

Date	December 24, 2015	Court	Intellectual Property High Court, Fourth Division
Case number	2015 (Ne) 10069		
<p>– A case in which the court examined the case where the appellee demanded that the appellant pay for the unpaid part of the chipsets delivered under the basic agreement, etc. concerning sale of goods between the appellee and the appellant, and found that the basic agreement has a provision specifying that any dispute with a third party over the chipsets that has arisen due to patent right infringement shall be resolved at the appellee's own cost and under its own responsibility or that the appellee shall offer cooperation to the appellant in resolving such dispute and would not cause any trouble to the appellant, and also specifying that any damage caused to the appellant shall be compensated by the appellee. The court partially accepted the appellant's defense of setoff against the appellee to the effect that, due to the appellee's non-performance, i.e., violation of said provision, the appellant's claim for damages against the appellee can be made as a claim that is forwarded for setting off (active claim).</p>			

References: Articles 418 and 555 of the Civil Code

Numbers of related rights, etc.: Patent No. 3480313, etc. (the "Patent Rights")

### Summary of the Judgment

#### 1. Background

##### (1) Appellant's claim

The appellant concluded a basic agreement (the "Basic Agreement") with the appellee concerning the sale of goods as well as separate agreements based thereon. The appellee demanded that the appellant pay US\$ 2,568,409.18 for the unpaid part of the chipsets (ADSL modem chip sets and DSLAM chip sets) delivered under said agreements.

The appellant disputed the appellee's claim by alleging that the appellant's claim for damages for the appellee's non-performance of Article 18, paragraph (1) or (2) of the Basic Agreement (the claim for ¥200 million as damages) was an active claim and offset said amount with the appellee's claim for the amount to be paid for the sale. Regarding the claim for damages alleged by the appellant, the appellant explained that "the Basic Agreement specifies that [i] the appellee shall guarantee that the goods that it delivers, the process of manufacturing thereof, and the method of use thereof do not infringe any patent right of a third party (Article 18, paragraph (1)) and [ii] if a patent infringement-related dispute arises with a third party with regard to the goods, the appellee shall resolve the dispute at its own cost and under its own responsibility or offer cooperation to the appellant in resolving such dispute, and would not cause any

trouble to the appellant; and if the appellant suffers any damages, the appellee shall compensate the appellant for those damages (Article 18, paragraph (2)). Since [i] the chipsets delivered by the appellee and the method of use thereof, etc. infringed the Patent Rights and [ii] the appellee was unable to resolve a dispute (the "Dispute") with the patentees with regard to the Patent Rights, the appellant had to pay ¥200 million as a royalty to the patentees and consequently suffered the loss of the equivalent amount."

## (2) Judgment in prior instance

In its judgment, the court of prior instance found that [i] since the chipsets and the method of use thereof cannot be considered to have infringed the Patent Rights, the appellee cannot be regarded to have violated Article 18, paragraph (1) of the Basic Agreement, and that [ii] while the appellee violated Article 18, paragraph (2) of the Basic Agreement, it is impossible to recognize proximate causation between the violation of said provision and the whole or a part of the amount of damage equivalent to the royalty as alleged by the appellant. Therefore, the court of prior instance found that it is impossible to prove the existence of the active claim related to the appellant's expression of the intention of setoff, and concluded that the aforementioned appellant's expression of the intention had no effect. On these grounds, the court of prior instance fully accepted the appellee's claim for payment of the unpaid part of the chipsets based on the sales agreement. Dissatisfied with this judgment in prior instance, the appellant filed this appeal.

## 2. Issues in dispute

The issues in dispute are whether the chipsets infringe the Patent Rights, whether the appellee violated Article 18, paragraph (2) of the Basic Agreement, whether the setoff is possible, and whether the appellee violated Article 18, paragraph (1) of the Basic Agreement.

## 3. This judgment

In this judgment, the court partially accepted the appellant's defense of setoff and also accepted the appellee's claim for a payment of US\$ 1,798,635.11 by holding as follows in summary. The court found that the rest of the claims shall be dismissed and modified the judgment in prior instance.

### (1) Issue of whether the chipsets infringe the Patent Rights

There is no sufficient evidence to find that the chipsets complied with Annex C and that their structure was disclosed in the specifications. The appellant failed to sufficiently allege and prove that the product equipped with the chipsets has the structure described in the specifications.

As a result, it cannot be found that the chipsets and the product have the structure

described in the list of the structures of the product, etc. attached to the judgment in prior instance and that they satisfy the constituent features described in the list of constituent features attached to the judgment in prior instance with regard to the patented inventions. Nor can it be found that the chipsets are so-called dedicated products to be used solely for the specifications described in Annex C.

Therefore, the chipsets cannot be considered to infringe the Patent Rights.

