



Punitive Damages in Patent litigation: A Comparison Study at Laws and Practice in China and the United States

Featured Article

Abstract: This article makes a comparison of the provisions on punitive damages between China and the U.S. from multiple perspectives, including a comparison of the applicable laws and requirements of proof for punitive damages, a comparison of specific considerations, a comparison of the base for calculating punitive damages and the multiples range, and a comparison of the ways to bear attorney fees.

Keywords: punitive damages, intentional infringement, case law, duty of reasonable investigation, patent marking statute, attorney fees, willful infringement

Punitive damages have a huge impact on patentees and implementers due to the enhanced damages. This article summarizes the provisions and application of punitive damages of China and the U.S., aiming to serve as a general reference for patentees who hold patents in both China and the U.S., as well as implementers who conduct business in both China and the U.S.

Firstly, it must be stated that there are very few published cases involving patent punitive damages. This author has retrieved only two patent cases involving punitive damages, both of which only contain first instance rulings. This may have something to do with the fact that the provisions on punitive damages in the patent field are relatively new and the cases have not yet gone to trial or been decided. Currently, most of the cases involving punitive damages in the intellectual property field are cases involving trade secrets and trademarks. Therefore, the application of punitive damages in the patent field as mentioned below shall be mainly based on the understanding of legal theories with reference to the typical cases involving trade secrets and the patent cases this author has retrieved.

I Comparison of Applicable Laws and Requirements of Proof for Punitive Damages A Chinese Laws

Article 1185 of the Civil Code effective as of January 1, 2021 is a general provision on punitive damages for intellectual property infringement, which provides as follows:

"Where any person intentionally infringes upon any other person's intellectual property right, and the circumstances are serious, the infringed party

shall have the right to request appropriate punitive damages."

The new patent law, which came into effect on June 1, 2021, provides for the first time punitive damages as follows:

"Article 71 The amount of damages for infringement of a patent right shall be determined based on the actual losses suffered by the patentee due to infringement or the benefits

obtained by the infringer from infringement; or if it is difficult to determine the losses of the patentee or the benefits obtained by the infringer, the amount of damages shall be determined reasonably according to multiples of the royalties of the patent license (*referred to as "compensatory damages"*). For intentional infringement of a patent right, where the circumstances are serious, the amount of damages (*referred to as "punitive damages"*) may be determined at not less than one time and not more than five times the amount determined according to the above method."

Therefore, in the patent field, regarding alleged infringements that occurred before January 1, 2021, the effective date of the Civil Code, punitive damages are not applicable in accordance with the general principle of non-retroactivity. Punitive damages may only be applicable to alleged infringement acts that occur after January 1, 2021. Specifically, acts that occur after January 1, 2021 and before June 1, 2021, the effective date of the new Patent Law, shall be subject to Article 1185 of the Civil Code. While regarding acts occurring after June 1, 2021, Article 71 of the new Patent Law shall govern.

There are two elements for punitive damages listed in Article 1185 of the Civil Code: the subjective element is "intentional infringement, and the objective element is "serious circumstance." The two patent cases granting punitive damages retrieved by the author directly refer to the above-mentioned provisions of the Civil Code, applying the punitive damages of two and three times the profits generated from the infringement respectively.

Article 71 of the Patent Law has the same two elements for punitive damages as the Civil Code: the subjective intent element and the objective serious circumstance element. But the Patent Law further specifies the base for calculating punitive damages and the multiples range. The base for calculating punitive damages shall be one of the three methods: the actual losses of the patentee, the benefits of the infringer and the reasonable multiples of the patent royalty in order. The multiples range refers to one to five times the calculation base. Special attention should be paid

to the method where the calculation base is the benefits of the infringer. This method is more commonly used than the other two methods.

"Beijing High People's Court Guidelines on the Application of Punitive Damages in the Trial of Intellectual Property Infringement Civil Cases (referred to as the "Beijing High Court's Guidelines") defines in Section 3.2 the benefits from infringement as:

"the property income acquired by the infringer from infringement, and generally means the operating profits thereof. However, for the infringers who operate mainly by infringement of IPRs, profits from infringement may be calculated based on the sales profits."

The leading case for the situation that the infringer operates mainly by infringement of IPRs is a trade secret Case "Kapo" (2019) Zui Gao Fa Zhi Min Zhong No. 562) (referred to as the "Kapo Case") set out in the "Typical Case of the Application of Punitive Damages to Civil Cases Involving Intellectual Property Infringement" promulgated by the Supreme People's Court on March 15, 2021. In this case, the Supreme Court used the infringer's sales profits as the base amount and ruled punitive damages which is a maximum five times of base amount. This case also created the highest multiple of damages in the history of trade secrets and even in the history of the entire intellectual property rights field.

