

IN THE HIGH COURT OF DELHI AT NEW DELHI

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Date of decision: 21st February, 2014.

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CS(OS) 1067/2007

MICROSOFT CORPORATION & ANR Plaintiffs

Through: Ms. Jaya Negi, Advocate.

Versus

JAYESH & ANR

..... Defendants

Through: None

CORAM:

HON'BLE MR. JUSTICE RAJIV SAHAI ENDLAW

1. The right of the plaintiffs to restrain the defendants from selling or distributing unauthorized importations of the plaintiffs' *XBOX* gaming consoles, within the meaning of Section 30(4) of The Trade Marks Act, 1999, is the question for adjudication in the present case.

2. The case of the plaintiffs as laid out in the plaint is:

I. that the plaintiff No. 1 *Microsoft Corporation* is a company organized and existing under the laws of the State of Washington, USA and is the developer/owner of the *XBOX* gaming console and *XBOX* games;

II. that the plaintiff No. 2 *Microsoft Corporation India Private Limited* is the wholly owned marketing subsidiary of the

plaintiff No. 1 having its office at Nehru Place, Delhi and provides marketing and promotion, anti-piracy awareness campaigns and actions, and channel development support to the plaintiff No. 1;

- III. that as a result of widespread business activities of the plaintiffs world over and in India and the roaring success of its products, the consumers and members of trade in India are well familiarized with the plaintiffs' trade mark/trade name *Microsoft* and trade mark *XBOX*, and as such the aforesaid trade marks are recognized and identified as the source indicator of the goods, services and business of the plaintiffs alone;
- IV. that the plaintiffs are also the registered proprietors of the aforesaid trade marks in various jurisdictions of the world and their trade marks have acquired the status of well-known and famous trade marks;
- V. that the plaintiffs have also registered the trade marks *Microsoft* and *XBOX* ('X' design) in India with respect to software, electronic goods and components;

- VI. that the plaintiff No. 1 is also the owner of copyrights in the *XBOX* DVD games by virtue of the same being a ‘computer program’ and ‘literary work’ under the Copyright Act, 1957;
- VII. that the *XBOX* gaming consoles are packaged and earmarked to be exclusively sold in various countries under strict warranty guidelines and policies for the benefit of the consumers;
- VIII. that an ‘unauthorized import’ (also known as a Gray Market Product) is a genuine, non-counterfeit product which escapes the authorized channel of shipment, distribution and sales of the manufacturer/IP Owner and reaches another country/territory for which it was not earmarked or authorized to be sold or distributed;
- IX. that such unauthorized imports being goods sold in a market where they are not authorized to be sold, entail repercussions for: (a) *the seller* – since the unauthorized trader uses his own distribution network, the goods are susceptible to damage and impairment during transport, handling and storage, (b) *the consumer* – since they are unable to avail of any warranties or after-sales support on such goods, and, (c) *the Government* –

- which loses taxes and custom collection on account of such goods being often smuggled or under-invoiced at entry ports;
- X. that though the doctrine of ‘exhaustion of rights’ embodied in Section 30(3) of the Trade Marks Act postulates that the legal monopoly of the intellectual property rights owner is confined to the first sale only and thereafter his rights are exhausted *qua* subsequent dealings of the same product, Section 30(4) of the Act nevertheless permits the proprietor to oppose further dealings in the goods, in particular, ‘*where the condition of the goods has been changed or impaired*’ after they have been put on the market;
- XI. that plaintiffs in April 2007 received information that the defendant No. 1 *Mr. Jayesh* as sole proprietor of defendant No. 2 *M/s Stop Shop* is infringing the plaintiffs’ trade mark rights by carrying on business of selling gray market / unauthorized importations of the *XBOX* gaming consoles;
- XII. that upon engaging an independent investigator to visit the business premises of the defendants and to purchase an *XBOX* gaming console, the plaintiffs learnt that the defendants had

infringed their trade mark rights by making the following changes and impairments to the condition of the *XBOX* gaming consoles after the same had been put in the market:

- (a) tampering with the *XBOX* gaming console's built-in hardware and software security mechanism, thereby enabling a user to run counterfeited/pirated *XBOX* games on the console, and which makes the *XBOX* gaming console vulnerable and susceptible to technical glitches and serious malfunction;
- (b) selling *XBOX* gaming consoles earmarked to be sold in South Korea only and containing instructions and description in Korean language, thereby violating the plaintiffs' terms of sale; and
- (c) rendering such *XBOX* gaming consoles absolutely ineligible for any warranty support on account of the aforementioned changes in conditions and impairment of the *XBOX* gaming console;

XIII. that in addition to the aforementioned infringement of the plaintiffs' trade mark rights, the defendants have also infringed

the copyrights of the plaintiffs by selling counterfeit/pirated versions of the plaintiffs' *XBOX* games.

