

Gist of Reasons for Appeal

April 22, 2004

Nichia Corporation

1. The basic issues of the subject case are the interpretation of Article 35 of the Patent Law and its applications. According to the provisions of Paragraph 3 of the same Article, "reasonable remuneration" must be paid to the employee who made the invention by the employer to whom the patent right is assigned. According to the provision of Paragraph 4 of the same Article, the amount of remuneration must be determined based on the profit to be earned by the employer from the invention and the contribution made by the employer toward making of the invention.

2. In order to calculate the amount of the profit to be earned by the employer, the value of the invention must be determined.

The decision of the first instance court (the "original decision") found the technological scope of the subject patented invention exceptionally broad, and overestimated the value of the invention by finding that the invention had played a very fundamental role in the manufacture of high-brightness blue LEDs. These findings are clearly erroneous.

The technologies for manufacturing high-brightness blue LEDs are roughly divided into two, namely, (1) technologies for efficiently converting electricity to light and (2) technologies for efficiently extracting the light produced by the conversion. The technology of the patented invention is one of many technologies of the former and is one of the evolutionary and transitional measure far from the revolutionary invention repetitively referred to in the original decision.

In fact, the appellant did not practice the patented invention except for the initial few years, and, to the appellant's knowledge, none of its competitor companies who obtained a license for the subject patented invention from the appellant by the cross-license agreements described below did not practice the subject patented invention.

3. The original decision sets forth its determination of the following items as the factors for calculating the profit to be earned by the appellant from the subject patented invention: total sales, the amount of sales attributable to the subject patented invention, the reference date of interim interest deduction for the purpose of calculating the present value, and the royalty rate obtainable by licensing the subject patented invention. The original decision overvaluing the subject patented invention also made errors in determining these items.

For example, the entire sales of white LEDs is included in the total sales. Also, the court's finding assumed the hypothetical royalty rate would have been 20%, which is absurdly high compared to a typical royalty rate of 1% in the semiconductor industry.

Moreover, the original decision does not take into consideration the comprehensive cross-licensing, including the licensing of the subject patented invention, between the appellant and several domestic and foreign companies in 2002, and erroneously finds that the appellant has never licensed the subject patented invention to any companies. Thus, the original decision erroneously determined "reasonable remuneration" based on these findings.

4. The original decision finds the contribution of the appellant to the making of the subject patented invention to be too low.

For example, the original decision finds that the appellant made the subject

patented invention alone under a poor research environment provided by such a small regional company as the appellant. This is contrary to the fact. The appellant sent the appellee overseas for technological education as part of its consistent R&D policy, and upon his return installed for him a facility comparable to that of a central R&D laboratory of any large companies. The subject invention could not have been made but for such contribution made by appellant. Moreover, the original decision does not at all consider the fact that the appellant has made a substantial contribution by investing in the blue LED business despite the very considerable business risks involved.

5. The original decision ruled that the "reasonable remuneration" to be in excess of 60.4 billion yen based on these errors. However, the appellant's profit for the 1997 fiscal year, when, according to the original decision, the payment of the said amount of the reasonable remuneration was due, was only 3.2 billion yen. Payment of the sum of 60.4 billion yen in 1997 would not merely have put the appellant in serious financial trouble but would have forced the appellant to go bankrupt.

6. The purpose of the patent system is to encourage inventions and to contribute to the progress of the industry while ensuring the continuation and development of enterprises. The purport of Article 35 of the Patent Law is, as held by the Supreme Court, to protect the interests of employers and employees and to balance their conflicting interests based on the principle of equity. The original decision is excessively in favor of protection of employees and could bring forward serious consequences of reduction of R&D by enterprises in Japan. The original decision must be corrected to ensure that Japan is a nation founded on technology and intellectual property.