Case Note: Matsushita v. Justsystem[1]

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Over the last two decades, Japan has become recognized as a leader in a technological innovation. Japan is also considered one of the best places to obtain patents. Yet the country usually ranks low as a place to litigate patents.

More in keeping with its technological sophistication, Japan has taken strides to strengthen its patent system. As seen in *Matsushita v. Justsystem*[2], these changes mean that Japan merits consideration as a forum for patent litigation. Though the patentee ultimately lost the suit, this loss mostly arose from poor patent quality, not any weakness in the system to enforce it.

Matsushita Electric Industrial Co., Ltd. ("Matsushita"), known best in the US for its Panasonic brand, is a large multi-national manufacturer of electronics products, components and parts. As a consequence of its research and development of electronics products, Matsushita also has developed a large international portfolio of software patents.

Justsystem Corp. ("Justsystem") is a mid-size Japanese company that develops applications software. It has over 800 employees.[3] Two of Justsystem's products were implicated in the suit: Ichitaro, a word processing program, and Hanako, a graphics program. Ichitaro is very popular – it is reported[4] that over 18 million units have shipped since its introduction in 1985. Ichitaro is considered the only viable competitor of Microsoft Word in Japan.[5]

The patent-in-suit, Japanese Patent No. 2,803,236 ("the '236 patent")[6] involves a help function. Using the help function described in the '236 patent, a user can drag and drop an icon to receive on-screen instructions. In particular, a user clicks and drags an icon onto another icon. When the mouse button is released, context-sensitive help is provided relating to the second icon.

The '236 patent specifically distinguishes this feature from prior art help modes. One such prior art help mode involved pressing a special key or icon which is in a constant place. Another prior art help mode involves embedding in an icon or function an explanation of what it does, but without changing the state of the mouse cursor.

The '236 patent has three claims. Claim 1 is an independent apparatus claim, claim 2 depends on claim 1, and claim 3 is an independent process claim. The independent claims recite three key features:

1. the user clicks on a first icon which triggers a help function;
2. the user then selects a second icon; and
3. the computer displays a description of the function of the second icon.

The apparatus claims are directed to a PC including software for providing the help feature:

> 1. An information processor comprising:
>
> a display means for displaying a first icon to perform a function for displaying functional description of an icon, and a second icon to perform predetermined information processing function, on the display screen;
>
> a designation means for designating the icons displayed on the display screen of said display means; and
>
> a control means for displaying the functional description of the second icon on the display screen of said display means in response to the designation of the second icon subsequent to the designation of the first icon by said designation means.
>
> 2. The information processor of claim 1, wherein said control means performs the predetermined information processing function of the second icon, if the designation of the second icon by said designation means is not immediately after the designation of the first icon.

The process claim is directed to the use of the help feature:

> 3. An information processing method for controlling apparatus comprising an input device for inputting data and a display device for displaying data, comprising the steps of:
>
> displaying the first icon to perform the function for displaying functional description of an icon, and the second icon to perform predetermined information processing function, on the display screen; and
>
> displaying the functional description of the second icon on the display screen in response to the designation of the second icon subsequent to the designation of the first icon.

The '236 patent is very short – about two pages of text and six drawings. The specification of the '236 patent discloses only one embodiment, in which the help icon must be dragged onto another icon. However, the claims are broader than this, and cover systems where a user clicks on the help icon first and then clicks another item to designate those items in turn.

Matsushita applied for the '236 patent in 1989 and it was granted in 1998. Such a long pendency – nine years — is common in Japan when a patent has been opposed. That was precisely the cause of the delay here.[7] However, Matsushita did not wait from when the '236 patent issued in 1998 for long to pursue Justsystem.

At least as early as 2002, Matsushita had license discussions with Justsystem. Those discussions failed to produce a license, and in November 2002 Matsushita filed suit against Justsystem and Sotec Co., Ltd. ("Sotec") in the Tokyo District Court. Sotec was a fast-growing new PC manufacturer in Japan. Matsushita sought a preliminary injunction against sales of Sotec PCs pre-installed with Justsystem's Just Home 2 software suite. Just Home 2 included a limited version of Ichitaro called Ichitaro Home, as well as other application programs. In response to the suit, Sotec stopped selling PCs pre-installed with Just Home 2. Matsushita then withdrew the case in June 2003.

