

## JAPAN

## Damages awarded based on LED-equipped TV for LED patent infringement

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### Summary of the case

Nichia Corporation (Nichia) is the owner of patents entitled ‘Light emitting device and display device’ (JP5177317, Patent 1), ‘Light-emitting device, resin package, resin mold and manufacturing methods thereof’ (JP6056934, Patent 2), and ‘Light-emitting device, resin package, resin molding and method for manufacturing them’ (JP5825390, Patent 3).

During the period from January 2014 to December 2016, Toshiba Visual Solutions Corporation (Toshiba Visual), etc. have imported, assigned, and offered for assignment of LCD TVs designed and manufactured by foreign manufacturers. The LCD TVs were equipped with the LEDs.

Nichia sought an injunction and damages against Toshiba Visual arguing that Toshiba Visual’s sale of LCD TVs equipped with LEDs infringed the above Nichia patents.

The Tokyo District Court awarded ¥17,956,641 (approximately \$165,100) for damages.

### Judgment of November 18 2020, IP High Court

The IP High Court (Presiding Judge Mori) affirmed that it was reasonable to accept all of Nichia’s claims for damages and awarded the payment of ¥132 million (approximately \$1.21 million), holding as follows.

### Article 102(3) of the Patent Act

“The amount equivalent to the amount of money which would have been entitled to receive for the working of the patented invention” prescribed in Article 102 (3) of the Patent Act.

Article 102 (3) of the Patent Act is the provision legally mandating the minimum amount of damages that the patentee can claim in the case of patent infringement. The damage pursuant to the paragraph should be calculated by multiplying sales of the infringement product as a reference by a rate, which would have been entitled to receive for the working in principle.

In the case of a license agreement of a patented invention, it is not obvious yet whether belonging to the technical scope or the patent should be invalidated or not, a royalty rate is determined in advance under circumstances usually with various contractual restrictions such that a licensee pays a minimum guarantee amount and cannot claim return of the paid royalty even in the case where the patent is invalidated. However, regarding the “amount equivalent to the amount of money which would have been entitled to receive for the working of the patented invention” prescribed in the paragraph, in view that the infringer is not responsible for the contractual restriction as above if the patent infringement is applicable since the patent belongs to the technical scope and should not be invalidated and considering the legislation history of revision of the Patent Act, the calculation of the damage on the ground of the paragraph should not necessarily be based on the royalty rate in the license contract on the patent right.

Such a fact should be considered that the rate, which should be determined ex-post for those who committed patent infringement, and would have been entitled to receive for the working, would be naturally higher than a usual royalty rate. A reasonable royalty fee rate should be determined by comprehensively considering:

- i) The royalty rate in the actual license of the patented invention, or when it is not obvious, the market price of the royalty rate and the like in the industry;
- ii) The value of the patented invention itself; that is, the technical contents, importance, alternativeness, and the like of the patented invention;
- iii) Sales, contribution to profits, and the mode of infringement when the patented invention is used for the product; and
- iv) Circumstances appearing in the suit such as competitive relations between the patentee and the infringer, business policies of the patentee, and the like.

### Calculation of royalty rate

#### Basis to be multiplied by license fee rate (royalty basis)

- a) In addition to the point pointed out on Article 102(3) of the Patent Act, in view of the circumstances that:
  - i) The present LED was mounted on direct type backlights and used in Toshiba Visual’s product, but it should be considered that the direct type backlights is one of main components mounted inside Toshiba Visual’s product, which is a LCD TV and cannot be easily separated from Toshiba Visual’s product;
  - ii) Performances of the LED largely influence the image quality of the LCD TV, and what LED would be used and how it would be manufactured also influences manufacturing costs; and
  - iii) Toshiba Visual sold their product as a final product taking advantage of LEDs characteristics and earned profit from the sales of the products, it is reasonable to calculate the amount equivalent to the royalty rate in Article 102 (3) of the Patent Act on the basis of the sales of Toshiba Visual’s product.
- b) Toshiba Visual asserts that contribution of Patents 1 to 3 is limited to the LED chip, but that cannot be employed. Moreover,

Toshiba Visual asserts that the LED chip independently has objective market value. However, even if it is true, in view of the circumstances in the aforementioned (a)(i) to (iii), it is not reasonable to have the price of the LED be the basis of the royalty in this case. The direct type backlights are also found to have an independent market value, but in view of the aforementioned circumstances in (a)(i) to (iii), it is not reasonable, either, to have the price of the direct type backlight be the basis of the royalty.

