

# Supreme Court awards New Balance Rmb30 million in damages in dispute with infringer

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- This long-running dispute started in 2015 when Lingpao started selling sports shoes bearing a logo resembling New Balance's iconic 'N' mark
- The first-instance court found that it was difficult to calculate Lingpao's profits accurately and applied the statutory maximum compensation
- The Supreme Court, having elaborated on the reasons justifying going beyond the statutory limit, increased the amount of damages to Rmb30 million

On 26 September 2023 the Supreme People's Court of China issued a final judgment finding that Jiangxi Xinbailun Lingpao Sporting Goods Co Ltd and Guangzhou Xinbailun Lingpao Sporting Goods Co Ltd (collectively 'Lingpao') had infringed the iconic 'N' trademark of New Balance and the trade dress of New Balance Trading (China) Co Ltd, a subsidiary of New Balance, and had thus committed acts of trademark infringement and unfair competition.

The court increased the amount of damages awarded in the first instance by the Liaoning High Court from Rmb5 million to just over Rmb30 million - a significant increase and a rarely seen amount in IP litigation in China. With this decision, New Balance has made a breakthrough in its series of legal actions against Lingpao's production and sale of infringing products, which began in 2015. After eight years of arduous struggle, New Balance has obtained favourable judgments from courts in Shenzhen, Guangdong, Beijing, Suzhou, Chongqing and other places, and has now achieved a significant milestone with this Supreme Court decision.

## Background

Lingpao's infringing sports shoes were first introduced to the market in 2015. Both sides of the shoes used a logo that closely resembled New Balance's iconic 'N' trademark and decoration. Lingpao even succeeded in registering several trademarks with a letter 'N', which took New Balance seven years to invalidate. Lingpao also copied the designs, colours and models of New Balance sports shoes on many shoe models. The two defendants established branch offices, direct stores and authorised retail stores across the country, rapidly expanding to thousands of retail outlets. Their annual sales is believed to have exceeded

Rmb1 billion in 2018.

New Balance initiated infringement actions in many places against the infringers and their distributors, obtaining cessation of the infringement and compensation each time. Lingpao, however, continued the production and sale of the infringing goods, constantly changing the infringing entities, assigning their infringing registered trademarks, registering new infringing trademarks, and using various means (eg, raising jurisdiction objections and evading service of subpoena) to delay the litigation process.

### **Court action**

New Balance filed the case with the Shenyang Intermediate Court on 16 May 2017. At that time, it was difficult to assess the real size of Lingpao's infringing business. The claim for damages was therefore limited to Rmb3 million - the limit for statutory damages provided by the then-Trademark Law. However, as information on the scale of the infringement was progressively revealed, New Balance was able to raise its claim to Rmb100 million, which led the Shenyang Intermediate Court to transfer the case to the Liaoning High Court in September 2018. Such transfer was, of course, challenged by Lingpao. The Liaoning High Court confirmed its jurisdiction and, finally, the Supreme Court confirmed the jurisdiction of the High Court on 20 December 2020.

The Liaoning High Court issued its first judgment on 29 November 2021. In spite of the huge amount of sales made by Lingpao over the years, as shown by the evidence produced, the court considered that no accurate assessment could be made. Due to the inability to obtain the complete production and sales records of the defendants, it was difficult to calculate Lingpao's profits accurately. This was the main reason why the first-instance court applied the statutory maximum compensation (which had been raised to Rmb5 million after the fourth amendment to the Trademark Law).

Both parties appealed to the Supreme Court.

### **Supreme Court decision**

The Supreme Court elaborated on the factors to consider in determining the amount of damages and the reasons justifying going beyond the statutory limit to determine the amount of compensation in cases where it is impossible to determine the defendants' infringement profits accurately.

The court pointed out that, if it is difficult to prove the specific amount of damages or infringing profits, but there is evidence showing that the aforementioned amount significantly exceeds the statutory maximum compensation, the compensation amount should be reasonably determined based on the overall evidence of the case, rather than simply by applying the statutory compensation.

Among such evidence, the Supreme Court took into account the statements made by Lingpao on its official website, WeChat public account and media reports announcing, on multiple occasions, sales of Rmb1 billion yuan in 2018. While Lingpao

argued that these claimed sales were nothing but promotional language, the court rejected such defence, considering that promotion should be based on objective facts and should not contain intentional concealment or exaggeration to obtain undue benefits. The court ultimately determined that Lingpao's annual sales amount amounted to Rmb1 billion and calculated the profits made by Lingpao from its infringing shoes by applying the profit margin of New Balance.

Additionally, the Supreme Court noted that Lingpao had constantly refused to provide relevant records of the production and sale of the infringing products. It was not until after the second hearing before the Supreme Court that Lingpao reluctantly submitted some unaudited financial data that were incomplete and lacked authenticity. Under such situation, the court took precedence of the evidence submitted by the plaintiff.

Another highlight of this case is the clarification of the boundary between registered trademarks and corporate names. Lingpao, which was established in 2015, had obtained the authorisation to use the trademark XIN BAILUN, registered by a third party. Lingpao, therefore, was using a corporate name very similar to that of New Balance's subsidiary, already very well known to the relevant public of China. In this regard, the Supreme Court considered that, even if the XIN BAILUN mark was licensed to Lingpao, this did not warrant Lingpao to use it in its corporate name in such a way as to create confusion. The court stressed that having exclusive rights to a registered trademark does not automatically grant the right to use that mark as a corporate name, and vice versa. The court therefore ruled that Lingpao should change its corporate name to one that is not confusingly similar to the corporate name of New Balance's Chinese subsidiary.