

NEWSLETTER

知产快报

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● This short article discusses the case and the strategies on how to obtain high compensations in trademark infringement cases in China.



Balanced Body Inc. v. Yongkang Elina Sports Equipment Co., Ltd. **First Punitive Damages Being Awarded in Shanghai**

Recently, Lung Tin attorneys won a trademark litigation for client Balanced Body Inc. of California, U.S.A. (“Balanced Body®”) against Yongkang Elina Sports Equipment Co., Ltd. (“Yongkang Elina”) in the People’s Court of Pudong New Area, Shanghai, where the court awarded punitive damages of CNY 3 million to Balanced Body® in its case alleging Yongkang Elina infringed the MOTR trademark by selling fitness equipment labeled “MOTR.” The award is the first ever punitive damages being awarded in the Shanghai area (including all levels of people’s courts in and around Shanghai) since the punitive damages were first introduced into the Trademark Law of the People’s Republic of China in 2013 (the “Trademark Law”), which specifies punitive damages may be assessed up to three times (currently up to five times) of the actual losses of the right holder or profits made by the infringer.

This short article discusses the case and the strategies on how to obtain high compensations in trademark infringement cases in China.

Facts of the case

As the world’s first Pilates company and the largest Pilates equipment and education provider in the world, Balanced Body® is the owner of the registered MOTR trademark in China. As early as 2012, a Spanish company (named “PITK”) sold fitness equipment manufactured by Yongkang Elina (a Chinese company owned by the PITK legal representative) in Europe that infringed Balanced Body®’s IP rights. Upon receipt of a cease and desist letter issued by Balanced Body®, PITK and Yongkang Elina jointly executed an agreement committing not to infringe any IP rights of Balanced Body®.

In 2018, Balanced Body® found Yongkang Elina participated in IWF Shanghai 2018 Int’l Health, Wellness and Fitness Expo and offered for selling fitness equipment labeled “MOTR”. Pri-litigation investigation discovered Yongkang Elina was engaged in manufacturing, selling, and offering to sell fitness equipment bearing “MOTR.” In July 2018, Balanced Body® filed a civil action in the People’s Court of Pudong New Area, Shanghai for trademark infringement against Yongkang Elina demanding injunctive relief and monetary remedy of CNY 3 million (including reasonable expenses) in view of Yongkang Elina’s acts with willfulness or malice.

Applicable law on monetary remedy

Regard damages awards, Article 63 of the Trademark Law (2013) articulates:

The amount of damage for infringement of the exclusive right to use a registered trademark shall be assessed on the basis of the actual losses suffered by the right holder ... [or] on the basis of the profits the infringer has earned Where the infringement of the exclusive right to use a registered trademark is committed in bad faith and the circumstance is serious, the amount of damages shall be more than one time but less than three times of the amount assessed by referring to the above calculation. The amount of the damage shall also include the reasonable expenses of the right holder incurred for stopping the infringing act (emphases added).

The above article provides a basic methodology of damage calculation for trademark infringement in China, namely compensatory damages and punitive damages. Compensatory damages are a full compensation, also called actual damages, to compensate the loss incurred to the plaintiff. Punitive damages, on the other hand, are to punish the defendant for acts with willfulness or malice or to deter others from engaging in similar acts, and thus require a showing of bad faith and seriousness per Article 63 of the Trademark Law. Because punitive damages are newly introduced in 2013 and go beyond the basic principle of full compensation, Chinese courts at all levels have been very prudent in applying this award, and there are few cases in practice. When it is necessary to be applied, due to the lack of precedents, courts are troubled to determine the

factors of “bad faith,” “serious circumstance,” “calculated amount of damages,” and “times of the calculated amount.”

In *Balanced Body Inc. v. Yongkang Elina Sports Equipment Co., Ltd.*, (2018) Hu 0115 Civil 1st Instance No.53351, we successfully convinced the judge that Defendant had committed infringement in bad faith and the infringing circumstance was serious, while also provided evidence showing a minimum profit that Defendant had earned as a calculated amount. After two sessions and full deliberation, the judge ruled an infringement and entered a treble damages award as punitive.

In this case, we strategically collected and presented evidences to prove factors for the determination of punitive damages.

Proved factors for the determination of punitive damages

A. Infringement in bad faith

1. Trademark popularity and reputation

Bad faith commonly arises in connection with the popularity of a trademark. The more well-known the trademark is, the more likely the bad faith would be indicated. In *Balanced Body Inc.*, we submitted evidences to prove the MOTR trademark from the No.1 of Pilates fitness equipment and education provider in the world as well as the trademark and products enjoyed a high reputation in China. The submitted evidences included Plaintiff’s industry and commercial registration information, production and operation data especially in China, international fitness events it participated in or organized, continuous marketing over sohu.com and other important official websites, and official WeChat accounts, as well as publicity and recommendation published on professional fitness websites and by celebrities.

