Judgments of Osaka District Court, 21th Civil Division
Date of the Judgment: 2006.2.21
Case Number: 2004(Wa)No.13073

Title (Case):
A case wherein the court accepted a part of the plaintiff's claim for reasonable value for the right to obtain patents on a classifier that had been assigned to the defendant as employee inventions

Summary of the Judgment:

This is a case where the plaintiff, who was an employee of the defendant, demanded the payment of two billion yen as a part of the reasonable value for assigning the right to obtain patents for employee inventions related to a classifier jointly invented by the plaintiff and other employees under Article 35, para.3 of the Patent Act (before the revision by Law No.79 of 2004) and delayed damages thereof.

The classifier was used in the process of taking out particles of particular diameters in the course of producing plastic particles (spacers) as small as a several microns. Those particles were produced for use as gap spacers designed to maintain the same thickness of the liquid crystal layer of liquid crystal panels (liquid crystal displays) produced and sold by the defendant.

The inventions disputed in this lawsuit were dependent inventions made based on the independent invention recited in Claim 1 of the patent concerning a classifier. The independent invention recited in Claim 1 had been worked by the defendant as its corporate know-how from before the filing date of the patent application. The plaintiff was not involved in the independent invention. The point of issue in this lawsuit was whether the subsequent inventions made jointly by the plaintiff and other employees not only increased the efficiency (productivity) of classification achieved by the independent invention but also raised the precision of the classification, and how much the efficiency was improved.

Based on production data, the court found that the productivity increased by about 1.5 times. Regarding the plaintiff's argument that the improved classifier in which the disputed inventions recited in Claim 2 and Claim 3 were worked raised the precision in measuring the particle diameters and increased the operating efficiency fivefold, the court dismissed such claim by holding that although such improvements were predicted in a report prepared by an employee of the defendant, it was no more than merely a prediction. Regarding the plaintiff's claim that the amount of reasonable value would not be affected by whether or not the plaintiff's inventions had raised the performance of the improved classifier because the performance was dependent on conditions for

classification, the court concluded that it would be up to the defendant to decide under what conditions it exploits the inventions, and therefore that, even if the defendant does not work the inventions under the conditions requested by the plaintiff, it would not constitute a reason for calculating the amount of cost reduction preferably for the plaintiff.

Moreover, the court found that the conventional classifier could have produced spacers with higher precision in terms of the particle diameters if the defendant had spent enough time, and that the profits gained by the defendant from the improved classifier were the profits generated from the effect of the increase in the productivity of the classifier that enabled the defendant to cut costs for the installation of classifiers.

On the other hand, the defendant argued that it had not gained any exclusive profits from the plaintiff's inventions because those inventions were dependent inventions of the plaintiff's independent invention. The court dismissed the defendant's argument by holding as follows. If the defendant had owned only a patent for the independent invention, competitors who desire to work the plaintiff's dependent inventions could have considered that there was a reason for invalidation of the patent for the independent invention or that the working of the plaintiff's dependent inventions falls outside of the technical scope of the independent invention, which may bring about a practical possibility of encroachment to the monopoly conferred by the patent. On the other hand, if the defendant owns the patents for the dependent inventions as well, the possibility of such encroachment by competitors would be almost zero. Also, if the plaintiff has not assigned the dependent inventions but has only had nonexclusive licenses for the patent rights on these dependent inventions held by the plaintiff, the employees, including the plaintiff, who had invented the dependent inventions could assign to third parties the right to obtain a patent on each of these inventions. Such third parties could have demanded consultation with the patentee of the independent invention and the Commissioner's award of nonexclusive license for the independent invention (Article 92 of the Patent Act). As a result, the defendant was only able to gain royalties for the independent invention. (On the contrary, if the defendant acquired the right to obtain patents on the dependent inventions from its employees and actually obtained the patent rights, the defendant could have gained royalties not only for the independent invention but also for the dependent inventions,) Also, the defendant's argument that the amount of cost reduction enjoyed by the defendant would have remained the same even if the dependent inventions had been worked by third parties was not acceptable because, in addition to the fact that the cost reduction would have a direct effect on the profits to be gained by the defendant, if the defendant can prohibit third parities from exploiting the dependent inventions, the defendant also could increase its competitiveness in the market.

