

Calculation Methodology under the Section 102 of Patent Law

特許法102条における損害賠償額の算定

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Abstract: In September 2004, a calculation methodology was established by the Japanese Institute of Certified Public Accountants (JICPA) section 102 of the Patent law. The new methodology adopted the so called direct costing methodology, instead of total costing methodology. The followings are a summary of the JICPA report on the methodology.

1. Background Information for the Accounting Experts Manual

1.1. Intellectual Property Rights in Japan

Under the Japanese legal system, intellectual property laws are largely classified into two categories:

1. Industrial property laws, and
2. Non-industrial property laws

Industrial property laws are administered by the Japan Patent Office under the Ministry of Economy, Trade and Industry. The following four rights are protected by the corresponding laws: (see also Table 1)

1. Patent rights
2. Unity model rights
3. Design rights, and
4. Trademark rights

Note that, the patent law is the source law that is referred to by the other three industrial property laws listed above.

Also note that, in other publications “accounting expert” may be referred as “accounting court expert”, “court expert”, “accounting calculation expert”, “damages calculation expert”, “loss calculation expert” or “court damages appraisal” appraiser.

There are five other non-industrial property rights recognized by laws in Japan:

1. Copyright
2. Protection semiconductor chips
3. Trade names
4. Trade secrets
5. New bio-technologically engineered plants

Non-industrial property rights can be distinguished from industrial property rights because these were developed more recently compared to the industrial property rights. Unlike industrial property rights, Japan Patent Office does not administer these rights (Table 2)

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	Patent right	Unity model right	Design right	Trademark right
Prescribed laws	Patent law	Unity model law	Design law Unfair competition law	Trademark law
Enforcements	1885	1905	1888	1884
Objects of protection and examples	Inventions High standard for the protection of new inventions. The type of inventions include the following: Object Methodology Process for production	Ideas Lower standard of protection for shape, combination and structure of products	Designs Protection of original and practical designs for industries.	Trademarks The sole purpose of trademark is to distinguish itself from other companies and services.
Requisites	The invention which must be practical for industry The invention which is new and innovative	The idea which is practical for industry	Product design The design about shape, combination and structure of products	The trademark with letters, diagrams and symbols The trademark with distinction which is used for products and services
Example	Auto focus function in camera Long life batteries	The technology for light and small sized in an electric item The device of car engine's structure	The characteristic exterior design of personal computer	The trademark printed on the packages of products The trademark showed on the truck's body
Effective period	20 years from application (a limit of five years is applied to cases of pharmaceutical products and agricultural chemicals, but this period can be extended)	6 years from application	15 years from registration	10 years from registration
Renewal	Renewal is not available	Renewal is not available	Renewal is not available	Renewal is available every 10 years

(Table 1)

	Copyrights	Semiconductor chips	Trade names	Trade secrets	New plants' types
Prescribed laws	Copyright law	Protecting Semiconductor Chips Law	Commercial Codes	Unfair Competition Law	Seedling Law
Enforcements	1970	1985	1899	1993	1998
Judicial government office	Ministry of Education, Science, Sports and Culture (Agency for Cultural Affairs)	Ministry of Economy, Trade and Industry	Ministry of Justice	Ministry of Economy, Trade and Industry	Ministry of Agriculture, Forestry and Fisheries
Examples	Books Computer software			Manufacturing technologies Customer lists	
Valid time period	50 years after the death of the author	6 years from registration			20 years from registration

(Table2)

1.2. Introduction to the Amendments to the Patent Law in 1999

In 1998 and 1999, Patent Laws were amended following: Patent Law amendment (1998), and Patent Law amendment (1999)

1.2.1. Amendments in 1998

The amount of damages can be calculated as below, and the plaintiffs can rely on any of the remedies from (1) through (3):

(1) The following amount may be estimated as the damage amount suffered by the plaintiff:

Defendant's sale quantity	x	Plaintiff's marginal profit per unit
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Under the amended Patent Law 1998, the above subsection (1) of the section 102 was introduced. A limitation applies on the claim governed by statute, being not exceeding an amount attainable, depending on the working capability of the plaintiff. If circumstance arises that prevents the plaintiff from selling goods exists, these amounts would in normal circumstances be deducted.

(2) The profits gained by the defendant may well be assumed as the damage amount suffered by the plaintiff.

(3) A plaintiff may claim damages for the royalty, which he/she should have received.