With the cloud of Matsushita's infringement allegation hanging over it, and faced with Microsoft's encroachment into its core market, Justsystem needed to clear the air. Thus, in August 2003, Justsystem brought a declaratory judgment action against Matsushita regarding Just Home 2 and the '236 patent, also in the Tokyo District Court. In August 2004 the district court decided that Just Home 2 did not infringe the '236 patent because it did not use the claimed "icon".

It seems that Just Home 2 has a slightly different help function than Ichitaro and Hanako. In its help mode, Just Home 2 displays a question mark or text on the screen. The Tokyo District Court held that this was a "symbol" or "character" (i.e., an ASCII

character as found on a keyboard), and not a picture or a pictogram, so it was not the claimed icon. In contrast to Just Home 2, Ichitaro and Hanako clearly employed icons. Their help function used an icon which was a combination of a question mark and a picture of a mouse.

Under the August 2004 decision, one might question why Justsystem left Ichitaro and Hanako unchanged. It would have been simple to modify the icon in Ichitaro and Hanako to just a question mark. However, Ichitaro and Hanako not only have a different icon than Just Home 2, they provide more comprehensive help and deliver it differently than Just Home 2. In Just Home 2, the question mark is available only in standard Windows dialog boxes and provides only help information from Windows. Ichitaro and Hanako provide the feature in their main windows, and the help information is custom to Justsystem.

Given the district court's decision, Matsushita was probably confident that it had a better case against Ichitaro and Hanako. Thus, almost immediately after losing the case on Just Home 2, in August 2004 Matsushita sued Justsystem for infringement of the '236 patent by Ichitaro and Hanako. Like the other suits, this new suit was also filed in the Tokyo District Court. The new case went before the same judge as the prior cases.

In early February 2005, the district court issued its ruling. In that decision, the district court found Ichitaro and Hanako to be infringing, and ordered Justsystem to suspend production and sale of these products. The district court addressed three issues: direct infringement, indirect infringement, and validity.

As to direct infringement, the key term in the claims was "icon". The term is not defined in the '236 patent. The court held that an "icon" of the '236 patent is "a thing that displays various data and processing functions as pictures or pictorial symbols on the display screen and processes a command". In reaching this decision, the court considered the specification of the '236 patent and the view of a person skilled in the art at the time of filing the '236 patent application. The court declined Justsystem's argument that an icon must be able to drag or move, and that an icon must be able to be placed on the desktop as in the '236 patent's sole embodiment.

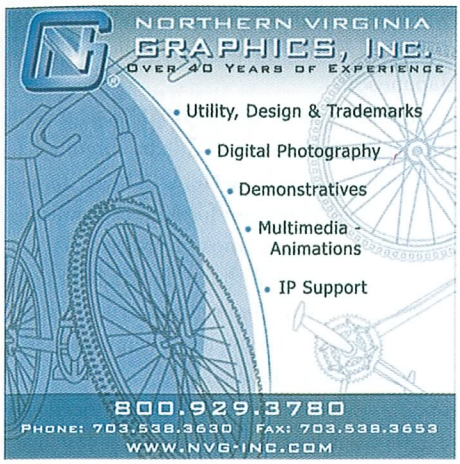
By interpreting "icon" broadly, the court held that the claims read on Ichitaro and Hanako. These products have a "help" button which displays a picture or pictorial symbol on the display screen (i.e., a picture of a mouse plus a question mark) and processes a command (i.e., provides help). The help button could be used with other icons, such as a "print" button. Thus, in the court's view the accused products' help button and print button were "icons" as claimed, and use of the help button to learn the function of the print button was an infringement.

Although the claims were therefore clearly relevant to the accused products, the parties agreed that Justsystem was not a direct infringer.[8] The apparatus claims are directed to a PC including software for providing the help feature. The process claim is directed to the use of the help feature. Justsystem only sells software, not PCs with software. Thus, Justsystem did not directly infringe the claims. Instead, Matsushita alleged that the accused infringement was undertaken by end-user customers who installed and used Ichitaro and Hanako. Matsushita's indirect infringement theory was that, by supplying a critical component, Justsystem was liable when others manufactured the claimed apparatus, and when others used the claimed process.