The plaintiffs have accordingly prayed for a permanent injunction restraining the defendants from infringing their trade mark rights and copyrights by selling or distributing gray market / unauthorized importations of the *XBOX* gaming consoles and/or pirated/counterfeit *XBOX* games; they have further sought delivery-up of the infringing material, rendition of accounts and damages to the tune of Rs. 20 lakhs.

3. This Court issued summons in the suit to the defendants on 30.05.2007 and vide order of the same date granted an ex-parte ad-interim injunction in favour of the plaintiffs. This Court, at the request of the plaintiffs, also appointed a Local Commissioner to visit the premises of the defendants and inspect the *XBOX* gaming consoles as well as the *XBOX* games bearing the trade mark of the plaintiffs and to determine if the same are unauthorized imports and/or infringing versions of the plaintiffs' products, and to, if found to be so, seize and seal the same after making an inventory thereof and entrust them on *superdari* to the defendants. The Local Commissioner, in compliance of the aforesaid orders of this Court, has filed his report.

4. Upon the failure of the defendants to appear despite due service of summons, this Court vide order dated 02.12.2011 ordered the defendants to be proceeded ex-parte and directed the plaintiffs to file their affidavits by way of ex-parte evidence.

5. The plaintiffs accordingly examined their lone witness Col. J.K. Sharma (Retd.) who tendered his affidavit into evidence on 12.11.2013 and closed their ex-parte evidence. Col. J.K. Sharma (Retd.) in his affidavit tendered in evidence before this Court has reiterated the averments in the plaint, as reproduced above, and proved the following documents:

- I. Notarized copies of the Power of Attorneys bearing Exhibits PW1/1 to PW1/4 executed by the plaintiffs in favor of Mr. Anand Banerjee (who has instituted the suit on behalf of the plaintiffs) and Col. J.K. Sharma (Retd) for the purpose of deposing on behalf of the plaintiffs before this Court.
- II. Printouts of the webpages describing the *XBOX* gaming console from its website bearing Exhibit PW1/5 to suggest that the *XBOX* is a revolutionary video gaming system.
- III. Copy of the warranty booklet of the *XBOX 360* bearing Exhibit PW1/6 to demonstrate that the changes made by the defendants

would render the gaming console ineligible for warranty under the plaintiffs' terms and conditions.

- IV. List of *XBOX* games owned and published by the plaintiffs bearing Exhibit PW1/7.
- V. Copy of the relevant extracts from '*Brands, an International Review*' bearing Exhibit PW1/8, which is stated to be a reputed authority on brands and which has rated the plaintiffs' trade mark *Microsoft* amongst the few well known trade marks of the world.
- VI. Finally and most importantly, the Trade Mark Registration Certificates of the plaintiffs bearing Exhibit PW1/9 of the word mark *Microsoft* and the 'X' design of *XBOX*, both under Class 9 with respect to software, electronic goods and components.

- 6. The report filed by the Local Commissioner pursuant to the orders of this Court *supra*, records that upon inspection of the business premises, five boxes of *XBOX 360*'s and forty CDs of *XBOX 360* were found to be unauthorized imports, i.e. meant to be sold in the Korean market alone, and were thus seized and sealed and released on *superdari* to the defendant No. 1. The 'On the Spot Proceedings' annexed to the report, and which contain

the aforesaid finding as well, is found to bear the signature of defendant No. 1, thereby indicating his acceptance of the contents thereof.

7. It is in the backdrop of the aforesaid unrebutted factual averments and evidence that this Court has to reach the decision as to whether a case under Section 30(4) of the Trade Marks Act has been made out by the plaintiffs, so as to warrant restraining the defendants from selling or distributing such *XBOX* gaming consoles and/or *XBOX* games.

8. Since the plaintiffs have predicated their entire case on the applicability of Section 30(4) of the Trade Marks Act, it would be proper to extract the same before any discussion in this regard is made and since sub-section (4) is in terms a proviso engrafted upon sub-section (3), which precedes it, to present a clear picture, both the sub-sections have been reproduced below:

“(3) Where the goods bearing a registered trade mark are lawfully acquired by a person, the sale of the goods in the market or otherwise dealing in those goods by that person or by a person claiming under or through him is not infringement of a trade by reason only of-

(a) the registered trade mark having been assigned by the registered proprietor to some other person, after the acquisition of those goods; or

(b) the goods having been put on the market under the

registered trade mark by the proprietor or with his consent.

*(4) Sub-section (3) shall not apply where there exists **legitimate reasons** for the proprietor to oppose further dealings in the goods in particular, **where the condition of the goods has been changed or impaired** after they have been put on the market.” (emphasis supplied)*

9. To place the aforesaid provisions in perspective, it must be, at the cost of repetition, pointed out, that sub-section (4) carves out an exception to sub-section (3) thereby enabling a proprietor to, for legitimate reasons and in particular where the condition of the goods with respect to which his trade mark rights subsist have been changed or impaired, oppose further dealings in such goods – notwithstanding the principle of exhaustion enshrined in sub-section (3) which deems such further dealings in the goods by a person who has lawfully acquired them to not constitute infringement under the Act.