2. Similarity

Although the factor of identical or confusingly similar signs is insufficient in itself to support a finding of bad faith, marks do not fulfill these criteria will not support a finding of bad faith. In this case, we demonstrated comprehensively to the judge the similarity between infringing product/mark and Plaintiff’s

product/trademark in structure, appearance, color, sign’s font size and color, as well as position of placement of sign on the product.



Plaintiff's commodity and trademark



Defendant's commodity and mark

3. Subjective intention

To prove that Yongkang Elina acted with willfulness or malice, evidences relating to the popularity and reputation of the MOTR

trademark and similarity between infringing product/mark and Plaintiff's product/trademark might not be sufficient. Presenting the aforementioned agreement of 2012, we argued that Defendant was:

i. Conducting repeated infringement consciously and intentionally, and

As facts presented, Defendant received a cease and desist letter from Plaintiff for infringement in Spain and executed an agreement in response. Accordingly, Defendant was well aware of Plaintiff's trademark(s) but nevertheless copying it on its products, again.

ii. Acting to breach commitment.

In the agreement of 2012, Defendant committed to stop infringement, but in 2018, Defendant breached its commitment, and violated basic principles of the Civil Law.

To sum up, we believed in addition to the trademark infringement, Defendant violated principles of honesty and creditability. We understand that the basis of jurisprudence to establish the punitive principle and take bad faith as an essential element is to protect principles of honesty and creditability in the sense of private law as well as public law. Defendant's dishonest intention shall be in accordance with application conditions for a punitive damages award.

B. Serious circumstances

Serious cases are usually concerned with situation and consequences. In *Balanced Body Inc.*, we presented the following facts as serious circumstances:

The circumstance was serious because this case is not a trademark infringement case—Defendant was selling counterfeits: the infringing product copied Plaintiff's product in color and design; the infringing product labeled with a mark identical to Plaintiff's trademark in shape, pattern, and position of placement; the training videos accompanying infringing product were completely copied from Plaintiff's training videos; and the content of brochures accompanying infringing product is almost the same as Plaintiff's.

The circumstance was serious because after

signing an agreement and making a commitment not to further infringe in 2012, Defendant failed to cease producing and selling infringing products in China, which resulted in Defendant's total sales of CNY 8.33 million in 2016 and 1500 pieces of infringing products during October to November in 2017, as showed from Defendant's WeChat moment.

C. Calculated damages and compensation

With regard to the calculation, we provided following methodology for judge's consideration:

Cost: In another trademark infringement case between Plaintiff and another party where the infringing product was the same as that in this case, it was disclosed that a raw material cost was CNY 675.30/piece. Similarly, Yongkang Elina stated at the court hearing that their cost was CNY750/piece.

Quantity: Defendant's WeChat moment showed during October to November in 2017, Defendant sold nearly 1500 pieces of the infringing product, and sales price was between CNY 1400-1700/ piece.

Calculation: Profits by infringement shall be calculated as (sales price of infringing product-cost) x quantity, which reached to an amount between CNY 1 million to 1.4 million for the quantity of 1500 pieces.

The judge requested Defendant to submit financial account information, but Defendant failed to do so. As a result, the judge supported our above calculation methodology and the amount of profits.

D. Times of punitive damages

For determining the times of a calculated amount of damages, we argued about a gap between the provable profits and the possible actual profits, local economic situation and corporate profitability, and the usual amount of compensation awarded by the court and its possible limit.

Finally, we concluded that sufficient evidences showed that Defendant acted with willfulness or malice, or performed with an indifference toward the IP rights of Plaintiff, and

accordingly it would be appropriate to award treble damages in view of the significant economic losses to Plaintiff and the legislative intent to advance the public policy goal of

punishing the defendant for acts with willfulness or malice and deterring others from engaging in the similar acts. At the end, the judge agreed with us in this aspect.

The newsletter is not intended to constitute legal advice. Special legal advice should be taken before acting on any of the topics addressed here.

For further information, please contact the attorney listed below. General e-mail messages may be sent using LTBJ@lungtin.com which also can be found at www.lungtin.com

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Dr. Hong's practice focuses on patent invalidation and litigation in a variety of technical disciplines. She has significant experience practicing before the Patent Reexamination Board within the State Intellectual Property Office to defend. Dr. Hong works closely with the firm's other practice departments counseling clients on general corporate matters involving intellectual property and transactional due diligence, as well as providing patentability, freedom-to-operate and non-infringement opinions. Dr. Hong began her legal career since 2002 and joined Lung Tin in 2006. In 2015, Dr. Hong represented Lung Tin client Baufeind to win a victory in finding patent infringement. In addition to her J.S.D. from China University of Political Science and Law, Dr. Hong also received a L.L.M. from Boalt Hall, UC Berkeley School of Law.