To sum up, no matter which law governs, the Civil Code or the Patent law, China's punitive damages will consider both the subjective intent element and the objective serious circumstance element. Therefore, punitive damages in China can be considered applicable to "intentional and serious infringements."

B The U.S. laws and Comparison between China and the U.S.

1.The punitive damages laws in the U.S.

The U.S. Patent Act §284 is a statutory provision for punitive damages. But the provision is very general, only mentioning that the judge may enhance the damages up to three times the compensatory award. The statute does not specify

the requirements of proof for punitive damages.

The case law in force today comes from two precedents. They are *Halo Electronics, Inc. v. Pulse Electronics* (2016) (referred to as the Halo case) and *Stryker Corporation v. Zimmer, Inc.* (2016) (referred to as the Stryker case), both decided by the Supreme Court of the U.S. The important role of these two cases is to announce that the requirements of proof for punitive damages include only the subjective recklessness and abolish another requirement — the objective recklessness created by the U.S. Court of Appeals for the Federal Circuit in *re Seagate Technology, LLC* (2007). (Note: The objective recklessness means that the accused infringer acts despite an objectively high likelihood that its actions constituted infringement of a valid patent. In fact, it mainly involves the validity of patent and whether it is infringed, which is different from China's objective element which mainly involves the scope and consequences of infringement) .

An important indicator of the subjective recklessness is that, when knowing someone else's patent, has the implementer investigated the scope of protection of the patent and in good faith believed that the patent was invalid or not infringed?

If the implementer does not conducted a reasonable investigation, or believes after investigation that the infringement and the validity of the patent are likely to be great, its act will be deemed willful, and it is likely to be liable for punitive damages.

On the other hand, if the implementer exercises the duty of reasonable investigation and in good faith believes that the patent was invalid or not infringed, it is likely to be liable only for compensatory damages, even if the final judgment is that the patent is valid and infringed.

Then what is the duty of reasonable investigation? This part involves a legal opinion on whether the patent is valid and whether it is infringed. Generally speaking, a legal opinion obtained from an outside counsel by a defendant is more credible in the eyes of a jury than a legal opinion obtained

by a defendant from its in-house counsel or some internal technical personnel. If the implementer obtains a competent and qualified legal opinion from an attorney and the opinion states that the patent is invalid or the act of the implementer does not infringe the patent after the implementer becomes aware of the patent, the implementer probably will not be liable for punitive damages.

Therefore, punitive damages in the U.S. can be considered applicable to willful infringements without performing a duty of reasonable investigation.

In conclusion, both China and the U.S. focus on the subjective state of mind of the implementer in applying punitive damages. However, punitive damages in China have one more element — objective serious circumstance— than in the U.S., and the legal opinion obtained from the attorney regarding patent validity and infringement is unimportant in China, or is less important than in the U.S.

2. Relationship between accused infringement and case law

The case law system of the U.S. may create a degree of uncertainty about which law governs the accused infringement act. In other words, if the implementer acts under the guidance of the current case law, but the case is later declared as not good law, the implementer may have to face an unpredictable consequence.

This was the case in the Halo and Stryker cases mentioned earlier. The defendants in both cases were tried under the Seagate test established in the Seagate case (the Seagate test includes "objective recklessness" as a first prong and "subjective recklessness" as a second prong). Because the defendant's invalidity and non-infringement defense were not objectively without basis, the plaintiff failed to prove the first prong of "objective recklessness" and so was not able to recover punitive damages. However, after the two plaintiffs submitted a petition for writ of certiorari to the U.S. Supreme Court and get a hearing by the Supreme Court, the Supreme Court rejected the Seagate test for inconsistent with the congressional intent when it passed the Patent Act

§284, abolished the "objective recklessness," and remanded the two cases for a new trial. It can be seen that the application of punitive damages in the Chinese code law system is more predictable in some aspects than the case law system in the U.S.

II Comparison of Specific Factors Considered in Applying Punitive Damages

A Factors and Typical Situations of "Intentional mind" in China

Paragraph 1, Article 3 of the "Interpretation of the Supreme People's Court on the Application of Punitive Damages in the Trial of Civil Cases Involving the Infringement of Intellectual Property Rights" (the "Supreme Court's Judicial Interpretation") promulgated on March 3, 2021 sets forth the concept of "Intentional mind" in intellectual property cases. "Intentional mind" needs to be established by taking into consideration various factors such as the type of the IPR object, the right status and the popularity of the relevant product, and the relationship between the defendant and the plaintiff or interested party. Typical examples of "Intentional mind" in this paragraph mainly include the "knowing" type of intent, where the defendant continued to infringe the intellectual property after being warned by the plaintiff, and the "relation" type of intent, where personnel flow and business contacts between the plaintiff and the defendant resulted in exposure to the infringed intellectual property. The "relation" type of intent seems to be more applicable to cases involving trade secrets rather than patents. The following two circumstances, as specified in Section 2.2 of "Beijing High People's Court Guidelines" may be expected to apply to patents.