10. Fortunately, the scope and ambit of this proviso has received the meticulous attention of the Division Bench of this Court in ***Kapil Wadhwa Vs. Samsung Electronics Co. Ltd.*** 194 (2012) DLT 23, though only at the stage of Order 39 Rule 1&2 CPC. This Court in that case was called upon to determine whether the rights of the plaintiff *Samsung* to oppose further dealings stood exhausted only in the domestic market where its goods had

been lawfully acquired or world-wide i.e. even in international markets where such goods may be exported and sold. This Court after an extensive analysis of the provisions of the Trade Marks Act, particularly sub-sections (3) and (4) of Section 30, came to the conclusion that the legislature has adopted the principle of ‘international’ exhaustion of trade mark rights and that the plaintiff *Samsung* was precluded from challenging further dealings in its goods not only in the national market where its goods were first legitimately purchased but also in the markets of other countries where such goods may land up. However, the Court recognized the availability of sub-section (4) as a mode of redress to the registered proprietors of trade marks and expounded its ambit as thus:

*“ 68. With reference to sub-section 4 of Section 30 of the Trade Marks Act 1999 it would be relevant to note that further dealing in the goods placed in the market under a trade mark can be opposed where legitimate reasons exist to oppose further dealing and in particular where the condition of the goods has been changed or impaired. With respect to physical condition being changed or impaired, even in the absence of a statutory provision, the registered proprietor of a trade mark would have the right to oppose further dealing in those goods inasmuch as they would be the same goods improperly so called, or to put it differently, if a physical condition of goods is changed, it would no longer be the same goods. **But, sub-section 4 of Section 30 is not restricted to only when the conditions of the goods has been changed or impaired after they have been put on the market. The section embraces all legitimate reasons to oppose further dealings in the goods.***

Thus, changing condition or impairment is only a specie of the genus legitimate reasons, which genus embraces other species as well. What are these species? (i) Difference in services and warranties as held in the decisions reported as 423 F.3d 1037 (2005) SKF USA v International Trade Commission & Ors.; 35 USPQ2d 1053 (1995) Fender Musical Instruments Corp. v. Unlimited Music Center Inc.; 589 F. Supp. 1163 (1984) Osawa & Co. v. B&H Photo. (ii) Difference in advertising and promotional efforts as held in the decisions reported as 70 F.Supp 2d 1057 PepsiCo Inc v Reyes; 589 F. Supp. 1163 (1984) Osawa & Co. v. B&H Photo. (iii) Differences in packaging as held in the decision reported as 753 F. Supp. 1240 (1991) Ferrerro USA v. Ozak Trading. (iv) Differences in quality control, pricing and presentation as held in the decision reported as 982 F.2d 633 (1992) Societe Des Produits Nestle v. Casa Helvetia. (v) Differences in language of the literature provided with the product as held in the decisions reported as 423 F.3d 1037 (2005) SKF USA v International Trade Commission & Ors.; 70F.Supp 2d 1057 PepsiCo Inc v Reyes; 816 F.2d 68, 76 (2nd Cir. 1987) Original Appalachian Artworks Inc. v. Granada Electronics Inc.” (emphasis supplied)

11. Thus, the Division Bench of this Court has *prima facie* held that ‘legitimate reasons’ which entitle a proprietor to oppose further dealings in his goods under sub-section (4), even in the teeth of sub-section (3) thereof, has a capacious connotation and includes not only physical change or impairment in the condition of the goods, but also disparities in warranties as well as differences in the language of the literature provided with the product.

12. In view of the aforesaid dicta of this Court in ***Kapil Wadhwa*** supra, though on a *prima facie* view of the matter, at the stage of Order 39 Rules 1&2 CPC and the defendants herein having failed to contest the suit, it is held that the plaintiffs have established a case for grant of permanent injunction restraining the defendants from selling or distributing *XBOX* gaming consoles which are unauthorized importations and/or pirated/counterfeit versions of its *XBOX* games, thereby infringing its registered trade mark and copyrights in such products. The plaintiffs are also found entitled to delivery up of the infringing material by the defendants and as seized and sealed by the Local Commissioner appointed by this Court.

13. However, in the peculiar facts of this case, taking note that the violation of the intellectual property rights of the plaintiff cannot be termed as flagrant and that the plaintiffs have not led any evidence to suggest monetary loss, I refrain from awarding damages or directing rendition of accounts.

14. The plaintiffs shall however be entitled to costs of the suit. Counsels' fee assessed at Rs.25,000/-.

Decree Sheet be drawn up.

RAJIV SAHAI ENDLAW, J

FEBRUARY 21, 2014
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