(4) The preceding subsections of (1) through (3) shall not preclude a claim to damages exceeding the amount referred to therein according to the Code of Civil Procedure.

1.2.2. Amendments in 1999

At the request of either plaintiffs or defendants, the court can appoint an accounting expert for the calculation of damages (Section 105bis, Patent Law). The parties must provide information as requested by the accounting expert.

Other intellectual property laws apply the accounting expert system in the Patent Law accordingly.

Extract of Patent Law is as follows:

Law No. 121 of April 13, 1959 as amended by Law No. 220 of December 22, 1999 ENTRY INTO FORCE: January 6, 2001 (The proviso of Section 46(1), (2) and amendment in Section 48ter. (1) shall enter into force as of October 1, 2001 and Section 186(3) shall enter into force as of April 1, 2001.)

102. Presumption, etc. of amount of damage

(1) 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, and the person's act is the assignment of articles by which the act of the infringement was committed, the sum of money with the profit per unit of such articles multiplied by the number of articles (hereinafter referred to in this paragraph as the "number of assigned articles") which the patentee or exclusive licensee could have sold in the absence of the infringement may be estimated as the amount of damage suffered by the patentee or exclusive licensee within a limit not exceeding an amount attainable depending on working capability of the patentee or exclusive licensee. Where there is any circumstance that prevents the patentee or exclusive licensee from selling part or the whole of the number of assigned articles, a sum equivalent to the number of assigned articles subject to that circumstance shall be deducted.

(2) 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.

(3) 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 which he would be entitled to receive for the working of the patented invention, as the amount of damage suffered by him.

(4) The preceding subsection shall not preclude a claim to damages exceeding the amount referred to therein. In such a case, where there has been neither willfulness nor gross negligence on the part of the person who has

infringed the patent right or the exclusive license, the court may take this into consideration when awarding damages.

105bis. Accounting expert opinion for proof of damage

In a litigation relating to the infringement of a patent right or exclusive license, where the court orders, upon the request from a party, the accounting expert opinion to be given with respect to the matters necessary for the proof of the damages caused by the infringement, the other party shall explain to the accounting expert the matters necessary for the accounting expert opinion to be given.

2. Calculation Methodology for Damages

Following the review of the Japanese Patent law, the calculation methodology for damages was amended in 1998 and 1999. To respond to these amendments, the JICPA Management Research Committee was commissioned to study the new calculation methods, procedures, independence, documentation requirements and ethical requirements under court proceedings, and all other requirements under statute in sections 102 (2) and 105bis. Because of the complexity of the subject matter, the Management Research Committee established a sub-committee Accounting Expert Committee to produce the finalized interim manual. The final interim manual "Valuation of Intellectual Properties" released in July 2001 must be observed by all current court appointed JICPA "accounting experts" to calculate damages.

The calculation methodology in the sections is to be distinguished from the methods JICPA members familiar such as the "cost methods" or the "DCF method" (discounted cash flow method) instead, it has adopted the "direct costing methodology" has more characteristics with standard accountancy terminology.

The final report consists of Part I through Part IV:

Part I. Guide line

1. General guidelines

(1) Obligation to be appointed as an accounting expert

The general rule, according to the Civil Procedure Code, obliges a person of learning and experience in the calculation methodology of the damages for the patent cannot generally refuse to be appointed or resign as an

accounting expert, as it is part of the general duty once qualified as a certified public accountant.

(2) Maintaining of excellent judgment

An accounting expert must be proficient in Patent Law and the Civil Procedure Code. They must also be familiar with the industries to which the plaintiffs and defendants belong to and legal principles that affect that industry.

(3) Independence

The accounting expert must maintain independence at all times

(4) Professional Due Care

The accounting expert must maintain professional due care.

(5) Confidentiality of clients information

The accounting expert and his/her assistants shall not disclose any confidential information of their client.

2. Guidelines of fieldwork

(1) Methodology of calculation

Methodology of calculation must be in accordance with the section 102 of the Patent Law, and any relevant case law and accepted theories.

(2) Frequent communication to the court

In order to keep the calculation cost efficient and economical, an accounting expert must maintain frequent communications with the court.

(3) Assistants to an accounting expert

If it becomes necessary and appropriate, an accounting expert may employ assistants with prior court approval. The courts may approve an accounting expert to employ assistant if it becomes necessary and appropriate OR

Where it becomes necessary and appropriate an accounting expert may employ court approved assistants.