Moreover, Toshiba Visual asserts that if the final product is used as the basis for calculating the royalty rate, the higher the price of the final product in which the present LED is mounted, the higher the amount of the royalty rate becomes. However, if the present LED is mounted on the product with a higher price and yields a higher amount of income, it is not unreasonable to claim the royalty rate according to the contribution degree of the present LED to the sales of the product.

#### Royalty rate

By comprehensively examining those described in the aforementioned, combined with the description on the royalty rate made on the Article 102 (3) of the Patent Act and the other circumstances related to the characteristics and the range of the royalty rates, values of the white LED using the YAG phosphor in the related technical fields, it is found that the royalty rates of Present Inventions 1 to 3 in the period from January 2014 to December 2016 (however, for Present Patent 3, October 23 2015 and after, and for Present Patent 2, December 16 2016 and after) should be considerably high numerical values not falling under 10%.

Toshiba Visual's product, which is a LCD TV, is made of a large number of components other than the present LED, and it is not reasonable to apply the aforementioned royalty rate. However, the technology of Present Inventions 1 to 3 can be

considered to be greatly utilised as the white LED for a back monitor of a LCD TV, and moreover Toshiba Visual's product sold well with beautiful images as one of sales points. Thus, the contribution of the technology of Present Inventions 1 to 3 to the sales of Toshiba Visual's product is considerably large. Even if the circumstances related to the price of the white LED is considered, it is reasonable to find that the royalty rate on the basis of the sales of Toshiba Visual's product does not fall under 0.5%.

Regarding the amount equivalent to the royalty, the total sales of Toshiba Visual's product are ¥24,933,687,037 in total. By multiplying the amount by the royalty rate of 0.5%, it makes ¥124,668,435.

#### Practical tips

The US case laws adopt the 'entire market value rule' (the EMV rule), which once had its requirements significantly relaxed by the Federal Circuit under its pro-patent policy. However, the requirements have become stricter, partly due to the soaring amount of damages and the surfacing of the patent trolls. The amount of damages in Japan has been criticised as inexpensive, and attempts have been made for a proper amount of damages through two Grand Panel judgments of the IP High Court and the partial revision of the Patent Act in 2019. In some cases, the IP High Court awards damages several times higher than those by the court of first instance. This judgment can be regarded as one of such acting in optimising the amount of damages.

A similar point of view can already be found in the judgment of June 7 2019, where the Grand Panel of the IP High Court, on the circumstances of the rebuttal to presumption under the provision of Article 102(2) of the Patent Act, held that "even in a case where a patented invention is worked for only a part of the infringing products, these facts may be taken into consideration as a fact for the rebuttal to presumption. It cannot be deduced directly from the fact that the patented in-

vention is worked for only a part of the infringing products that the above rebuttal to presumption is recognized, but it is reasonable to find by comprehensively taking into account the circumstances such as an importance of a part of an infringing product where the patented invention is worked and the customer attracting force of the patented invention."

The fact that "Toshiba Visual sold their product as a final product taking advantage of LEDs characteristics and earned profit from the sales of the products" can be said similar to the requirement of the US case law that "the patent related feature is the basis for customer demand for the entire machine including the unpatented components."

From the viewpoint of a patentee of components, consideration of the possibility to claim compensation for damages based on the final product should be necessary in the future. However, Nichia's patented invention of the case is a pioneering invention achieving a paradigm shift since Edison, and that may be the reason damages based on the final product were awarded. If the invention is not such a pioneering invention, attention should be paid to what level of invention would be awarded damages based on the final product.

From the viewpoint of a defendant, vigilance against patent trolls, taking this judgment as the criterion to offer an amount of damages for components based on the final product as a settlement, should be necessary in the future.

This judgment has been appealed to the Supreme Court. The Supreme Court judgment should be watched closely.

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