IN THE HIGH COURT OF JUDICATURE AT MADRAS

DATED 02.11.2018

CORAM

THE HON'BLE MR. JUSTICE M.SATHYANARAYANAN

AND

THE HON'BLE MR.JUSTICE N.SESHASAYEE

OSA.No.429/2018
&
CMP.No.19635/2018

1 Netsweeper Technologies Private Limited
No.5-1-1, Arihant Majestic Towers
JN Road, 100 feet road, Koyambedu
Chennai 600 107.

2 Mr.C.Gajapathy
Director and Shareholder
Netsweeper Technologies Private Limited
No.5-1-1, Arihant Majestic Towers
JN Road, 100 feet road, Koyambedu
Chennai 600 107.

3 Mrs.Haritha Gajapathy
Director and Shareholder
Netsweeper Technologies Private Limited
No.5-1-1, Arihant Majestic Towers
JN Road, 100 feet road, Koyambedu
Chennai 600 107. .. Appellants

Vs.

1 Netsweeper Inc,
A Company having its registered office at
Suite 4, 156, Colubia Street W.,
Waterloo, Ontario, Canada N2L 3L3
Represented by its Authorized Signatory
Mr.N.Krishnan

2 Netsweeper Technologies India Private Limited
No.4B, Soundarya Apartments
Mel Ayanambakkam Main Road
Mel Ayanambakkam, Chennai 600 095.

3 Mr.Jagdeesh Sengodappa
Director and Shareholder
Netsweeper Technologies India Private Limited
No.4B, Soundarya Apartments
Mel Ayanambakkam Main Road
Mel Ayanambakkam, Chennai 600 095.

4 Mr.Senthamaraikannan Pradeepkannan
Director and Shareholder
Netsweeper Technologies India Private Limited
No.4B, Soundarya Apartments
Mel Ayanambakkam Main Road
Mel Ayanambakkam, Chennai 600 095. .. Respondents

Prayer: Original Side Appeal filed under Section 13[1] of the Commercial Court Act, Order XXXVI Rule 9 of Original Side Rules read with Clause 15 of the Letters Patent against the order dated 11.07.2018 in OA.No.510/2018 in CS.No.334/2018.

For Appellants : Mr.Saikrishnan for
Mr.S.Jayachandran

For Respondents : Mr.S.Aravindan

JUDGMENT

[Judgment of the Court was delivered by M.SATHYANARAYANAN, J]

The appellants/respondents 1 to 3 in OA.No.510/2018 in CS.No.334/2018 and defendants 1 to 3 in the Suit.

2 The 1st respondent / plaintiff has filed the above said suit for the following reliefs:-

"a) The defendant nos. 1 to 6 ordered and directed jointly or severally to pay the plaintiff, a sum of INR 1,00,00,000/- (Indian Rupees One Crore Only) as damages for passing off its products or software or services as and for the Plaintiff's products or software or services by wrongfully associating themselves with the Plaintiff and/or its affiliates;

b) Permanent injunction restraining the Defendants, its /their men, servants, agents, successors in business retailers, legal representatives, assigns or any other person claiming through or under them, from in any manner, whatsoever, using or otherwise dealing with the trademark/ tradename NETSWEEPER owned by the Plaintiff and/or any identical or deceptively similar trademark/tradename to that of NETSWEEPER in any manner whatsoever;

c) Permanent injunction restraining the Defendant Nos. 1 to 6 its/their men, servants, agents, successors in business, retailers, legal representatives, assigns or any other person claiming through or under them, from in any manner using, selling, licensing or offering services, advertising or otherwise dealing with the trademark/tradename NETSWEEPER owned by the Plaintiff and / or identical and/or deceptively similar trademark/tradename to that of NETSWEEPER and thereby passing off their products or software or programs or services as and for the products or software or services of the Plaintiff in any manner whatsoever;

d) Permanent injunction restraining the Defendants, its/their men, servants,agents, successors in business, retailers, legal representatives, assigns or any other person claiming through or under them, from in any manner or through any other entity, contacting the customers of the Plaintiff for providing services by wrongfully associating themselves with the Plaintiff and/or its affiliates;

