Decided on	May 14, 2008	Court	Intellectual Property High Court, Second Division
Case number	2007 (Ne) 10008		
- A case, with respect to plaintiff request for consideration for an employee invention concerning a method for manufacturing argatroban that is useful as a component of medicines such as antithrombogenic agents, which the court admitted			

References: Article 35, paragraph (3) and paragraph (4) of the Patent Act prior to the amendment by Act No. 79 of 2004

I. Outline of the case

1. The defendant in the first instance is a stock company whose purpose is to manufacture, process, and sell, etc. medicines, etc., and the plaintiff in the first instance is a person who had been employed by the defendant during the period from 1965 until September 1997, holding positions such as director of a pharmaceuticals laboratory.

In this case, with respect to the employee invention concerning a method of manufacturing argatroban that is useful as a component of medicines such as antithrombogenic agents, which the plaintiff transferred to the defendant, the plaintiff in the first instance lodged a claim against the defendant in the first instance for payment of 250,000,000 yen as a partial deposit of 16,125,891,912 yen or 12,031,658,355 yen as fair consideration and payment of arrearages, etc., in accordance with Article 35 of the Patent Act prior to the amendment by Act No. 79 of 2004 (hereafter referred to as the “Old Article 35”).

2. On December 27, 2006, Tokyo District Court as the court of first instance admitted the claims to the extent of payment of 12,000,000 yen as fair consideration and arrearages, and dismissed the other claims. Dissatisfied with this judgment, the plaintiff in the first instance filed this appeal, and the defendant in the first instance filed an incidental appeal.

II. Gist of the holdings of the court

1. Outline of this judgment

(1) In this judgment, as in the judgment in prior instance, the court examined the case by dividing the period into the period of working by the company (the period during which the defendant in the first instance was selling the active pharmaceutical ingredients of argatroban on its own; June 1990 through September 1999) and the period of the license (the period in and after October 1999 when the defendant in the

first instance granted Mitsubishi Pharma Corporation the exclusive license concerning patent, etc. related to argatroban; October 1999 through July 2017), calculated a fair consideration for each period, and made a comprehensive consideration of all circumstances including the treatment that the plaintiff in the first instance received from the defendant in the first instance. Consequently, the court admitted an amount of 45,000,000 yen as fair consideration for the employee invention, modified the judgment in the prior instance based on the appeal filed by the plaintiff in the first instance, and dismissed the incidental appeal filed by the defendant in the first instance.

(2) Calculation of fair consideration for the period of working by the company (See IV, 3, (4) of this judgment)

With regard to the calculation of fair consideration for the period of working by the company, the court recognized the following factors, and in conclusion, admitted 12,180,481 yen as fair consideration.

In this judgment, the court first calculated the amount of sales from argatroban business achieved by the defendant in the first instance (IV, 3, (4), A of this judgment) and recognized that the amount of sales that exceeds the sales achieved by exercising the non-exclusive registered right to work (excess sales), which could be achieved as the defendant in the first instance prohibited its competitors from working the invention, was 40% (B of the same item). Next, with regard to the calculation of the exclusive benefit, the court did not apply the profit rate calculation method asserted by the plaintiff in the first instance, but applied the method of calculating the hypothetical rate of royalty fee (C, (a) of the same item), and as described in the paragraph 2 below, recognized that the rate shall be 5% in light of the value, etc. of the Invention (C, (b) of the same item). With respect to the above-mentioned sales concerning argatroban business, based on the understanding that sales are based not only on the Invention but on all argatroban-related patents including the Invention, the court recognized that the degree of contribution by the Invention was not less than 20% (C, (c) of the same item), and that the interim interest should be deducted from this value (C, (d) of the same item). In addition, the court determined that the degree of contribution by the defendant in the first instance to the Invention was 90% (the degree of contribution by the plaintiff in the first instance was 10%) by stating what is described in the paragraph 3 below (D of the same item).

The points mentioned above, expressed in a formula, are as follows (see the Exhibit 2 of this judgment):

Fair consideration = amount of sales x excess sales (40%) x hypothetical royalty (5%) x degree of contribution by the Invention (20%) x degree of contribution by the plaintiff in the first instance (10%) x interim interest

(3) Calculation of fair consideration for the period of the license (see IV, 3, (5) of this judgment)

With regard to the calculation of fair consideration for the period of the license, the court recognized the following factors, and in conclusion, admitted 33,598,198 yen as fair consideration.

