD – Read Only Disc. In 2002, this said standard was also adopted by the

International Standard Organization as ISO/IEC 16448:2002– Information Technology – 120 mm DVD – Read Only Disc. Defendants argued that the ‘standards’ were internal documents of the plaintiff. This was rejected because both the standards i.e. ECMA and ISO were present in public domain and could be easily accessed by any one. The Court considered the said documents to be relevant evidence. Further, one of the defendants had previously taken a license in respect of suit patent from Philips and another had applied for such license. This also strengthened the ‘essentiality’ argument of Philips. Court finally upheld that the suit patent was a SEP.

On the question of infringement of the suit patent, the defendants submitted that they assemble DVD players with parts purchased from legitimate sources including the chip. Accordingly, by virtue of doctrine of exhaustion they were not liable for infringement. This plea of the defendants was rejected by the Court as they failed to prove by evidence whether said “legitimate sources” from which they had purchased the parts of the DVD Players were valid licensees of Philips.

In addition, the Court observed that a decoding device is an integral part of a DVD player and in the absence of a decoding device the information embedded by way of the codes cannot be read and transmitted/received. Accordingly, the plaintiff had proved use of patented technology by defendants independently by way of its evidence and cross-examination of the defendants’ witnesses wherein it was found that the defendants’ DVD video players used the EFM (eight to fourteen modulation) + Demodulation techniques.

Defendants argued that they were unaware of the DVDs sold by the plaintiff and the licensing

programs of the plaintiff. Court held that the plaintiff is the holder of a standard essential patent even if the defendants had no knowledge of the licensing programme they were bound by law to take the license from the plaintiff.

Therefore, in view of all the above facts and circumstances, Court had no hesitation in holding that defendants' products necessarily infringe the suit patent of Philips.

Defendants also alleged abuse of dominance against Philips. However, the Court placed reliance on *Telefonaktiebolaget LM Ericsson (PUBL) vs. Competition Commission of India and Ors.*<sup>3</sup> and held that the same is beyond the scope of present enquiry as abuse of dominance is solely within the purview of the Competition Act and a civil court cannot decide whether an enterprise has abused its dominant position.

Strangely, on the issue of reasonable royalty rates (FRAND), there was no serious challenge to the rates proposed by Philips which is why the Court found the rates to be reasonable. According to the Court, claim of the plaintiff to the entire patent pool in the DVD player cannot be said to be unreasonable even if the claim in the suit patent IN-184753 is restricted to the decoding device, since the same is an integral part of the DVD player and without which the DVD player cannot function. The Court also relied on *Commonwealth Scientific and Industrial Research Organization vs. CISCO Systems, Inc.*,<sup>4</sup> and observed that generally, an entity that procures the license of the plaintiff's essential patent, is required to pay as per the FRAND/compliant rate. In the present case, the plaintiff demanded royalty on only FRAND rates. As the suit patent had expired on 12<sup>th</sup> February 2015, permanent injunction could not be awarded. However, the defendants were directed to pay royalty to the plaintiff @ USD 3.175 from

the date of institution of the suits till mid-2010 and after that @USD 1.90 till patent expiry in 2015 with interest @10% annually. In light of the same, the Court appointed a Local Commissioner to inquire into the number of video players manufactured or sold by defendants during the relevant period.

Additionally, Court found that one of the defendants was an ex-employee of the Philips and was well aware of the suit patent and infringed the same with impunity. Thus, said defendant was directed to pay punitive damages of Rs.500,000 to the plaintiff.

Also, a decree of actual cost of litigation including lawyer's fee, the amount spent on Court fee and the Local Commissioner's fee was also awarded in favour of the plaintiff.

### *Conclusion:*

While this judgment on Standard Essential Patents is important because it is the first such judgement after a complete trial, the questions regarding the procedure for establishment of essentiality, determination of FRAND rates are yet to be answered. This is because the defendants did not raise any serious challenge to the essentiality or validity of Philips patent. Similarly, the Court did not have to lay down the principles regarding determination of FRAND terms and royalties because the defendants failed to raise any defence on these issues. Further, it also remains unanswered whether royalty can be paid on the basis of smallest saleable patent practicing unit i.e. whether the royalty is to be based on price of final product or the component containing the codec alone. Thus, some critical issues pertaining to an SEP litigation are yet to be adjudicated by the Indian Courts.