e) The Defendants be directed and ordered to surrender to the Plaintiff for destruction, the name boards, invoices/bills, prints, letter hears, business cards, advertising materials and any other materials in the Defendant's possession, which bears the trademartk/tradename NETSWEEPER of the Plaintiff; f) The Defendant Nos.1,2 and 3 be directed to pay the outstanding invoices payable to the Plaintiff towards the fee for the software license availed by the 1st Defendant for the period April 2015 to March 2017 vide invoice number: 2073 dated 31.03.2017 for a sum of Canadian Dollars (CAD) 54,890 totalling to Canadian Dollars (CAD) 2,11,831,81 together with applicable interest until the date of repayment of the entire amount;

g) A preliminary decree be passed in favour of the Plaintiff directing the Defendant Nos.1 to 6 to render account of all revenues whether in liquid form or as assets by diverting the revenues by use of the identical and /deceptively similar trademark/tradename NETSWEEPER and/or passing off and (ii) a final decree be passed in favour of the Plaintiff for the entire amount of revenues including assets purchased out of the revenue thus found to have been made by the Defendants Nos. 1 to 6 after the latter have rendered accounts;

h) The Defendants 1 to 3 be ordered and directed to pay to the Government of India, including but not limited to, a sum of Rs.43,48,631 (Rupees Forty Three Lakhs,Forty Eight Thousand, Six Hundred and Thirty One Rupees) with additional interest and penalty towards the service tax debts owed to the Government of India by the 1st Defendant, and such further amounts that may accrue past the institution of the present suit.

i) For such other reliefs as this Hon'ble Court may deem fit and proper in the circumstances of the case;

j) For costs of this suit.

3 It is the case of the 1st respondent / plaintiff that it is based in Canada engaged in the business of internet content filtering and web threat management solutions and services that protect users world wide and it conducts its business through network of distributors and resellers in the United States of America, the Middles East and the APAC region and they have also developed a software/application which is designed to manage the internet access and the activity of internet users around the world and it also claims that it is the first internet content filtering Company to develop and use a form of hybrid artificial intelligence technology to scan content to categories and update its filter system without human intervention in real time. It is further averred by the 1st respondent / plaintiff that it had registered the trademark ''NETSWEEPER'' under classes 9 and 42 in USA on 07.03.2006, which was subsequently renewed on 18/11/2016 and is valid till 17.11.2026 and in Canada, it was registered on 23.01.2003, which was subsequently renewed on 23.01.2018 and is valid till 23.01.2033 and it claims that it is using the said Trademark in its business ever since the year 1999 in USA and Canada and in other Countries and the said Trademark is currently valid and subsisting.

4 The 1st respondent / plaintiff would further aver that it began to offer its services to its Indian customers directly from Canada and through its other subsidiary companies around the world and at that juncture, the defendants 2 and 3 / appellants 2 and 3 had approached the 1st respondent / plaintiff for an arrangement by which, the 1st appellant/ 1st defendant would be incorporated in order to offer sale products under the trademark ''NETSWEEPER'' as well as offer fro sale the 1st respondent / plaintiff's software/application/services in India and that the appellants 2 and 3 / defendants 2 and 3 were to be placed in the direct employment of the 1st respondent / plaintiff and subject to terms thereof. It was pointed out by the 1st respondent / plaintiff that the 1st appellant / 1st defendant Company did not have any clients for itself and the only business generated for them was to be from the customers of the 1st respondent / plaintiff in India and the 1st respondent / plaintiff is also under obligation to pay salaries to them for the services in that regard. In sum and substances, it is the case of the 1st respondent / plaintiff that as far as the said arrangement is concerned that in order to provide better service to its customers in

