
Decisions

A Recent Court Decision on Patent Damages

Jinzo Fujino*

I. INTRODUCTION

Japan is a civil law country. Compared with common law countries, damages recovery theories are discussed in a relatively small number of patent cases. In recent years, however, the number of cases addressing damage issues has modestly increased. In one recent case involving a process patent, a district court provided a detailed analysis of the calculation of lost profits and a reasonable royalty.

In March, 1994, the Shizuoka District Court rendered a decision in the case of "*RIMAC and Teijin Ltd. v. Asahi Chemical Industries, et al.*" The case involved a process patent for drug compounds. Lengthy arguments were made with respect to liability issues (a summary of these issues is provided in this issue of the *AIPPI Journal*, see page 244.) This article singles out the issue of damages and focuses on the analysis of the basis for calculating damages.

II. FACTS AND BACKGROUND OF THE CASE

On January 9, 1974, the Research Insti-

tute for Medicine and Chemistry Inc. (RIMAC) filed a Japanese patent application claiming priority based on two U.S. applications. This patent application related to a method for manufacturing 1 alpha-hydroxy vitamin D compounds. On May 8, 1975, Teijin obtained from RIMAC an exclusive license under a pending application wherein Teijin agreed to pay 3% of the "net sales price" of the licensed product as a running royalty. A patent was granted on November 14, 1983 and Teijin registered the license as a "*sen-yo jisshiken*" (exclusive license) in the Patent Register on January 28, 1991. This patent expired on January 9, 1994.

From July 1990 through August 1992, Asahi Chemical imported unprocessed 1 alpha-hydroxy vitamin D₃ material manufactured in the Netherlands by Duffer B/V. Part of the imported materials were sold to Fuso Yakuhin Kogyo for the preparation of an osteoporosis drug "Elsibon" for sale by Fuso, while the remainder were encapsulated by Tokai Capsule Co. for sale by Asahi under the name "Toyofarol."

Teijin and RIMAC sued Asahi and Tokai, claiming damages for patent infringement by "Toyofarol." The plaintiffs also claimed Asahi was jointly liable for Fuso's infringement in manufacturing and selling "Elsibon" under the Civil Law. Rejecting all the defenses argued by the de-

* Director of Operations, Morrison & Foerster, Tokyo

fendants with regard to the liability issues, the court awarded lost profits damages to Teijin and a reasonable royalty to RIMAC.

III. NET SALES AMOUNT

1. "Toyofarol" by Asahi and Fuso

To determine the actual sales amount, the court first attempted to calculate the nominal sales amount based on officially listed prices approved by the government under the health insurance system and the number of infringing products actually sold. Statistical data submitted as evidence established that the number of capsules manufactured and sold by Asahi and Fuso during the infringement period was 34,221,000 units. The court concluded that the nominal sales amount based on the listed price was ¥3,942,000,000 ... (A).

The court recognized that, in the case of generic drugs, the actual sales price is substantially lower than the listed price. In this respect, the plaintiffs argued that the actual price was somewhere between 42–56% of the listed price while the defendants countered that 30–35% was the actual price.

Based on the evidentiary record, the court found that the actual sales amount was 40% of the amount (A), namely ¥1,576,800,000 ... (B).

In determining the costs to be subtracted from the actual sales amount (B), the court found that the deductible wholesale margin would be 13% of the actual sales amount, which comprised a wholesale back margin, rebates and premiums for sales promotion. Thus, the deductible cost was ¥204,984,000 ... (C).

In addition to this wholesale margin, the court determined that distribution costs were also deductible; these costs amounted to ¥7,702,000 ... (D).

Thus, the net sales price of "Toyofarol"

was ¥1,364,114,000 ... (E).

2. "Elsibon" by Fuso

Applying the same reasoning and the same evidentiary record used for "Toyofarol" to "Elsibon," the court determined the nominal sales amount of "Elsibon" was ¥2,108,600,000. There is no evidence to negate the 40% threshold price's application to "Elsibon" so the actual sales amount was ¥843,440,000 ... (F).

As for the wholesale margin deductible from the actual sales amount, the same percentage, *i.e.*, 13%, was applicable. Thus, the wholesale margin was determined to be 13% of (F), namely ¥109,647,200 ... (G).

With regard to the distribution costs, the same factors used for "Toyofarol" were applicable to "Elsibon." Using the equation $(D \times F \div B)$, the deductible distribution cost was calculated as ¥4,119,847 ... (H).

As a result, the "Elsibon" net sales price of ¥729,672,953 is obtained by the equation: $(F - G + H)$... (I).