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<sup>3</sup> W.P.(C) No. 464/2014 & W.P. No. 1006/2014

<sup>4</sup> Fed. Cir. Dec.3 (2015),





## Ratio decidendi

### Trademark – No monopoly over entire class of goods

The Supreme Court has held that proprietor of trademark cannot enjoy monopoly over entire class of goods particularly when he is not using said trademark in respect of certain goods falling under same class. The Apex Court in this regard set aside the High Court and IPAB orders, thus restoring Registrar's order allowing registration in favour of appellant, subject to condition that no registration is to be given for products for which they had abandoned their claim. It was held that provisions of Section 11 of the Trademarks Act do not cover the same class of goods.

In a case of concurrent user of trade mark, it was also observed that there was hardly any similarity of the appellant's mark with that of the respondent when these marks were seen in totality. The Court was of the view that the manner in which goods were traded, it was difficult to imagine that an average man of ordinary intelligence would associate the goods of the appellant as that of the respondent.

The dispute involved registration of mark 'Nandhini' and the respondent was of the view that the mark was phonetically similar to the respondent's mark 'Nandini' and is similar trade mark in respect of similar goods thus causing deception and confusion in the minds of the users. Appellant was operating a restaurant while respondent was selling milk and its products. The goods of the respondent are classifiable under Class 29 and Class 30 as per classification under Schedule IV to the Trade Marks Rules, 2002,

while various kinds of foodstuffs sold by the appellant in its restaurants also fall under Class 29 and 30 as well as other Classes. [*Nandhini Deluxe v. Karnataka Cooperative Milk Producers* - Civil Appeal Nos. 2937-2942 of 2018, decided on 26-7-2018, Supreme Court]

### Trademark in 'Pehla Nasha' – Interim injunction granted against 'Radio Nasha'

Observing that plaintiff is prior adopter and acquired goodwill in mark PEHLA NASHA for internet radio, Delhi High Court has held that the plaintiff cannot be prevented from providing services of FM Radio under said mark. Interim injunction was thus granted against mark RADIO NASHA falling in same class of services. Court in this regard observed that defendant had no *bona fide* intention in replacing word FEVER with NASHA which was the dominant part of plaintiff's mark. It observed that the defendant hoped, either to cause loss or harm to the plaintiff by incorporating the word 'NASHA' in its mark or to gain from the goodwill of the plaintiff.

Defendant's contention that mode of access to music was different, was also held immaterial. Citing example of apples being sold in supermarket and in *subzi mandi*, it was held that it was immaterial that the music platform under the mark 'PEHLA NASHA' of the plaintiff is accessible from use of medium of Wi-Fi / internet and the music platform of the defendant under the mark 'RADIO NASHA' is accessible through the medium of radio / transistor and transmitted through frequency modulation airwaves. Similarly it was also held that procedure for accessing the respective music services was not such so as to

make the product or the services different. [*Entertainment Network v. HT Media* – Order dated 13-7-2018 in CS(COMM) 179/2016 & IA No.3316/2016, Delhi High Court]

### Copyright in image of 'Lightning McQueen' protected from commercial misuse

In a case of character merchandising, Delhi High Court has granted permanent injunction restraining defendants from selling goods bearing image of device/work in "Lightning McQueen", a character from the Disney movie called "Cars". It noted that said device is a copyrighted character and under Copyright Act, 1957 any copyrighted work protected internationally is liable to be protected in India, India being a party to the Berne Convention for the Protection of Literary and Artistic Works and the Universal Copyright Convention. It was observed that registration of copyright is not required for protection of an artistic work.

The High Court for this purpose also observed that creation of fictional characters requires great amount of creativity and innovative mind, and hence, well known characters must be prevented from being misused for commercial products.

The defendants were manufacturing chocolates by the name of "Choco Car" which consisted of an artistic work/character which is a complete imitation of the "Lightning McQueen". The Court was of the view that while fair use of the characters is permissible, within the legally prescribed norms, unlicensed use of the image of a known character on chocolates, which the plaintiff also licenses for legitimate use on chocolates/ wrappers, would be unlawful and illegal. [*Disney Enterprises v. Pankaj Aggarwal* - CS (COMM) 449/2016, decided on 10-7-2018, Delhi High Court]

### Patent in eco-friendly efficient vehicle – Absence of novelty

The Calcutta High Court has held that the patent in "a fuel cell system and an efficient eco-friendly vehicle mounted with fuel cell system" did not involve any novel invention or any enhancement/advancement of existing technology. The High Court in this regard observed that the invention related to the term 'Efficient' cannot be claimed, as influence of operating parameters on generated output was not analysed. It was also noted that the existing systems were already eco-friendly.