India, they have agreed to the said arrangement offered by the appellants 2 and 3 / defendants 2 and 3 upon request made by them and permitted limited, ''revocable at will'' use of the trademark ''NETSWEEPER'' for incorporating the 1st defendant Company. It is also the case of the 1st respondent / plaintiff that the appellants 2 and 3 / defendants 2 and 3 have been employed by them between the years 2005 and 2009 respectively and they have been drawing monthly salary from them. The 2nd appellant / 2nd defendant joined as Operations Manager and the 3rd appellant / 3rd defendant joined as Administration Manager. For the software subscription license provided by the 1st respondent / plaintiff to the 1st appellant / 1st defendant Company, the 1st respondent / plaintiff collects a fee which is based on the number of users of the software/application of the 1st respondent / plaintiff. As per the arrangement, the 1st appellant/1st defendant has to pay the license fee in Candian Dollors to the 1st respondent / plaintiff for offering the software/application ever since the year 2000 and it is once again reiterated by the 1st respondent / plaintiff that there are no specific services provided by the appellants 2 and 3 / defendants 2 and 3 other than in the capacity of employees of the 1st respondent / plaintiff.

5 The 1st respondent / plaintiff would also aver that the software subscription fees payable by the appellants for the period from April 2015 to March 2016 and April 2016 to March 2017 have been paid and thereafter they held back the payment and the explanation offered by them was to discharge the service tax liability of the 1st appellant/Company and taking note of the same, the 1st respondent / plaintiff instructed the appellants 2 and 3 / defendants 2 and 3 to immediately pay the unpaid service tax along with penalty and interest, as applicable and despite that, the said liability has not been cleared by the appellants 2 and 3 / defendants 2 and 3.

6 The 1st respondent / plaintiff also made an attempt to check the bank statements of the 1st appellant Company and they shocked to note that the on-line access to the 1st appellant Company bank account was blocked by the appellants 2 and 3 and despite efforts made by the 1st respondent / plaintiff to get in touch with the appellants 2 and 3 over phone and E-Mails, it have not got fructified and the 1st respondent / plaintiff has also sent a communication dated 26.03.2018 to the Service Tax Authorities with a request to take immediate action to recover the same. The 1st respondent / plaintiff has also conducted an inspection on the portal of the Ministry of Corporate Affairs to find out whether the 1st appellant Company is still carrying on the business at the same office and its directorship details and shocked to note that another Company in the name of ''NETSWEEPER TECHNOLOGIES INDIA PRIVATE LIMITED'' came to be incorporated by using the services of the 4th defendant.

7 It is the specific case of the 1st respondent / plaintiff that in the light of the aforesaid circumstances, the defendants should not be allowed to continue to use the name of the 1st respondent / plaintiff's company, viz., ''NETSWEEPER'' and the invoices raised by them over the 1st defendant proves that it has been using the trade name ''NETSWEEPER'' and the software/application and they have no right to do so and therefore, came forward to file the above suit.

8 The 1st respondent / plaintiff, pending dismissal of the suit, had filed applications in OA.Nos.510 to 514/2018, for the following reliefs:-

''ORIGINAL APPLICATIONS PRAYING

O.A.No.510 of 2018:

To grant an interim injunction restraining the respondents/defendants themselves, its/their men, servants, agents, successors in business, retailers, directors , legal representatives, assigns, distributors, advertisers, or any other person claiming through or under them, from in any manner,whatsoever, using or otherwise dealing with, or in any manner passing off or enabling others to commit acts amounting to passing off of the trademark/tradename NETSWEEPER owned by the applicant/plaintiff by use of identical and/or deceptively similar trademark/tradename/corporate name/domain name to that of NETSWEEPER in any other manner whatsoever till the final disposal of the suit.

O.A.No.511 of 2018:

To grant an interim injunction restraining the respondents/defendants themselves, or their men, servants, agents, successors in business, retailers, directors , legal representatives, assigns or any other person claiming through or under them etc. From operating any bank account whether in the nature of current account, fixed deposit account, investment account, demat account, mutual fund account, over draft acccount, loan account maintained by the 1st and 4th defendant including the bank account bearing no.0136256002747 of the 1st defendant, with the Ashok Nagar Branch of H.D.F.C. Bank Ltd., till the final disposal of the suit.

