



## Order of Discovery for Profit from Infringement in Patent Infringement Litigation

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It is known that China does not have a discovery system and applies the principle of burden of proof borne by claimant. Therefore, the plaintiff usually bears the heavy burden of proof. The plaintiff has to prove the existence of the alleged infringement act, and, if a relatively high amount of damages is desired, will have to prove the losses of the right holder or the profit of the infringer obtained from the infringement.

In view of the difficulty in the burden of proof and low damages, a system of order of discovery for profit from infringement in patent infringement litigation is officially introduced in the *Interpretation (II) of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Patent Infringement Dispute Cases* (hereinafter referred to as Patent Infringement Judicial Interpretation II) enacted on April 1, 2016.

Using this system, Linda Liu & Partners have petitioned in several patent infringement litigations for an order to urge the infringer to provide the evidence of profit obtained from the infringement. In these cases, as the infringers failed to provide the required evidences, the court fully supported our alleged damages up to millions of CNY.

### 1. Related Laws and Regulations

The order of discovery for profit from infringement is specified in Article 27 of the Patent Infringement Judicial Interpretation II as below: "Where it is difficult to determine the actual loss suffered by a right holder, the people's court shall require the right holder to furnish evidence to prove the gains obtained by the infringer from the infringement in accordance with Paragraph 1 of Article 65 of the Patent Law.



Where a right holder has provided the prima facie evidence proving the gains obtained by the infringer but the account books and materials related to the acts of patent infringement are mainly controlled by the infringer, the people's court may order the infringer to submit such account books and materials; where the infringer refuses to provide such account books and materials without justification or provides false account books and materials, the people's court may determine the gains obtained by the infringer from the infringement based on the claims of the right holder and the evidence furnished thereby.”

This article is stemmed from the system of order of discovery specified in *Interpretation of the Supreme People's Court on Application of the Civil Procedure Law of the People's Republic of China* (see Article 112: Where the documentary evidence is under the control of the opposite party, the party who bears the burden of proof may submit a written application requesting the people's court to order the opposite party to submit it before the expiry of the time limit for adducing evidence) and the rule for determining hindering proof as specified in the *Several Provisions of the Supreme People's Court on the Evidence in Civil Procedures* (see Article 75: where there is evidence that a party holds evidence and refuses to disclose the evidence without due reason, if an opposing party alleges that the content of the evidence is not conducive to the holder of the evidence, it can be presumed that assertion of the opposing party is established.)

The provision of the Patent Infringement Judicial Interpretation II is clearly more specifically directed to the evidence for profit from the infringement in patent infringement litigation. The provision aims to relieve the right holder from the burden of proof and increase the opportunity of the right holder to be awarded higher damages.

## **2. Applicable Conditions**

According to the provision of the judicial interpretation, the applicable condition of the order of discovery for profit from infringement is that “a right holder has provided the prima facie evidence proving the gains obtained by the infringer but the account books and materials related to the acts of



patent infringement are mainly controlled by the infringer”. Since it is apparent that “account books and materials related to the acts of patent infringement are mainly controlled by the infringer”, the right holder needs only to provide the prima facie evidence proving the gains obtained by the infringer.

As for “the prima facie evidence proving the gains obtained by the infringer”, according to the current judicial practice, the criteria conducted by the court is not very strict. The prima facie evidence can be an evidence serving for presumption instead of a complete evidence for proving the exact profit. The gains obtained by the infringer is calculated by multiplying the sales volume of the infringing products with the profit of the sale of a single infringing product. Therefore, the right holder needs to provide the prima facie evidence for “the sales volume of the infringing products” and “the profit of the sale of a single infringing product”.

In the judicial practice, the most common method of providing the prima facie evidence of “sales volume of infringing products” is to collect the online sales data of the product. In each of the cases of Linda Liu & Partners where high damages are awarded, the sales volume on e-commerce platforms and product feedback information are collected for presuming a selling period of the infringing product, thereby calculating the sales volume. For an infringing product that is not sold online, the prima facie evidence can be obtained according to the specific situation of the case. For example, in a case where Linda Liu & Partners represented the plaintiff, we filed a request with court for accessing the original data of the tax record of the infringer as stored in the Tax Administration. From such original data, the sales volume of the alleged infringing product can be extracted or presumed.

It is harder for a right holder to prove “the profit of the sale of a single infringing product”. Due to the very objective difficulty of proof, the court has lower requirements for this proof. Usually, the right holder can provide the profit of his own product, the average profit in the industry, the profit of other companies in the industry, etc. as evidences, or the profit of the sale of a single infringing product can be presumed according to the overall profitability of the infringing company and the selling price of the infringing product.



### 3. Applicable Procedures and Results

Each court has its own procedures for the application of the order of discovery. For example, in a case before Beijing or Shanghai Intellectual Property Court, when the judge examines the substantial infringement facts in the pretrial conference or the hearing procedure and gives a preliminary determination on probable infringement, and examines the evidence submitted by the plaintiff for profit from infringement and holds that the evidence is a preliminary proof of the profit gained from the infringement, the judge will orally require the alleged infringer to submit financial information related to the profit of the infringing product within a certain period. The courts in Guangdong Province will more formally issue a written judgment and order the defendant to provide proof materials considered reasonable by the court.

If the defendant fails to provide the related evidence within the specified period, according to the rules for presuming hindering proof, the court will examine and verify the evidence and claims of the plaintiff to determine an amount of damages.

If the defendant submits the related evidence, the case will enter a further cross-examination procedure where the plaintiff gives a cross-examination opinion on the evidence submitted by the defendant, and then, the court determines whether the evidence can be accepted. Usually, if the evidence submitted by the defendant is only one-sided statistics or explanation, it is unlikely to be accepted by the court, which is basically equivalent to the failure to submit evidence.

If the defendant submits a large amount of account books and materials, the procedure will become more complicated. If the court approves the authenticity of the evidence, the case will further enter a judicial audit process where an accounting firm audits the profits of the alleged infringing products according to the submitted account books. Judicial auditing often takes a lot of time; and the audit fees shall be prepaid by the right holder. Moreover, since the financial records of some infringing companies are not formal, the final results may show little or no profit obtained from infringement, which, for the right holder, is time-consuming, labor-consuming, and money-wasting, and has the risk of not getting a



satisfying result.

#### **4. Summary and Suggestions**

In the current judicial practice, the court usually has a relatively positive attitude towards the use of the system of discovery for profit from infringement. Moreover, the judgment will generally be favorable to the right holder. However, as mentioned above, the application of the system also has certain risks. It is not always necessary in all cases to apply to the court to order the opposing party to submit evidence of profit gained from the infringement. The right holder needs to consider the specific circumstances of the case to choose a most favorable way for enforcement.