Japanese Patent Law § 101 proscribes indirect infringement. Under § 101(ii), liability arises if one knows that an invention is patented, and manufactures, transfers, imports or prepares to transfer a product which is used for carrying out the invention. Under § 101(iv), the principles of § 101(ii) are extended to process claims.

The district court concluded that the accused products were critical to performing the claimed apparatus and process. The district court further held that, at least at the time of trial, Justsystem knew of the '236 patent. The district court further concluded that Justsystem knew of the relevance of the '236 patent to its products from the temporary injunction order issued in the *Sotec* case. Therefore, the district court held that manufacture, transfer and preparation for transfer of the accused products by Justsystem met § 101(ii) and (iv) and were an indirect infringement.

Japanese law has long recognized indirect infringement (i.e., that a party can be liable for the infringement of others). This principle was enacted long ago under Japanese Patent Law § 101. However, before 2002 these indirect infringement provisions were very limited, and were similar to the concept of contributory infringement in the US. The old provisions required that the product provided by the indirect infringer be used "exclusively" for the purpose of infringement. In 2002 § 101 was amended to add what we call "induced infringement" in the US. *Justsystem* appears to be the first time the induced infringement provision was applied in a software patent case.



As to validity, Justsystem argued that the claims lacked an inventive step based upon three prior art references. The district court rejected this argument without analysis.

Having lost the case and facing an injunction, Justsystem appealed. This appeal went to a new judicial body – the Intellectual Property High Court ("IPHC"). Pending appeal, the district court permitted Justsystem to continue selling the infringing products.

Just like in the US, Japan has a strong software development community. And just as with high profile software patent suits in the US, after the district court decision finding the '236 patent valid and infringed, many in the Japanese software community filled the Internet with emotional comments against Matsushita's action and the district court's decision. To many, an electronic giant was going to defeat a weaker software supplier using a patent on a well-known technique. Perhaps as a consequence of this, according to reports, a lot of prior art information was provided to Justsystem after the district court decision. Newly found prior art proved to be critical in the appeal.

The IPHC was installed on April 1, 2005 and *Justsystem* was its first case. The IPHC specializes in IP, particularly patent cases appealed from the nationwide district courts and appeals from Japan Patent Office decisions. The *Justsystem* decision was notable not only as its first on a soft-

ware patent, but also because the judges sat for a first time *en banc* ("dai-gogi" in Japanese).

Establishment of the IPHC was part of an array of changes in Japan intended to strengthen its IP system. These moves came in response to foreign competition, mostly from companies in Korea, Taiwan and China, which have used Japanese-developed technologies to gain significant market share in Japan, and even worldwide. Ironically, the Japanese government has openly copied US steps from the early 1980s used by the US to staunch Japanese inroads into the US automobile and electronics markets. In this regard, both the US and Japan made a number of changes to strengthen their IP systems. The IPHC therefore can be viewed as the Japanese analog to the Court of Appeals for the Federal Circuit.

The IPHC gave its *Justsystem* decision in early October 2005. Although Justsystem prevailed on validity, the IPHC decision is especially important because it serves as the first significant decision in Japan finding indirect infringement. Previously, there was considerable doubt whether there could be liability in Japan for indirect infringement. As mentioned, the old law was quite limited and nearly impossible to use. Thus, though software patents in Japan will continue to suffer from negative public opinion, at least the patent community can celebrate the IPHC's bravery in taking the steps necessary to strengthen patents in Japan.

In the appeal, the IPHC considered whether there was direct infringement, whether Justsystem was an indirect infringer, and whether the '236 patent was valid.

As to validity, Justsystem again argued that the '236 patent was invalid in view of prior art references. Many of the references Justsystem cited were not before the district court. Matsushita contended that those new references should not be considered because of their late submission. However, the IPHC accepted the references, mainly because of the fast pace of the district court proceedings,[9] and the fact that most of the references were foreign, non-patent documents.

In view of these prior art references, the IPHC found that the claims were unenforceable because they were invalid under § 29(2) (lack of inventive step).[10] The IPHC relied primarily on one of the new references, "HP NewWave Environment Help Facility" (1989). As recognized by the IPHC, Hewlett Packard's NewWave operating system included a drag and drop help button function in the early 1990s which was almost identical to that disclosed in the patent.