O.A.No.512 of 2018:

To grant an interim injunction restraining the defendants themselves, or their men, servants, agents, successors in business, retailers, legal representatives, assigns or any other person claiming through or under them, from providing any services to the existing customers of the plaintiff's product NETSWEEPER, till the final disposal of the suit.

O.A.No.513 of 2018

To grant an interim injunction restraining the defendants themselves, or their men, servants, agents, successors in business, retailers, employees or officers, legal representatives, assigns or any other person claiming through or under them, whomsoever authorized jointly or severally from payment of any dividends or any other payments from the revenues of the 1st and 4th respondents/defendants and consequently depositing the same into the account of the Registry of High Court, Madras.

O.A.No.514 of 2018:

To pass an order of interim injunction restraining the respondents/defendants from utilizing or accessing the funds of the 1st respondent/defendant and 4th respondent/defendant in any manner whatsoever, including for the purpose of the instant litigation in any manner.

9 The 1st respondent / plaintiff made the very same averments as that of the plaint averments in the applications filed in support of the applications. In the above said Original Applications, notices were ordered to the respondents therein / defendants and the respondents 1 to 3 in the applications / defendants 1 to 3 / appellants herein, had contested all the applications by filing a common counter affidavit, wherein they took a stand that the dispute arose on account of the demand for transfer of sales made by the 1st respondent / plaintiff and they offered only a sum of Rs.5 Lakhs for transfer of cent percent shares of the 1st appellant Company held by the appellants 2 and 3 / defendants 2 and 3 and the 2nd appellant did not agree for that price and thereafter, the litigation started. It is also the stand of the respondents 1 to 3 therein / appellants herein in their common counter affidavit that in India ''NETSWEEPER'' is an unregistered trademark and factually and legally the 1st appellant / 1st defendant is the prior user of the trademark 'NETSWEEPER'' insofar as the geographical location of India is concerned for the reason that the 1st appellant Company has been incorporated on 03.11.2005 itself and has been using the mark ''NETSWEEPER'' as a part of the corporate name with the knowledge of the 1st respondent / plaintiff Company and whereas the sale of the product

NETSWEEPER was done only in August 2006 and even as per the admission of the 1st respondent / plaintiff, the 1st appellant is authorised user of the trademark NETSWEEPER ever since 03.11.2005 and as such, the 1st respondent / plaintiff is not entitled for injunction in respect of passing of the trade mark ''NETSWEEPER'' . Insofar as the other applications are concerned, the money claim made by the 1st respondent / plaintiff has been satisfied and it is also evidenced by the invoices that were made on 03.05.2017 and 08.01.2018 respectively and the relevant documents relating to bank transfer, the E-Mail Acknowledgments from the 1st respondent / plaintiff and remittances of Tax Deducted at Source, have also been filed along with the said counter.

10 Insofar as the non-payment of service tax amount is concerned, the same has been shown as liabilities in the Balance Sheet of the 1st appellant Company every year and the 1st respondent / plaintiff was also aware of the same as every year it is being received by them and the 1st appellant Company has made payments towards service tax for the amounts of Rs.15 lakhs on 10.05.2018 ; Rs.2 lakhs on 08.06.2018 and Rs.8 lakhs on 22.06.2018 and it is in the process of paying the balance amount once the communication from the Service Tax Authorities is received.

11 In paragraph No.19 of the counter affidavit, the appellants / respondents 1 to 3 took a stand that they are the authorised users of the trademark NETSWEEPER and therefore, the 1st respondent / plaintiff cannot raise the allegation of unauthorized usage of the unregistered trademark NETSWEEPER and also took a stand that they do not sell any product to anybody as if it were a product of the 1st respondent / plaintif / applicant, after the cease and desist notification dated 07.05.2018 from the 1st respondent / plaintiff / applicant and in fact, there has been no sales at all from January 2018 through and by the 1st appellant Company for any product, leave alone NETSWEEPER product. In the light of the stand taken by them, they prayed for dismissal of all the Original Applications.

