

Judgments of Tokyo District Court, 46th Civil Division

Date of the Judgment: 2006.6.8

Case Number: 2003 (Wa) No.29850

Title (Case):

A case wherein the court dismissed the plaintiff's claim against his/her former employer (the defendant) by holding that it was impossible to accept the argument that the amount of money that the plaintiff had received from the defendant as a reasonable value of an assignment of the rights to obtain patents and utility model registration on employee inventions and an employee device was insufficient for the amount of reasonable value as provided in Article 35 of the Patent Act, etc.

Summary of the Judgment:

The plaintiff, who was a former employee of the defendant, a stock company, had made five patented inventions and one device related to semiconductor nonvolatile storage and other devices during his employment by the defendant. In this case, the plaintiff demanded the payment of 200 million yen as a part of the reasonable value for his inventions and device under Article 35 of the Patent Act before revision by Act No.79 of 2004 and Article 11, para.3 of the Utility Model Act and delay damages thereon.

The major issues in this case included, in addition to those of technical significance and technical scope of each invention and device, and of whether the invention had been practiced by the defendant or any other company, (1) how to calculate the reasonable value of an employee invention when it has been practiced by the employer, etc. and has also been licensed to any other company, (2) how to calculate the reasonable value when the employer, etc., had concluded a comprehensive cross-license agreement with another company, and (3) what law should be designated as the governing law and whether to apply Article 35 of the Patent Act to the assignment of the right to obtain a foreign patent.

This court first held that "the amount of profit to be received by the employer, etc." provided in Article 35, para.4 of the Patent Act should be interpreted as "the profits from the assignment of something more than a mere nonexclusive license (granted to the employer, etc., under Article 35, para.1 of the Patent Act); in other words, the profits obtained by exclusive right to practice the invention, which are derived from a legal monopoly granted by the patent right or, in the case of a right to obtain a patent, right to demand compensation and a legal monopoly granted after the patent registration, or the profits in the form of royalties from any third party to whom the patent has been licensed." The court further held that "The profits from the exclusive

right to practice a patent should be considered as (1) the royalty revenue in the case where the patentee has licensed the patented invention to another company without practicing the patent itself, or (2) the patentee's profits earned by prohibiting other companies from using the invention in the case where the patentee has exclusively practiced the patented invention without licensing it to any other company; in other words, the profits (excess profits) that would be obtained when such prohibitive right against other companies let the employer earn sales (excess sales) that exceed the revenue that would have been gained by licensing the invention to other companies."

Furthermore, the court held that, if the employer, etc., has practiced the patented invention and, at the same time, licensed it to any other company, "whether such excess sales have been generated by the prohibitive right exercised by the patentee with regard to the patent must be decided by taking into consideration various factors such as (1) whether the patentee... has adopted an "open licensing policy" or... a "limited licensing policy" , (2) in the case where, there are a certain number of competing companies that have not obtained a license on the patented invention, whether such competing companies produce and sell similar products by use of an alternative technology to substitute the invention and whether there is a great technical difference between the alternative technology and the patented invention in terms of operation and effects, (3) whether the party with which the patentee has concluded a comprehensive license agreement, comprehensive cross-license agreement, etc., has practiced the patented invention or employed alternative technology instead of practicing the invention, and (4) whether the patentee has not only practiced the patented invention but also employed alternative technology at the same time or at another time." In this case, the court held that, based on the facts that (1) the defendant itself had scarcely practiced the patented inventions, etc., (2) the defendant had concluded comprehensive cross-license agreements with several major competing companies and licensed the inventions, etc., under those agreements together with thousands of other patented inventions, etc., and the defendant had also adopted an open licensing policy and concluded comprehensive license agreements with some companies, and (3) the competing companies to whom the inventions, etc., had been licensed employed effective alternative technology, it would be impossible to find that the competing companies were unable to produce and sell products because they were not licensed the patented inventions, etc., or that the defendant earned excess sales from the exercise of the prohibitive right based on the patents, etc. With regard to the calculation of the reasonable value in the case where a comprehensive cross-license agreement had been concluded, the court held that "Since a comprehensive cross-license agreement is designed to allow mutual licensing of many patented inventions, etc., between the parties thereto, the benefits that one party can gain by licensing its patented inventions, etc., to the other party are the benefits from becoming able to exploit many patented inventions of the other party for free; in other