"(5) the infringer still implements or uses such IPRs as have been revoked or invalidated in accordance with relevant laws due to improper acquisition, which has been deemed as infringement; or

(6) the infringer still continues the infringement after the competent intellectual property authorities have sent a pre-warning notice of infringement."

In the only two patent cases of punitive damages mentioned earlier, "Intentional mind" was determined in this way. In the judgment of Guangzhou Intellectual Property Court, [2020] Yue 73 Zhi Min Chu No.57 (referred to as the "Judgment of Guangzhou IP Court on LED Bulb Utility Model Patent"), the court held that, although a previous civil judgment had held that the defendant's alleged behavior constituted patent infringement, the defendant continued to infringe the plaintiff's same patent more than one year after the judgment was pronounced in the aforementioned case, so it can be considered that the defendant intentionally carried out the alleged infringement act.

In the judgment of Shenzhen Intermediate People's Court, [2021] Yue 03 Min Chu No.6065 (referred to as the "Judgment of Shenzhen Intermediate Court on the design patent of multi-functional leather storage box"), the court held that, the plaintiff reported to the intellectual property protection platform of Alibaba Group earlier than June 15, 2017 that the "multi-functional leather storage box" products sold by the defendant infringed its design patent. After the seller/defendant filed an objection, the platform held that the seller's objection was not established and removed the products' listings. However, the defendant repeatedly put the alleged infringing products' listings on the website, and continued to sell and offer to sell the alleged infringing products through the 1688 Platform and Tmall Platform until June 2021. Therefore, the defendant has intentionally continued the infringement even though it was aware of the plaintiff's patent.

B Factors and Typical Situations in Determining "Serious Circumstance" in China

Paragraph 1, Article 4 of the "Supreme Court's Judicial Interpretation" sets forth that in determining "serious circumstances", the factors such as the means and times of infringement, the duration, territorial scope, scale and consequences of the infringement, and the infringer's conduct in the litigation shall be taken into consideration. Typical circumstances listed in this Paragraph include repetitive infringement by the defendant ("after receiving administrative

punishment or court judgment for infringement, the same or similar infringements are carried out again"), dedicated infringement ("operating mainly by infringement of IPRs"), huge infringement profits or huge losses to the plaintiff, and obstruction of producing evidence in litigation ("forging, destroying, or concealing infringement evidence").

Most provisions of Section 2.3 of the "Beijing High Court's Guidelines" are consistent with the "Supreme Court's Judicial Interpretation," but it is more explicit that the presumption of "serious circumstances" shall be based on the consequence of the infringement ("where the infringement has caused serious consequences, it can be presumed that the circumstances are serious").

In the "Judgment of Guangzhou IP Court on LED Bulb Utility Model Patent," the court held that the reason for having serious circumstance was that after the judgment of the previous case took effect, the defendant refused to obey such judgment which had already taken effect, resulting in the case being unable to be fully executed up to the present date. At the same time, the defendant again infringed the same patent. This shows the bad nature of the infringement — the defendant repeated the infringement acts and the infringement lasted for a long time.

In the "Judgment of Shenzhen Intermediate Court on the design patent of multi-functional leather storage box," the court deemed that the legal representative of the defendant applied for the industrial design patent for the allegedly infringing design, and the two defendants owned many stores on the 1688 platform and the Tmall platform, the infringement lasted for four years and of large scale. Therefore, the circumstances of this case may be deemed serious.

C Factors for "Subjective Recklessness" in the U.S. and Comparison between China and the U.S.

The U.S. Court of Appeals for the Federal Circuit in some cases (including *Spectralytics, Inc. v. Cord* (2011); *Read Corp. v. Portec, Inc.* (1992)) developed that the factors for establishing the "subjective recklessness" generally include:

"(1) Whether the infringer deliberately copied the ideas or design of another;

(2) Whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid, or it was not infringed;

(3) The infringer's behavior as a party to the litigation;

(4) The infringer's size and financial condition;

(5) The closeness of the case;

(6) The duration of the defendant's misconduct;

(7) The remedial action taken by the defendant;

(8) The defendants' motivation for harm; and

(9) Whether the defendants attempted to conceal its misconduct. "

Comparing the factors and typical circumstances of "intentional mind" and "serious circumstance" in China with the factors of "subjective recklessness" in the U.S., the condition of triggering punitive damages seem to be stricter in China than in the U.S. This also reflects China's basic legislative philosophy of taking compensatory compensation as the principle and punitive compensation as the exception. In addition to paying attention to the subjective state of mind of the accused infringer, China focuses more on the consequences of infringement than the U.S. to consider whether punitive damages are applicable.