The Court in this regard also noted that the claims did not show any degree of improvement compared to the existing system, and that it was incumbent on the plaintiffs to apply any other existing battery on an eco-friendly mounted vehicle and then to compare its performance with the system. Observing that the cathode, anode and the Teflon masks used in the fuel cells were already in use, the Court observed that the invention as claimed was not significantly different from the existing system as was also evident from the literature disclosed by the applicant. It noted that patent law deals with the concept of functional and design inventions in order to encourage investment in new technology and invention. [*Jasper Motors v. Basantee Battery Operated Rickshaw* - GA No. 2786 of 2017, CS No.388 of 2014, decided on 18-7-2018, Calcutta High Court]

### Designs - Unique design of fans & electrical products

The Delhi High Court has granted permanent injunction restraining defendants' from selling MARIGOLD and POPPY series of ceiling fans and series of electrical products which was colourable imitation and substantial reproduction of plaintiffs' FUSION series of ceiling fans and range of sockets, switches, fan regulators and

dimmers under series REO. The Court observed that due to extensive use over substantial period of time, plaintiff has acquired distinctiveness in unique designs of ceiling fans, switches and sockets under given series. It was also noted that plaintiff's evidence was unrebutted, and hence said evidence is to be accepted as true and correct. The suit was decreed along with the actual costs. [*Havells India Ltd. v. Puri Electrical Ltd.* - CS(COMM) 1213/2016, decided on 31-7-2018, Delhi High Court]

### Concept in "Jeeto unlimited" not copyrightable

Observing that a concept cannot be a subject matter of copyright as it has to be brought into form of a literary, dramatic, musical, artistic or cinematographic work or sound recording, performance or live show, Delhi High Court has held that play along concept of "Jeeto unlimited"

is not a copyright work as per definition of 'work' in Section 2(y) or Sections 37 to 39A of the Copyright Act. It was held that an idea, principle, subject-matter, theme, plot, etc., is not copyrightable as such.

The Court was of the view that components of said concept would naturally be part of every show where a home audience gets to play along with a contestant in studio. It was also noted that the concept was already in public domain as admitted by plaintiff in his cross-examination and noted in the judgement impugned. Delhi High Court's Single Judge decision in the case of *Mr. Anil Gupta and Anr. v. Mr. Kunal Dasgupta*, was distinguished while relying on the Supreme Court decision in the case of *R.G.Anand*. [*Sanjay Kumar v. Sony Pictures Networks India P. Ltd.* - RFA No. 627/2018, decided on 10-8-2018, Delhi High Court]



## News Nuggets

### 3D shape of KIT KAT - No 'acquired distinctive character' throughout EU

CJEU (Third Chamber), in consonance with the view taken by Advocate General and the General Court, has held that registration of three-dimensional mark representing the shape of a four-fingered chocolate bar (KITKAT) is not admissible on ground of lack of evidence of distinctive character acquired through use throughout EU. The Court in *Nestle v. EUIPO* observed that a sign can be registered as an EU trademark only if it has distinctive character inherent or acquired through use, throughout the European Union and not only in a substantial or majority part.

### Novelty in bottle designs of ECO FLIP TOP BOTTLE – Interim relief

Observing that the plaintiff being the first user, seller and having prior registration and publication in India and USA of bottle design (ECO FLIP TOP BOTTLE), Delhi High Court has passed order of interim injunction against substantially similar registered design bottle (GLASS WOW). The Court in *Dart Industries v. Polyset Plastics* compared the bottles and prima facie found that plaintiff being the originator of design cannot be deprived of reward. It noted that the defendant having got the same design registered claiming it to be new and novel, cannot question validity of plaintiff's designs.

### Interim injunction against use of words 'Delhi Public School'

Observing that mark/name/words 'DPS' and 'Delhi Public School' and logo is registered in favour of petitioner in Class 42 of Trademarks Act, Supreme Court in *Delhi Public School Society v. DPS World Foundation* has granted interim injunction restraining defendants from using marks or logo. Earlier, a Division Bench of Delhi High Court had permitted defendants to use words Delhi Public School observing that there was no registration for the said words in favour of the plaintiff. Apex Court found the observation incorrect as the said words were registered during pendency of proceedings before Single Judge.

### FRAVIA found to be creating confusion & infringing registered mark BRAVIA

Delhi High Court has passed an order of permanent injunction against use of defendants' mark FRAVIA which was found to be phonetically and deceptively similar to plaintiffs' trademark BRAVIA. It noted that both marks were adopted and used for same drug combination which contributes in creating confusion not only amongst patients but also amongst doctors. Court in *Grandcure Healthcare v. Finex Healthcare* relied upon the principles laid down by Supreme Court in *Cadila Healthcare* to conclude that in pharmaceutical preparations, confusion is to be averted at all costs.



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