words, the discharge from the obligation to pay royalties to the other party... It would be reasonable, except for extraordinary circumstances, to understand that a comprehensive cross-license agreement, which is designed to exempt the parties from payment of royalties to other parties, has been concluded between commercial companies, which are expected to conduct rational transactions, in anticipation of the likelihood that the total amount of royalties payable to each other will be about the same. Therefore, in the case of a comprehensive cross-license agreement, it would be also reasonable to calculate “the amount of profit to be received by the employer, etc.” based on the royalties to be received from the other party as compensation for its exploitation of the licensed patented inventions... It is common in the semiconductor industry to conclude a comprehensive cross-license agreement covering thousands or even more than tens of thousands of patents. In such case, any patent other than several patents offered to the other party as representative patents and accepted by the other parties as such patents should be regarded as being licensed, together with many other patents, as one of those thousands or ten thousands or more without thorough examination. In the case of such a patent, it is obviously impossible to presume that the patent has been practiced by the other party just because the patent is one of the patents covered by the comprehensive cross-license agreement... Although such a patent should be considered to have made some contribution to the conclusion of a cross-license agreement because such patent is, in fact, covered by said agreement, the proportion of contribution by such a patent should be calculated by subtracting, from the total amount of contribution, the proportion of contribution by representative patents and the patents that have been actually practiced by the other party. Thus, the proportion of contribution by a patent that is not included in the representative patents or has not been practiced by the other party should be considered to be negligible in the comprehensive cross-license agreement concerning semiconductor-related patents, because in most cases, the proportion of contribution by representative patents and the patents that have been practiced by the other party should be considered to account for most of the total contribution made by the patents covered by the agreement, and the fact that the number of patents that are not included in the representative patents or in the patents that have been practiced by the other party is extremely high as mentioned above. Therefore, any patent licensed under a comprehensive cross-license agreement concerning semiconductor-related patents should be regarded as making only negligible contribution to the conclusion of said agreement in substance unless the patent is one of the representative patents or has been exploited by the other party. For this reason, in the case of such patent, the “amount of profit to be received by the employer, etc.” as provided in Article 35, para.4 of the Patent Act should be considered to be zero.” In consideration of the narrow technical scope of the employee inventions, the existence of alternative technologies, and various documents submitted by the plaintiff as evidence, the court found that the competitor that had been

licensed the employee patents cannot be considered to have actually practiced those inventions. Regarding the governing law applicable to the assignment of the right to obtain a foreign patent, etc., the court held that “Since the agreement to assign the employee inventions was concluded in Japan between the defendant, who was a Japanese company, and the plaintiff, who resided in Japan and made the inventions as an employee of the defendant, the governing law applicable to the validity and effect of the assignment agreement should obviously be the Japanese law, even if the parties to the agreement have not explicitly agreed on which country’s law should be designated as the governing law, because the parties are presumed to have implicitly agreed to designate the Japanese law as the governing law. Therefore, the governing law applicable to the agreement to assign the right to obtain a patent on the third patented invention (including the right to obtain a foreign patent) should be interpreted as the Japanese law in accordance with Article 7, para.1 of the Act on Application of Laws in General. Even if the parties to the agreement have not made explicit agreement on the governing law, it is obvious that the Japanese law should be presumed to have been designated as the governing law under Article 7, para.2 of the said Act.” With regard to the applicability of Article 35 of the Patent Act to the assignment of the right to obtain a foreign patent, the court found that “Since Article 35 of the Patent Act is designed to balance the interests of an employee and the employer in Japan with regard to the ownership and use of employee inventions made under the employment agreement, the ownership, use, and assignment from the employee, etc. to the employer, etc. of the right to obtain a patent (including a foreign patent) on an employee invention made in Japan shall be centrally governed by the law established based on the industrial policy of Japan to which the employer and employee belong. The so-called principle of territoriality requires that establishment, assignment and effects of patent rights, the procedural and substantive requirements for grant of patent, the procedural and substantive requirements for effective patent assignments, and the effect of the patent shall be subject to the patent law of the country where the patent is granted (see judgment of the Third Petty Bench of the Supreme Court of July 1, 1997, Minshu Vol. 51, No. 6, 2299). It is therefore obvious that the principle does not require that even issues on establishment and effect of an agreement on assignment of a right to obtain a patent or on the amount to be paid under such an agreement as consideration of assignment of the right also be subject to the national law such as the patent law in the country where a patent was granted based on the right to obtain a patent, regardless of the fact that such an agreement is only preconditions of an assignment of the right to obtain a patent. As mentioned above, the effect of an agreement on assignment from the employee, etc. to the employer, etc. of the right to obtain a Japanese or foreign patent for an employee invention made in Japan shall be centrally governed by the law established based on the industrial policy of Japan in order to balance the interests

between the employee, etc, and the employer under the employment agreement and to encourage inventions.” Thus, the court concluded that Article 35 of the Patent Act shall apply to the right to obtain a non-Japanese patent.

Based on these grounds, the court found that the reasonable value for the patented inventions and device shall be calculated as 3,966,305 yen in total based on the four comprehensive license agreements for which conclusion the defendant specifically indicated to the other parties that the plaintiff’ s employee inventions would be covered.

The calculation of the reasonable value of each patent, etc., was made by multiplying the royalties for the patent by the proportion of contribution by the patent to the comprehensive license and again by the proportion of contribution by the employee to the making of that invention (5%). The court concluded that, since the plaintiff had already received a total amount of 4,805,490 yen, the amount received by the plaintiff as a reasonable value of the plaintiff’ s inventions, etc., may not be considered to be insufficient for the reasonable value specified in Article 35 of the Patent Act.

This judgment is a useful reference for law practitioners as the court presented its general views in detail on each issue raised in this case concerning the reasonable value of employee inventions, which is a hot topic these days, and carefully applied the views to particularities in this case.

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