In 1999, the defendant in the first instance transferred its pharmaceutical business to Mitsubishi Pharma Corporation, and had since been obtaining royalties for the argatroban-related patents, including the Invention, which the defendant licensed to the said company (hereafter, the “License Agreement”). In this judgment, in consideration of the fact that the defendant in the first instance and Mitsubishi Pharma Corporation are in a special relationship, namely affiliated with each other, in addition to the fact that the royalty is low, the court held that the amount of income from the said nominal royalties is inappropriate when seen as a factor for calculating fair consideration, and did not apply the said amount. The court entered the judgments described in 4 below, recognizing that the amount of sales achieved by Mitsubishi Pharma related to exclusive sales (equivalent to excess sales) multiplied by the hypothetical royalty is equivalent to the effective income from royalties (IV, 3, (5), A of this judgment). Based on this, the court recognized the ratio of excess sales (IV, 3, (5), A of this judgment), hypothetical royalty (B of the same item), degree of contribution by the Invention (C of the same item), degree of contribution by the defendant in the first instance (D of the same item), and deduction of interim interest (D of the same item) in the same way as described in (2) above (there have been changes in the hypothetical royalty and degree of contribution by the Invention, which took place in fiscal 2004 when the substance patent, included in the argatroban-related patents, expired), and recognized the fair consideration stated above.

The points mentioned above, expressed in a formula, are as follows (see Exhibit 4 of this judgment):

Fair consideration = amount of sales of Mitsubishi Pharma x excess sales of Mitsubishi Pharma (40%) x hypothetical royalty (5%; 2.5% since fiscal 2004) x degree of contribution by the invention (20%; 100% since fiscal 2004) x degree of contribution by the plaintiff in the first instance

(10%) x interim interest

2. Hypothetical royalty

“ … The Invention is related to a manufacturing method, which is characteristic in that, compared with prior and existing manufacturing methods, it has reduced the manufacturing processes by two, permits easier refinement and syntheses of compounds with higher degree of purity, and enables more efficient, smoother condensation between bulky compounds with high steric hindrance. It is a groundbreaking invention that has overcome the defects and issues of prior and existing manufacturing methods and permits massive, low-cost production of highly pure argatroban (99% or purer) that can be used as medicine. Therefore, it is recognized that the existence of the Invention has been effective in discouraging other generic drug manufacturers from entering the market and in discouraging generic drug manufacturers existing in the market, which use old or similar manufacturing methods, from expanding their scale (page 49, lines 8 to 13 of the judgment in prior instance).

In consideration of these values of the Invention, it is difficult to say that the ratio of the amount equivalent to the royalty is small, and … if considered comprehensively along with the contents of the First License Agreement, examples in the field of pharmaceutical products, operating margins of Mitsubishi Pharma and in the pharmaceutical industry, and other factors, it is appropriate to recognize that the ratio of the amount equivalent to the royalty in consideration for the supply of active pharmaceutical ingredients mentioned above should be 5% (it is 3% in the judgment in the prior instance, but this is not appropriate).”

3. Degree of contribution by the defendant in the first instance

“It is recognized, as described in the part starting from page 44 of the judgment in prior instance, that: the high capability and skills of the plaintiff in the first instance greatly contributed to the completion of the Invention during the early developmental stage when the defendant in the first instance had just started its pharmaceutical business; on the other hand, the plaintiff in the first instance had been engaging in research jobs since he joined the defendant in the first instance as a chemical firm in 1965 and had been engaging in drug discovery research as the leader of the synthesis group since 1972, and therefore, the Invention was made in the process of

performance of duty itself by the plaintiff in the first instance; while the defendant in the first instance was not eager to obtain rights concerning the Invention, the plaintiff in the first instance recommended proceeding with a patent application and created descriptions, etc. himself and the request for examination of the application was filed immediately before the expiry of the time limit for the request as the defendant in the first instance was pressed to do so by the plaintiff in the first instance, and; on the other hand, the plaintiff in the first instance completed the Invention by making use of the knowledge and technologies accumulated by the defendant in the first instance as a chemical firm and Substance Patents 1 and 2 and use patents, etc., using the facilities of the defendant in the first instance, and gaining assistance from staff including researchers who belonged to the defendant in the first instance. It is also recognized, as described in the part starting from line 17 in page 50 of the judgment in prior instance, that: the process from commencement of research on a new drug to the granting of approval consists of various steps described in Exhibit 10-2 of the judgment in prior instance, “Process and Period of New Drug Development,” and work contents are specified as appropriate for each of the said steps; a large number of specialists are involved in the process from research and development to marketing, and in work after marketing, too, and; in fact, expansion of sales channels in the argatroban business was due greatly to the management efforts by the defendant in the first instance, such as the conclusion of an exclusive sales agreement with a company in the United States (conclusion of the First License Agreement, etc.). In this way, it can be said that establishment of the argatroban business including the Invention, expansion of sales channels, and success of the said business are due greatly to the management efforts by the defendant in the first instance. However, as mentioned above, the Invention is extremely effective and valuable. In light of the circumstances, such as the role played by the plaintiff in the first instance in identifying and solving the issues in establishing such an invention, it is not appropriate to underestimate the contribution by the said plaintiff to the Invention, even if the aforementioned duties and position of the said plaintiff in the company as an employee are taken into consideration.”