12 The learned Judge, after taking note of the pleadings, averments made in the affidavits filed in support of the Original Applications as well as the common counter affidavit, found that even as per the counter affidavit, the 1st defendant did not have any other business apart from the customers of the 1st respondent / plaintiff and it has been averred that whenever sale is effected by selling software of the 1st respondent / plaintiff, the customer would pay the license fee for using software on yearly basis and prizing of the software would be fixed only the 1st respondent / plaintiff and the customers would also get the software serial key directly from the 1st respondent / plaintiff for using the product NETSWEEPER. The learned Judge also noted that the said arrangements smoothly went on till the dispute arose with respect to

payment of service tax. The learned Judge in paragraph No.20 noted that the 1st defendant / 1st appellant Company have been incorporated only because the 1st respondent / plaintiff Company wanted to expand its business in India and the defendants 2 and 3 / appellants 2 and 3 initially joined on employment contract and subsequently, they had a fiduciary relationship and obligation to the 1st respondent / plaintiff Company and the appellants would not have had any existence, but for the fact that they have been given privilege of Agents of the 1st respondent / plaintiff Company. The learned Judge, having noted the fact, found that necessary ingredients for grant of interim orders being made out in favour of the 1st respondent / plaintiff and accordingly, ordered all the applications as prayed for and challenging the legality of the order passed in OA.Nos.510 and 514/2018, OSA.Nos.429 and 428/2018 came to be filed.

13 The learned counsel appearing for the appellants made his submissions based on the stand taken by the appellants in the counter affidavit and would submit that whatever dues, due and payable to the 1st respondent / plaintiff Company, has been discharged and in the light of the factual and legal position that NETSWEEPER is an unregistered Trademark, the 1st appellant / 1st defendant is entitled to use the same also as the prior user. It is the further submission of the learned counsel that on account of the impugned order in operation, the appellants are unable to collect the money from the customers and they are also unable to operate the Bank Accounts, which may have serious consequences and implications and would further aver that since the 1st respondent / plaintiff has miserably failed to establish a prima facie case, the learned Judge ought not to have granted interim orders as prayed for, especially taking into consideration, the balance of convenience and prays for interference. Learned counsel for the appellants also pray that appeals have also been filed against the dismissal of the other applications also and therefore, all the Original Side Appeals may be taken up together.

14 However, the said plea is strongly opposed by Mr.S.Aravindhan, learned counsel appearing for Caveator by submitting that after advancing arguments for quiet some time, it may not be fair on the part of the learned counsel for the appellants to seek for an adjournment and would urge that it is not even the case of the appellants that they were not aware of the existence of the Company, viz., NETSWEEPER INCORPORATION incorporated in USA and in Canada and it is not even their case that they developed the particular software and also drawn the attention of this Court to paragraphs No.17 and 20 of the impugned common order and would submit that admittedly, the appellants thrive on the arrangement came into being between the 1st respondent / plaintiff and initially, they joined as employees only and subsequently, they had a fiduciary

relationship in the form of incorporation of the Company and but for the business provided by the 1st respondent / plaintiff, they do not have any legs to stand by conducting business operations in this Country and therefore, prays for dismissal of the appeal.

15 The Court has considered the rival submissions and also perused the materials placed before it.

16 Admittedly, only two appeals are before this Court in OSA.No.428/2018 which is preferred against allowing of the application in OA.No.514/2018 and OSA.No.429/2018 which is preferred against the allowing of the application in OA.No.510/2018. Since this Court had heard the arguments at considerable length in OSA.No.429/2018, it is not inclined to adjourn the same. However, taking into consideration the plea made by the learned counsel for the appellants, OSA.No.428/2018 is adjourned to 13.11.2018.

17 It is not in serious dispute that the 1st respondent / plaintiff company has developed the said software and to have a footprint in India, had engaged the services of the appellants 2 and 3 as their employees and subsequently, thought fit to incorporate a Private Limited Company for carrying on the business. In effect, the business is selling/distribution of the software with a service back up and the materials placed before this Court would also prima facie disclose that the 1st appellant Company did not independently develop the said software and it is not even their case that they were not at all aware of the existence of the 1st respondent / plaintiff Company and they started a company on their own and as such, they became the prior users.