As to the direct and indirect infringement issues, the IPHC substantially affirmed the district court. However, the IPHC differentiated between the apparatus and process claims of the patent-in-suit. Under the IPHC's analysis, Justsystem induced infringement of the apparatus claims but not the process claims. In the IPHC's view, Ichitaro and Hanako were essential components for the claimed apparatus. However, the IPHC concluded that the essential article of the claimed process was not these products alone, but only in combination with a second component – a PC. This rationale seems poorly construed, though easily circumvented by appropriately drafted claims.

For certain, the IPHC's differing application of indirect infringement between apparatus and process claims urges careful drafting of these claims, especially in software patents. To take advantage of the right to sue for indirect infringement, software patents should be written with the right in mind. *Justsystem* shows that process claims on software might be more difficult to enforce. Furthermore, it shows that software patents should include a range of claims — claims to a computer with the software, claims to the software program itself, and claims to just the steps performed by the program. These claims will be treated differently, and provide different scopes of protection.

Perhaps more importantly, *Justsystem* shows that indirect infringement is now a worthwhile cause of action in Japan. This might prove especially useful in software patent cases.

The *Justsystem* case also demonstrates that invalidity as a defense has gained considerable importance in Japan. In the past, Japanese courts could not consider invalidity. Notably, the IPHC in *Justsystem* was especially receptive to new evidence and arguments on invalidity. Despite Justsystem's good fortune at the IPHC, litigants should put more effort into early prior art searches. In the future, the courts probably will not be as tolerant.

Finally, the speed of resolution of the case is truly impressive. From filing through appeal, *Justsystem* lasted just fourteen months. The prior declaratory judgment case regarding Just Home 2 took just twelve months for a district court decision. For certain, patent suits in Japan now move very quickly.

While the patentee (Matsushita) ultimately lost the case, it does show that Japan has made serious efforts to enhance the enforceability of its patents. Thus, just as Japan has become one of the top three destinations for patent filings, it appears destined to be a top destination for patent litigation, too. IPT

ENDNOTES

1. © 2005. By Steven C. Sereboff. Esq. Mr. Sereboff is a partner in SoCal IP Law Group, LLP. Mr. Sereboff holds a J.D. from Boston University School of Law, and a B.S. in Electrical Engineering from the University of Maryland at College Park. His practice focuses on strategic intellectual property counseling, and he also handles patent and trademark prosecution, and licenses and contracts relating to intellectual property. Mr. Sereboff regularly plays key roles in corporate transactions and litigation. Mr. Sereboff wishes to thank Mr. Sanji Miyagi and Mr. Fuminori Doi of Isshiki & Co. for their assistance in preparing this article. Isshiki & Co. is an intellectual property law firm located in Tokyo. Mr. Miyagi is a master of US Intellectual Property Law and manages Isshiki's foreign filing department. Mr. Doi is a patent engineer.
2. Intellectual Property High Court Case No. 2005 (Ne) No. 10040 (September 30, 2005), *on appeal from* Tokyo District Court Case number 2004 (Wa) No. 16732 (February 1, 2005). Internal cites to these decision are omitted, since this article is based upon translations of the decisions.
3. http://justsystem.com/company_information.html
4. http://www.justsystem.com/product_ja.html
5. http://www.itworld.com/Man/2687/050208japanoffice/
6. The '236 patent has no foreign counterparts.
7. After the '236 patent issued, two oppositions were filed. The Japanese Patent Office (JPO) Board of Appeals eventually upheld the validity of the '236 patent. Decision of the JPO Board of Appeals, H11-71103 (August 2, 1999).
8. Though Justsystem presumably used the software itself, this probably was not substantial enough to merit consideration in the suit.
9. Just four months passed from the day suit was filed to when the district court handed down its decision on validity.
10. Only the Japanese Patent Office (JPO) has the authority to invalidate a patent. However, in 1999 the Japanese Supreme Court decided that Texas Instruments' famous Kilby patent on the transistor was unenforceable because there was convincing proof it was invalid. Subsequently, a new section of the Japanese Patent Law was added to provide that a claim is unenforceable if there is proof it is invalid. The section generally reads, "if a patent is determined to be invalid, the patent right is not enforceable". Thus, in contrast to older cases, enforceability of a patent may be more extensively addressed under this new law.