IV. DAMAGES

1. Patentee

Regarding the amount which RIMAC is entitled to receive as damages in this case, the court found 3% as the basis for calculation in view of the agreed rate of 3% in the license agreement between RIMAC and Asahi and held:

[T]he amount ... is obtainable by multiplying the net sales prices, which are calculated by subtracting the wholesale margin and the distribution cost from the actual sales amounts of [Toyofarol] and [Elsibon], with a 3% royalty, which is an ordinary rate.

With the specific net sales prices calculated above, the amount of damages is calculated as follows, totalling ¥62,813,608 ... (J).

[Toyofarol]: $1,364,114,000 \times 0.03 =$
 $40,923,420 \dots$ (J1).
 [Elsibon]: $729,672,953 \times 0.03 =$
 $21,890,188 \dots$ (J2).

2. Exclusive Licensee

(1) Statutory Basis

Article 102 (1) of the Japanese Patent Law, the basis for a lost profit claim by the plaintiffs, sets forth;

Where a patentee or exclusive licensee claims, from a person who has intentionally or negligently infringed the patent right or exclusive license, compensation for damage caused to him by the infringement, the profits gained by the infringer through the infringement shall be presumed to be the amount of damage suffered by the patentee or exclusive licensee.

There is no doubt that Teijin, the exclusive licensee, has been manufacturing and selling the licensed product, and it can be inferred that Teijin was commercially damaged by the infringing product. The court stated;

The amount of damages recoverable by Teijin can be presumed, under Article 102 (1) of the Patent Law, to be the profits which the defendants and Fuso gained by manufacturing and selling their [infringing products] for the period of infringement.

Article 102 (1) of the Patent Law intends to compensate the owner of the right for his loss actually caused. Thus, the amount of damages receivable by Teijin shall be the amount of the profits gained by the defendants and Fuso less the [reasonable] royalty, payable to RIMAC.

Where a patentee or exclusive licensee claims, from a person who has intentionally or negligently infringed his patent right or exclusive license, compensation for damage caused to him by infringement, the profits gained by the infringer through the infringement shall be presumed to be the amount of damages suffered by the patentee or exclusive licensee.

(2) Profits of Infringers

In order to determine the exact amount of profits received by the defendants and Fuso, the court found it reasonable to exclude manufacturing costs, such as costs for purchasing materials, encapsulation, packaging, marketing and administration. These deductible costs totalled ¥798,878,670 ... (K).

In addition to these manufacturing costs, the defendants attempted to exclude costs in the amount of ¥164,000,000 for research and development in connection with the manufacture of "Toyofarol."

The court rejected the exclusion of R & D costs, stating:

[T]hese costs [for R&D] were necessary to obtain, from the governing authority, an approval for the manufacture of "Toyofarol." Once approved, however, "Toyofarol" was regarded as a property whose value as an asset is tantamount to the amount invested for [R&D]. That property is also assignable. Under these circumstance, the R&D costs can be regarded as costs for a drug approval but not for actual R&D.

As for "Toyofarol," the amount of damages can be obtained by subtracting the manufacturing costs (K) from the net sales price (E), amounting to ¥565,235,330 ... (L).

For "Toyofarol," the actual amount awarded to Teijin was obtained by subtracting the reasonable royalty to RIMAC (J1) from the damages amount (L), to equal ¥524,311,910 ... (M).

The ratio of the damages amount to the net sales price of "Toyofarol" is thus 0.414, which is applicable to "Elsibon." The amount of damages awarded in connection with "Elsibon" was obtained by multiplying the net sales price of "Elsibon" by this ratio, equalling ¥302,347,848 ... (N).

Teijin's damages in connection with "Elsibon" were thus ¥280,457,650 (N = J2), for which Asahi is liable jointly and severally.

V. CONCLUSION

With the patent at issue, the plaintiff had adopted an aggressive licensing campaign with a number of drug manufacturers in Japan. In cases where license negotiations were unsuccessful, parties have

sought solutions before the court. This judgment was rendered in one of those cases. The court heard arguments on the damages issue and analyzed the basis for calculation of damages in detail.

In addition to the detailed analysis of factors applicable to the damages calculation, this case had another interesting aspect: the division of lost profits for the exclusive licensee and reasonable royalty for the patentee. In Japan, a patentee's (or exclusive licensee's) burden of proof on causation is relieved by Article 102 (1) of the Patent Law. Unless the defendant proves that the presumption is invalid, the profits of an infringer are found to be the lost profits of the patentee or exclusive licensee.

(The author expresses sincere appreciation to Mr. Yoshio Kumakura, Partner of Nakamura & Partners, for his kind advice on, and review of, this article.)