(4) Fairness and neutrality

The accounting expert must perform the calculation procedures based on the evidence and conviction.

(5) Working papers

The accounting expert must maintain proper working papers.

3. Guidelines of Reporting

(1) Accounting expert's report

The accounting expert must prepare and submit a proper report to the court.

Part II. Calculation methodology

1. General backgrounds

(1) Understanding of laws

The accounting expert may be required to act not only under the Industrial Property Laws but relevant under the Copyright Law and the Unfair Competition Law that may apply.

(2) Relationship to the court, plaintiff and defendant

Note: Unlike precise auditing manuals, there are no a precise manuals as such. Therefore there is implied onus on the accounting expert to be highly experienced and maintain frequent communications with the court.

(3) Understanding of the subjective aspects of the company

He/she must be familiar with the subjective aspects of the company, including: the overall management, administrative environment, business practices, organization, internal control, accounting system and costing system.

(4) Calculation methodology compared to financial accounting

The financial accounting policies adopted by the company in subject are mainly for financial and costing

purposes, not necessarily for the calculation methodology accepted by the court.

(5) Effectiveness, efficiency and speediness of the calculation

The accounting expert must allocate sufficient times to planning, implementation and must adhere to a budget. The accounting expert must try to avoid gross overestimation or underestimation of the final calculated amount. The accounting expert must avoid unnecessary burden to the subjected company. After the accounting expert takes into account the above points, he/she must determine the scope of the implementation and testing.

2. Section 102 of the Patent Law

(1) Section (1) of the Patent Law

$$\text{(Amount of damages)} = \text{(Defendant's sale quantity)} \times \text{(Plaintiff's profit)}$$

(2) Section (2) of the Patent Law

$$\text{(Amount of damages)} = \text{(Defendant's sale quantity)} \times \text{(Defendant' profit)}$$

(3) Section (3) of the Patent Law

$$\text{(Amount of damages)} = \text{(Defendant's sale quantity)} \times \text{(Deemed royalty rate)}$$

3. Methodology

The methodology adopted by the section (1) and (2) is summarized as follows:

	Revenues			Deductible amount		Profit	Adjustments		Damage amount
Patent Law Section 102	Quantity	Selling price	Sales amount	Variable cost	Specific fixed cost	Marginal profit	Working capability or circumstance in the plaintiffs	Contribution rate of the patent to the profit	
Sub-Section (1)			(C1) = (A)x(B1)	(D1)	(E1)	(F1) =(C1)-(D1) See note	(G1)	(H1)	((F1)-(G1)) x (H1)
Sub-Section (2)		Defendant's selling price (B2)	(C2) = (A) x (B2)	(D2)	(E2)	(F2) =(C2)-(D2) See note.	N/A	(H2)	(F2) x (H2)

(Table3)

4. Points, which the accounting experts ought to keep in mind, are summarized below:

Plaintiff's sales quantity (A) includes not only actual quantity sold, but also quantity used as samples.

Accounting experts, from time to time, should estimate plaintiff's sales quantity (A), according to the accounting records and other available information.

Plaintiff's selling price (B1) is not necessarily the actual sale price. It is the hypothetical price at which the plaintiff could sell these goods without infringements.

Specific fixed costs (E) may be deductible as $(F1) = (C1) - (D1) - (E1)$ or $(F2) = (C2) - (D2) - (E2)$, as the case may be.

Even if the cost is classified as a variable cost from the normal accounting criteria, the cost could not be a variable cost under the section 102(2) of the Patent law. Patent law adopts causation as the criteria to clarify variable and fixed costs.

Court precedents have recognized defendant's selling efforts as a contributing factor to the defendant's profit. Because the case laws are not necessarily consistent, the accounting expert must refer to and maintain discussion with the courts.

Working capability or circumstance in the plaintiffs means the capacity of the plaintiff to produce and sell the subject products during the period.

Contribution rate of the patent to the profit means the rate by which the patent-subjective part can contribute to the total profit.

Part III. Procedures, documentations, and forms

1. Procedural flow charts
2. Forms used by and to the courts
3. Planning
4. Documentations
5. Reporting forms

Part IV. Appendix

Terminology

Extract of the Civil Procedure Codes

Extract of the Patent Law

Recent case law summary

(受理 平成 17 年 3 月 17 日)