

## ASIAN INSIGHT

### MY YEAR IN CHINESE COURTS

A Knobbe lawyer pursuing a patent infringer in China wound up being pleasantly surprised.

By Paul Conover and Christopher Ross

Our client, ICU Medical, Inc., of San Clemente, California, had developed an innovative medical valve that let nurses and doctors administer intravenous medication to patients without a syringe and without any “suck-back” of blood into the connector. As ICU’s intellectual property counsel, our firm had obtained Chinese patents a few years ago on this technology for ICU with the assistance of local Chinese counsel. ICU began selling the product in China through a Chinese distributor, China Medical Equipment Industrial Company.

Then, in the spring of 2005, China Medical discovered a knockoff product and reported it to ICU. The knockoffs were quickly traced back to a company known as Beijing Lepu Medical Device, Inc. The infringing device looked like ICU’s, but was less reliable. As a result, the infringer was poised not only to divert some of ICU’s sales, but also to discourage medical purchasers from buying any products of this type. ICU realized that it had to enforce its patent rights in China.

We were initially concerned that it would be difficult to find a litigator in China’s relatively new patent system who could effectively enforce ICU’s patent, especially on behalf of a non-Chinese patent owner. But even though

the first Chinese patent laws were enacted only about 20 years ago, today the pool of patent litigators has become increasingly sophisticated. When we met William Yang in his office at Panawell & Partners in Beijing, we found him to be engaging, knowledgeable, quick-witted, and persuasive. After graduation from law school, Yang had worked for a time as a corruption investigator with the Ministry of Supervision. He became a litigator about ten years ago as intellectual property rights in China became more prominent. ICU’s Panawell litigation team also included a 20-year veteran of the Chinese patent system, Michael Cai.

In mid-June 2005 Yang sent Lepu a strongly worded cease and desist letter.

Lepu did not respond. We then initiated an in-depth investigation of the extent of Lepu’s infringing activities. Yang obtained a notarization of Lepu’s Web site to preserve the advertisements of its infringing products as well as copies of all documents filed by Lepu with China’s State Administration for Food and Drugs (SFDA). ICU’s distributor then managed to acquire 50 product samples, sales invoices, regulatory licenses, brochures, and packaging. With this evidence, Yang attempted to revoke Lepu’s regulatory approval to sell the products. But the revocation request was refused by the SFDA because ICU had not yet obtained a favorable court ruling.

After repeated attempts to contact Lepu failed, ICU filed a lawsuit in Beijing



The author, left, on a visit to Beijing, with lawyers from the Panawell law firm (from left): Michael Cai, Guangxun Guo, and William Yang

Intermediate Court in December 2005. We included ICU's Chinese distributor as a coplaintiff to more effectively demonstrate that Lepu's infringement caused damage within China's own domestic industry. In the lawsuit, ICU requested a finding of literal infringement by the court, a seizure of evidence from Lepu (including the molds used to manufacture the products), a preliminary injunction, and damages. In January 2006, without notifying Lepu, the court issued an order granting the seizure request, subject to the payment by ICU of a security deposit of about \$25,000 (which was returned at the end of the case).

The seizure order was executed at Lepu's business offices by three judges, two court clerks, and three police officers. Yang led these officials to Lepu's offices, but was required to wait outside during the execution of the order. For five hours, the court personnel searched for evidence, sifting through product samples, accounting records, and other written materials. The search produced two boxes of samples, written evidence, photographs, and video recordings.

At ICU's request, the judge ordered an audit of Lepu's seized accounting records to determine the sales volume and profit earned by Lepu from its infringing sales. The parties stipulated to the appointment of three accountants, who eventually reported that Lepu had sold a total of only about \$115,000 of the infringing products. It was impossible to determine Lepu's profit on these sales.

ICU then asked the court to issue a ruling of infringement, grant a preliminary injunction, and award damages of about \$46,000. Lepu raised defenses to ICU's claims, arguing that its products did not infringe and that there was no urgent need for preliminary relief. Lepu also pursued a parallel request for reexamination in the Chinese Patent Office to attempt to invalidate ICU's patent. In China, only the patent office has authority to invalidate issued patents, so Lepu asked the court to stay the case until after the reexamination. The court held several

hearings and then denied Lepu's request for a stay, primarily because it decided that the Chinese Patent Office had thoroughly considered the patent's validity during its initial examination.

The court also ruled that Lepu's product literally infringed ICU's patent, and the court issued an advisory opinion indicating that it was likely to grant a preliminary

injunction and award damages to ICU in the near future. The court then ordered the parties to participate in mediation proceedings. ICU had considerable leverage during the mediation in view of the threat of an imminent ruling adverse to Lepu.

After several mediation sessions under the direction of the court, the parties reached an agreement: Lepu would cease manufacturing and selling the infringing products; Lepu would acknowledge that its products were covered by ICU's patent; and Lepu would pay to ICU damages of about \$26,000. The court also independently ruled that ICU's patent was valid over the prior art cited by Lepu. ICU requested that the court require Lepu to withdraw its pending reexamination proceeding in the patent office, but the court declined, finding that it did not have the authority to do so. The mediation agreement and related court rulings were finalized in October 2006.

The amount of damages awarded to ICU in this case appears to be similar to the average amount in other Chinese patent cases. A U.S. trade official recently noted that awards in the vast majority of Chinese infringement lawsuits are less than \$100,000, including when infringing sales are significantly higher than those in this case. But injunctive relief by itself will often justify Chinese litigation to avoid irreparable loss of market share.

The enforcement of the mediation agreement against Lepu went very smoothly. In China, unlike in the United States, the losing party pays the damage award to the court, which in turn pays the prevailing party. The court can impose swift penalties if the payment is not made or the conditions of its rulings are not otherwise met. Although Lepu promptly

Our client had **considerable leverage during the court-ordered mediation** because a ruling adverse to the defendant was imminent.

ceased selling its infringing products, it continued to pursue the reexamination proceeding in the Chinese Patent Office. In April 2007, after two extended hearings, ICU prevailed, and the Chinese Patent Office upheld the validity of ICU's patent.

Thus, after less than a year of litigation in two Chinese venues, ICU succeeded in eliminating a threat to the success of its products in China and elsewhere. We discovered that the developing Chinese legal system can provide rapid, fair, and unbiased results in patent cases. We also learned that capable Chinese litigators can help identify infringers, conduct investigations, and handle complicated issues in litigation.

The story for ICU, as with any IP owner, does not end here. ICU continues to send out cease and desist letters to infringers in China, and ICU believes that the developing Chinese legal system will help enforce its rights when necessary. ■

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