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1. DAMAGES FOR PATENT INFRINGEMENT

Captain Industries Co., Ltd. v. K.K. Kinjo Denki Seisakusho
Tokyo District Court, (29th Civil Div.)/September 21, 1994/
Case No. 95(wa)10671
Patent Law, §102 (2)

Action for damages measured by a reasonable royalty and attorneys' fees for both preliminary injunction claim and damages claim.

FACTS

Captain Industries, the Plaintiff, obtained from a Swiss patentee a sen-yo jisshi-ken (exclusive license) under a Japanese patent relating to flexible pipe. The exclusive license agreement was executed on September 12, 1982, and the license was registered in the Patent Register on August 26, 1983. Under the agreement, Captain agreed to pay to the patentee a royalty at the rate of 11% of the total sales of licensed products. The patent in suit expired on February 13, 1994.

For the period from September 1, 1987 to November 30, 1990, Defendant Kinjo manufactured and sold 1,359 flexible pipes. Kinjo's sales were ¥33,585,999 for this period. (There was no argument about this figure between the parties.)

The Plaintiff, Captain, sought a preliminary injunction to prohibit Kinjo and its distributor, Neoflex, from selling the allegedly infringing pipes manufactured by Kinjo. A preliminary injunction was ordered by the court. The Plaintiff also filed a claim for a permanent injunction and destruction of the infringing products. This claim was subsequently withdrawn because of the expiration of the patent during the pendency of the claim. This decision concerns a damages claim the Plaintiff filed against Kinjo.

The patent claim consists of four elements, and there was no argument about the fact that the Defendant's product contains elements, 1, 2 and 4.

ISSUES

1. Whether the Defendant's product has a component that could be construed as corresponding to element 3 of the patent claim; and
2. If so, what amount of damages would be appropriate under Section 102 (2) of Patent Law.

HOLDING

1) The court found that there was a component of the Defendant's product that corresponded to element 3 of the patent claim, thus holding that the product infringes the patent in suit.

2) Damages

Reasonable Royalty

Although the initial agreement on the royalty rate was 11%, the parties to the agreement later agreed to reduce it to 7.5% for the year of 1989, to 6% for each of the years 1990 and 1991, and to 5% for each of the years 1992 through 1995.

The court found the rate of 7.5% most appropriate as the amount which the Plaintiff would normally be allowed to receive under Section 102 (2).

Thus, damages suffered by the Plaintiff were calculated at ¥2,518,000 (7.5% of the total sales amount in rounded figures).

Attorney Fees

In order to protect its position as the exclusive licensee, the Plaintiff was obliged to take legal action to prevent Kinjo and Neoflex from marketing their products. Although Neoflex is not a party to the damages case, it is clear from the evidence that Neoflex has a close relationship with Kinjo. Their relationship is witnessed by the fact that the offices of Neoflex are located in the offices of the Defendant, and that the President of the Defendant is a director of Neoflex.

If causation between the infringement of Neoflex and legal fees for the injunction claims can be established, the Defendant, Kinjo, should be liable for the attorneys' fees of Captain. The court found that ¥1.6 million should be paid by the Defendant based on the following findings:

Neoflex purchased at least some of the infringing products manufactured by the Defendant and sold them to others. Such a sale by Neoflex constitutes infringement of the exclusive rights that the Plaintiff was licensed under the patent in suit. In view of the close relationship between the Defendant and Neoflex, a joint tort can be found so far as the sales of the infringing product by Neoflex are concerned. Thus, the Defendant shall be liable even for damages caused by the illicit acts of Neoflex. Out of attorneys' fees, which the Plaintiff paid for the claim of preliminary injunction to cope with Neoflex's sale of the infringing product, and for the damages claim, the Defendant was found liable for attorneys' fees caused by the

infringement by Neoflex to the extent causation is established.

COMMENTS

This is an unusual case that awarded damages, including legal fees, not only for the damages action but also for a preliminary injunction claim. A legal fees award against a party to the preliminary injunction claim, which is not necessarily a party to the damages action, seems a fairly new approach.

Another point of interest is the court's interpretation of Section 102 (2), which is well known as the clause setting forth a reasonable royalty as part of damages.

The Patent Law, Section 102 (2), provides as follows:

A patentee or exclusive licensee may claim, from a person who has intentionally or negligently infringed the patent right or exclusive license, an amount of money that he would normally be entitled to receive for the working of the patented invention, as the amount of damage suffered by him.

This provision has often been regarded by foreign practitioners as amounting to a sort of "compulsory license," even in cases of willful infringement. Under this provision, they complain, damages equal to a reasonable royalty would be an acceptable business risk to potential infringers since the total amount of these damages often turns out to be small. The purpose of this provision is, however, to facilitate the calculation of damages in patent infringement cases. It is not intended to be a sanction.

In this case, the Plaintiff claimed that a reasonable royalty would be 22%, half to be returned to the patentee and the rest for the Plaintiff. Although the Plaintiff did not use any specific language requesting punishment, it may be that the 22% claim, which is much higher than standard royalty rates, was intended to be punitive. Without mentioning the 22% claim, the court even rejected the adoption of the 11% rate, although it was an established royalty in this case.

Finally, it should be noted that the court elaborated its findings of the liability issue but this article put more emphasis on the damages issue.

(Jinzo Fujino, Director of Operations, Morrison & Foerster, Tokyo)