(2) Issue of whether the appellee violated Article 18, paragraph (2) of the Basic Agreement

It would be reasonable to find that the appellee had the following specific obligations under Article 18, paragraph (2) of the Basic Agreement: [i] in order to help the appellant determine whether it is necessary to conclude a license agreement with WiLAN, the appellee is obliged to provide the appellant with the appellee's opinions as to, among other things, whether the Patent Rights are valid and whether the chipsets infringe the Patent Rights with supporting documents; and [ii] before the appellant concludes a license agreement with WiLAN, the appellee is obliged to gather and provide the appellant with the data, etc. necessary to calculate a reasonable royalty.

However, the results of a technical analysis reported by Ikanos cannot be considered to be sufficient. Based on the submitted evidence, the appellee or Ikanos cannot be considered to have provided the appellant with its opinions about issues such as whether the Patent Rights are valid and whether the chipsets infringe the Patent Rights, together with supporting documents. Thus, the appellee should be considered to have failed to satisfy the obligation of providing such opinions and documents. Furthermore, the appellee can be considered to have failed to satisfy the obligation of providing data for calculating a reasonable royalty before the appellant concludes a license agreement with WiLAN.

In view of these facts, the appellee can be considered to have failed to satisfy both obligations mentioned in [i] and [ii] above and therefore violated Article 18, paragraph (2) of the Basic Agreement.

(3) Issue of whether the setoff is possible

A. The issue of whether proximate causation exists between the appellee's violation of Article 18, paragraph (2) of the Basic Agreement and the damage equivalent to a royalty of ¥200 million paid by the appellant to WiLAN

In light of the response from Ikanos, which is a chip vendor, with regard to the technical analysis, it was inevitable to some extent that the appellant thought that the chipsets complied with ADSL Annex C and infringed or was highly likely to infringe the FRAND-declared Patent Rights to be used for Annex C. Since the appellee or

Ikanos failed to provide information about the calculation method of a royalty, no bargaining tools were available for the appellant to further negotiate for a discount. Under these circumstances, there was a risk that WiLAN could, at the expiration of the offer of an early license, subsequently send a notice about moving onto the next stage and file a lawsuit to seek an injunction. If infringement is recognized by a court, the amount of damage would far exceed ¥200 million. In consideration of such risk, and in light of common sense, it would be inevitable and not unreasonable for the appellant to conclude such a license agreement and pay a royalty of ¥200 million. Thus, it is possible to recognize proximate causation between the appellee's violation of Article 18, paragraph (2) of the Basic Agreement and the damage equivalent to a royalty of ¥200 million paid by the appellant to WiLAN.

#### B. Fault offsetting

However, since the situation had not moved to the second round, where WiLAN conducts investigation about a violation, etc., the appellant had not faced an urgent risk of encountering a lawsuit seeking an injunction, etc. WiLAN had not provided specific evidence based on objective data, such as the results of a technical analysis, etc. for proving that the chipsets infringe the Patent Rights. Furthermore, the appellant failed to examine whether the structure and function of the chipsets satisfy the constituent features of the patented inventions based on documents, etc. that provide detailed information about the chipsets and the patented inventions.

Under these circumstances, based solely on Ikanos' response to the appellant's request for a technical analysis, etc., the appellant presumed that the chipsets infringe or are highly likely to infringe the Patent Rights and, without questioning the legitimacy of the amount of royalty proposed by WiLAN, which was calculated based on no clear grounds, and without taking into consideration the appellee's dissuasion shortly prior to the conclusion of the license agreement, the appellant concluded the license agreement and paid ¥200 million as a royalty. Regarding this point, it is necessary to find that the appellant was reckless and that the appellant's negligence contributed to the occurrence of damage.

In consideration of the aforementioned circumstances as well as the facts that the patents in question are not the only patents subject to the license agreement and all of the facts related to this action and the entire import of oral argument, it would be reasonable to find that the ratio of negligence is 70% on the part of the appellant and 30% on the part of the appellee.

Therefore, the appellant's expression of intention of setoff between the active claim, which is the appellant's claim for payment of damages from the appellee for the

appellee's non-performance of Article 18, paragraph (2) of the Basic Agreement, and the passive claim (a claim against which the right to setoff is asserted), which is the appellee's claim for payment for the sale of goods from the appellant under the sales agreement, can be considered to have effect up to ¥60 million, which is 30% of ¥200 million.

(4) Issue of whether the appellee violated Article 18, paragraph (1) of the Basic Agreement

As mentioned in (1) above, the chipsets cannot be considered to have infringed the Patent Rights. Therefore, the appellant's allegation of the appellee's violation of Article 18, paragraph (1) of the Basic Agreement can be considered groundless without needing to examine any other factors. The appellant's expression of the intention to offset between the active claim, i.e., the appellant's claim for payment of damages from the appellee for the non-performance of Article 18, paragraph (1) of the Basic Agreement, and the passive claim, i.e., the appellee's claim for payment from the appellant for the goods sold under the sales agreement, has no effect since there is no evidence for the existence of the active claim.