“The judgment in prior instance states, in the last four lines of page 69 and in the last one line of page 71 to the second line of page 72, that ‘reduction based on success probability’ should be undertaken in calculating fair consideration because the drug discovery business involves extensive research and development that often ends in failure. However, the circumstances described above do not constitute an

independent reason for reduction, but should be understood as a factor in considering the degree of contribution by the defendant in the first instance."

"If the process in which the Invention was made, the circumstances in which the plaintiff in the first instance ended up being involved in the said process, the position of the Invention in comparison to other inventions, the contents of sales efforts made by the defendant in the first instance, circumstances surrounding research and development for the development of new drugs, and other aspects, which are mentioned above, are considered comprehensively, it is appropriate to recognize that the degree of contribution by the defendant in the first instance is 90%.

4. Sales of Mitsubishi Pharma Corporation as a basis for calculating the royalty

"It can be understood that profits from the argatroban business, etc. succeeded by Mitsubishi Pharma Corporation from the defendant in the first instance in accordance with the License Agreement are not only returned to the defendant in the first instance directly as a royalty based on the License Agreement, but, in addition to this, are also planned to be returned indirectly to the defendant in the first instance through the process of profit allocation between the parent company and subsidiary, or between fellow subsidiaries, within a group of companies. It should be said that the economic rationality of the royalty in the License Agreement, which is mentioned in (a) above, can be explained reasonably only when this indirect return of profits is taken into account."

"Therefore, in calculating fair consideration for the Invention with regard to the period of the license, profit for the defendant in the first instance should be understood as an aggregate of all profits that are returned both directly and indirectly as mentioned above, and the amount of this profit should be understood as the amount equivalent to the royalty obtained by the said defendant, and it is not appropriate to calculate fair consideration for the Invention only with reference to the royalty based on the License Agreement.

In this case, it is difficult to determine the amount of the above-mentioned indirectly-returned profits individually and specifically. Therefore, in recognizing the amount equivalent to the royalty that provides a basis for calculating fair consideration, it is appropriate to first identify sales derived from the argatroban business included in the total sales of Mitsubishi Pharma and then multiply the

identified amount by a hypothetical royalty that is equivalent to the royalty that would be applied if the license were granted to another company."

"As is obvious from what has already been mentioned, the defendant in the first instance has spun off its pharmaceutical business and transferred it to Mitsubishi Pharma (TT Pharma), and the said defendant itself has withdrawn from the argatroban business. Considering this point, it is recognized that, effectively, the non-exclusive registered right to work of the defendant in the first instance was also transferred at the time of the above-mentioned business transfer. Therefore, it is understood that the sales of Mitsubishi Pharma mentioned in section "a." above includes sales based on the above-mentioned non-exclusive registered right to work in addition to the exclusive sales based on the patent in question (equivalent to the excess sales portion in the period of working by the company)".

Therefore, the amount of income from the royalties of the defendant in the first instance, which should be referred to in calculating fair consideration for the Invention, should be calculated not by multiplying the total sales of Mitsubishi Pharma mentioned in section "a." above by the hypothetical royalty, but by multiplying the hypothetical royalty by the amount obtained by deducting the sales based on the non-exclusive registered right to work from the said total sales.

And, as described in (4), B above, it is appropriate to understand that excess sales of the defendant in the first instance account for 40% of its sales and the portion of sales based on the non-exclusive registered right to work is 60%. Considering the fact that Mitsubishi Pharma replaced the defendant in the first instance as the licensee but there is no circumstance in which this point should be understood specially and differently, it is appropriate to recognize that excess sales of Mitsubishi Pharms concerning its sales (amount obtained by deducting the portion of sales based on the non-exclusive registered right to work from its total sales) is also 40%.

Accordingly, the amount of sales that provides a basis for the calculation of the amount of income from the royalty should be that obtained by multiplying the amount of sales recognized in section "a." above by 40%, and the amount of the royalty should be obtained by multiplying the said amount of sales by the hypothetical royalty (See the columns "Excess Sales of Mitsubishi WP" in (Exhibit 4) "Fair Consideration for the Period of Grant of License (October 1999 to July 2017))."