18 A similar issue arose for consideration before a Division Bench of Delhi High Court in the decision reported in 2012 [49] PTC 209 [Del] [DB] [Trans Tyres India Private Limited Vs. Double Coin Holdings Limited and Another]. It also pertains to infringement and passing of the trademark "Double Coin''. In Paragraphs No.15, 19 and 26, the Division Bench of the Delhi High Court has held as follows:-

> ''15 The conventional theory that a trademark connects, in the mind of the consumer, the goods to the source of manufacturer is inapplicable in today's environment because modern global trading has assumed multi-channel modes of sale of goods in the market. Thus, in today's global environment, the theory pertaining to a trademark would be that a trademark connects, in the mind of the consumer, the source wherefrom the goods enter the market, whatever may be the nomenclature of that source. It could be the agent, the distributor or even a person who purchases goods from a manufacturer and sells them

in the market.

.....

18 Cases where foreign origin in concealed and the source wherefrom the goods enter the market is conceived by the consumer as the ultimate source of the goods would not be of much difficulty to resolve the deadlock between the manufacturer and the seller of the goods, for the reason the seller would have good and clear evidence to establish proprietorship on the strength of advertising expenditure incurred to promote the goods in the new territory, consumer studies linking the mark to the seller, unsolicited media coverage of the product speaking good of the product and the seller, evidence of length of exclusivity and sale success. But we would be lodging a caveat here. It has to be a case where the seller pleads and is able to show that the goodwill generated in the trademark was his and not the goodwill of the manufacturer.

.....

26 Thus, on the pleadings of Trans Tyres (India) Pvt. Ltd. it is prima facie apparent that the customer confidence was built on the strength of the reputation of Double Coin Holding Ltd. and that the goods were marketed in India, linking the goods to the source of manufacture and not the source of sale. That it created a sales network in India is of relevance in the field of trademark law as it is not the case of Trans Tyres (India) Pvt. Ltd. that it is a case of agency and thus having spent money to create a sales network an irrevocable interest was created in its favour. Trans Tyres (India) Pvt. Ltd has not predicated a claim under Section 202 of the Indian Contract Act, 1872.''

and ultimately, the Delhi High Court has sustained the injunction in favour of the ''Double Coin Holdings Limited'' - plaintiff / respondent in the said case. In the considered opinion of the Court, the said decision is squarely applicable to the facts of this case.

19 The learned Judge in the considered opinion of this Court, had taken into consideration all relevant aspects and prima facie reached the conclusion in the light

of the settled principles, to grant interim order in favour of the 1st respondent / plaintiff.

20 This Court, on an independent application of mind to the entire materials, is of the considered view that there is no error apparent or infirmity or jurisdictional error in the impugned order passed by the learned Judge and finds no merit in this appeal.

21 In the result, this Original Side Appeal is dismissed, confirming the order dated 11.07.2018 made in OA.No.510/2018. However, in the circumstances of the case, there shall be no order as to costs. Consequently, the connected miscellaneous petition is dismissed.

22 It is settled position of law that reasons assigned for the disposal of the interlocutory application would not have a bearing while deciding the issues in the main suit for the reason that the issues have to be adjudicated based on the pleadings and quality of the evidence let in.

Sd/-
Assistant Registrar(CS v)

//True Copy//

Sub Assistant Registrar

AP
To,
1. The sub Assistant Register,
Original Side,
High court
Madras

+1cc to Mr.T.SUNDARAVADHANAM , Advocate SR.No. 76657
+1cc to m/s.FOX MANDAL ASSOCIATES , Advocate SR.No. 75988
+2cc to Mr.T.SUNDARAVADHANAM , Advocate SR.No. 76657 (17/12/2018)

O.S.A.No.429/2018

ASK(26/11/2018)