Then, the court calculated the amount of cost reduction during the term of the patent by comparing the cost between the case where the defendant used the classifier in which the dependent inventions had been worked and the case where the defendant continued to use only the conventional classifier. When doing so, the court held that the interim interest accrued before the final due date of payment of reasonable value (June 20, 2003) should be deducted, and that the amount of cost reduction during the period from the day when the patent application was laid open to the registration date thereof should be reduced by half because the degree of monopoly in the period was different from that after the registration.

Regarding the extra sales gained by the defendant as a result of prohibition by the patent of its competitors' use of the dependent inventions, the court decided that such sales may be calculated based on the royalties that the defendant could have obtained by licensing its competitors to use the improved classifier. Then, the court pointed out that there was no sufficient evidence to suggest which ones were more efficient between the classifier and classification method used by the competitors and the ones made possible by the independent invention and the dependent inventions. The court also pointed out the possibility that a new classifier or method might be developed in the future. The court concluded that, even if the classifier and classification method made possible by the dependent inventions were more efficient than the ones adopted by the competitors, and the defendant granted license to the competitors to work the dependent inventions, the competitors would not have been able to achieve as much cost reduction in total as the defendant did, because the defendant's market share was no fewer than 70% to 75%. Based on this reasoning, the court decided to calculate the extra sales based on the amount of royalties that would have been gained by the defendant if it had licensed other companies to work inventions that would bring about cost reduction equal to one third of the cost reduction achieved by the defendant.

With regard to the royalty rate to be used for calculating the reasonable value, the court held as follows. In general, a royalty rate set for the licensing of a patent was a coefficient to be multiplied by the sales to calculate the amount of royalty. Since cost reduction would directly affect the profits, if a court assumes that a patented invention that could bring about profits through cost reduction has been licensed to third parties, the court should calculate the amount of royalty income that would be sufficient to generate profits equivalent to the cost reduction. Therefore, the sales that would be sufficient to generate profits equivalent to the cost reduction should first be calculated by dividing the amount of cost reduction by the profit rate. Then, the royalty income should be calculated by multiplying the sales by the average royalty rate for the products produced by use of the patented invention.

Moreover, the court found that the improved classifier was produced by improving the conventional classifier using not only the dependent inventions but also know-how owned by defendant. In consideration of the fact that such know-how had also contributed to an increase in the efficiency of classification, the court determined that the contribution rate of the dependent inventions to the cost reduction was not less than 50%, and therefore that the royalty rate applicable to this case should be set as 3.25%, equal to a half of the average royalty rate of 6.5% for special industrial machinery.

The court also found that the contribution rate of the employer should be considered as 95% of the total, and the plaintiff' s contribution rate among joint inventors should be regarded as 80%, and based on these rates, calculated the reasonable value to be received by the plaintiff.

Regarding the extinctive prescription argued by the defendant, the court held as follows. The right to demand reasonable value for an employee invention was a divisible claim and should be regarded that the period of prescription starts from the time of the payment due date for each part thereof. Regarding the defendant' s argument that the period of extinctive prescription for the right to demand reasonable value should be considered to start from the time when the defendant acquired the right to obtain the patents because the defendant' s internal rules had no provision on the due date of payment of compensation to an employee inventor as compensation for defendant' s working of an employee invention, the court held as follows. The right to receive reasonable value arises in its entirety at the time of assignment of the right to obtain a patent. The defendant' s internal rules, which specified the compensation at the time of filing of an application and the compensation at the time of registration, may be considered to set the time of payment in relation to the right to demand reasonable compensation that had already arisen. If two or more due dates of payment were set in relation to a right to demand compensation (i.e., if an agreement for installment payment was made), the final payment due date should be regarded as the due date for payment of the remaining amount calculated by subtracting the already-paid amount from the total amount to be paid. The court explained the reasons for the above holding as follows. The right to receive reasonable value took effect when the employer succeeded from the employee the right to obtain a patent. At that point of time, the amount of reasonable value was considered to be determined objectively. However, in practice, the amount of reasonable value tends to become clearer over time because the calculation of the amount will factor in subsequent events such as the filing and registration of the application for the said invention and working or non-working of the invention. Therefore, it would be appropriate to designate the final payment due date, when the amount of compensation would become clearer, as the payment due date for the remaining amount of the compensation. Such arrangement would be agreeable to both the employer and the employee.

Based on these grounds, the court dismissed the defendant' s defense of extinctive prescription by holding that the prescription had not been completed.

I' d like to make sure this is the correct meaning.