III Comparison of Base for Calculating Punitive Damages

As a precondition for the application of punitive damages, the amount of compensatory damages is the base for determining the punitive damages.

Therefore, a first step should be to see what conditions can be applied for compensatory damages.

According to the provisions of China,

compensatory damages can be claimed with respect to the two types of infringement below:

- (1) Unknowing infringement, and
- (2) Intentional infringement but without serious circumstance.

Unlike China, compensatory damages in the U.S. apply to "intentional infringements"—knowing the patent but forming a good-faith belief that it was invalid, or it was not infringed. A person who was unaware of the existence of a patent is under no obligation to pay damages. This arises from the obligation under §287 (a) of the U.S. Patent Act (the "patent marking provision"). This provision together with a series of cases (Arctic Cat Inc. v. Bombardier Recreational Products Inc. (Fed. Cir. 2017) ("Arctic Cat I") and Arctic Cat Inc. v. Bombardier Recreational Products Inc. (Fed. Cir. 2020) ("Arctic Cat II") are the leading cases) provides that without adequate marking,"no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice." Also, because it is difficult for a method patent to satisfy the marking provision, the Federal Circuit decided through some case that the marking provision does not apply to method patents.

Thus, in the case of a product patent, or a patent that includes both apparatus and method claims, the damages recovery period starts from the date on which the patented articles were marked or notice was given to the accused infringer. There are two ways in which the patentee notifies the implementer of an infringement:

- (1) Constructive notice, or
- (2) Actual notice.

Constructive notice refers to circumstances where the patentee shows the patent number on the product or its packaging or indicates the website address of the patent. Actual notice refers to circumstances where the patentee sends a

warning letter to the implementer or actually sues the implementer.

Thus, the precondition for punitive damages is stricter on the implementer in China than in the U.S. This is because China does not impose an obligation on the patentee similar to the U.S. marking provision. In China, even where the patentee fails to mark its product with a patent number or give any other notice to the implementer about the existence of the patent, the implementer is still liable for damages. The damages recovery period starts from the date of grant of the patent.

This difference makes it easier for the patentee to recover compensatory damages in China as compared to the U.S. In other words, if the patentee having the product patent or having a patent including both apparatus and method claims fails to meet the §287 (a) marking statute in the U.S., it will not be able to recover compensatory damages. If the patentee is not able to recover compensatory damages, it means it cannot have the base amount for the punitive damages, and therefore will not be able to obtain the punitive damages.

IV Comparison of Multiples of Punitive Damages

In China, the multiple of punitive damages can be five times at most, and with the base amount added, the final damages can be six times at most. In the U.S., the final damages can be up to three times.

The Kapo case is a case involving trade secrets, in which the amount of damages was awarded at the maximum of five times the defendant's profits from the infringement. However, the judgment there did not include the base amount. Specifically, the Supreme Court multiplied the defendant's sales profits CNY12 million by 50% technical contribution rate, resulting in CNY6 million as the base amount, and then multiplied CNY6 million by 5 times, finally awarding a punitive damages of CNY30 million. The final award of CNY30 million did not include compensatory damages. Therefore, it can be said that, not only in the field of patents, but also in the

field of intellectual property as a whole, there has been no judgment in China that award the right holder both compensatory damages and punitive damages of five times compensatory damages (a total of six times). In addition, it also reflects that punitive damages in China can be imposed separately, not necessarily with compensatory damages.

By contrast, in the U.S., punitive damages are not imposed separately, but on the basis of compensatory damages. Referring to the Stryker case the Federal District Court awarded \$76.1 million in compensatory damages and \$152.2 million in punitive damages (a total of three times).

V Comparison of Ways of Bearing Attorney Fees

Because patent cases involve complex technical and legal issues, attorney fees are often a huge burden. In China, the court will require the defendant to bear reasonable expenses of the plaintiff if the final ruling is against the defendant. This reasonable expenses include attorney fees. In the Beijing Intellectual Property Court's decision

(2015) Jing Zhi Min Chu Zi No. 441, the court granted the patentee's claim of nearly CNY1 million. This is a first in the history of patent trials in China. In addition, if the defendant wins, it cannot ask the plaintiff to reimburse the defendant's attorney fees.

However, the opposite is true in the U.S. The general rule in the U.S. is that each party to a lawsuit bears its own attorney fees, though the U.S. is known for its high attorney fees in patent litigation. In particular, the common impression is that the winning party's attorney fees will be paid back by the losing party in cases awarding punitive damages. This is not the case. According to the Patent Act §285, a party will be ordered to pay the other side's reasonable attorney fees only where the conduct of this party in the litigation is "exceptional" relative to other similar cases. In addition, if the defendant wins the lawsuit, the defendant can also claim attorney fees from the plaintiff.

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