Judgment rendered on May 27,1992
1988(Wa)1607

Judgment

(Indication of the parties is omitted)

Main text

1. The defendant shall pay the plaintiff 1,067,040 yen and money accrued thereon at the rate of 5% per annum for the period from February 19, 1988 until the date of full payment.
2. Any other claims of the plaintiff shall be dismissed.
3. The court costs shall be divided into five portions, four of which shall be borne by the plaintiff, while the remaining one shall be borne by the defendant.
4. This judgment can be provisionally executed with respect to the part for which the plaintiff won the case.

Facts

No. 1 Judicial decision sought by the parties
I. Objectives of the claims
1. The defendant shall pay the plaintiff eight million yen and money accrued thereon at the rate of 5% per annum for the period from February 19, 1988 until the date of full payment.
2. The court costs shall be borne by the defendant.
3. Declaration of provisional execution
II. Response to the objectives of the claims
1. The plaintiff's claims shall be dismissed.
2. The court costs shall be borne by the plaintiff.
No. 2 Allegations of the parties
I. Grounds for claims
1. The plaintiff holds the following trademark right (the "Trademark Right"; the registered trademark protected by the Trademark Right shall be hereinafter referred to as the "Registered Trademark")
Registration No.: 1619331
Application date: March 21, 1980
Registration date: September 29, 1983
Classification of goods: Class 24

Designated goods: Toys, dolls, leisure goods, other goods that fall under the category of books
Trademark: "Nintendo" written horizontally
2. In July 1983, the plaintiff started manufacturing and selling household cassette-type TV game console (the "plaintiff's goods"). Users can insert a game cassette into the console and connect the console to a TV set, display the game images on the TV screen, and play the game by pressing the buttons on the controller. The plaintiff affixed the indications "ファミリーコンピュータ" and "FAMILY COMPUTER" (the "plaintiff's indications") to the plaintiff's goods, as well as the Registered Trademark.
3. Immediately after the release of the plaintiff's goods in July 1983, the plaintiff's goods received an enthusiastic public response and soon became popular items. The plaintiff's goods became an unparalleled hit and were listed on the hit product ranking published by an economic paper at the end of 1983. The plaintiff also made efforts to advertise the plaintiff's goods through TV, magazines, etc. As a result, by the end of 1983 at the latest, the plaintiff's indications and the Registered Trademark affixed to the plaintiff's goods had become widely known in Japan as indications of the plaintiff's goods manufactured and sold by the plaintiff.
4. From August 1986, the defendant made modifications to the internal structure of the main body and controller of the plaintiff's goods and started selling a modified version of the plaintiff's goods as household cassette-type TV game consoles (the "defendant's goods") under the product name "ハッカージュニア" (hacker junior) by affixing the indication "HACKER JUNIOR" without removing the Registered Trademark and the plaintiff's indications already affixed to the original plaintiff's goods.

In the course of modifying the plaintiff's goods, the defendant added three transistors, nine resistors, two electrolytic capacitors, one base plate, 11 jumper lines, three pin jacks to the main body of the plaintiff's goods and one 74HC108 (flip-flop IC), two slide switches, one base plate, five jumper lines, and one tinned wire to the controller of the plaintiff's goods. The defendant's goods are a modified version of the plaintiff's goods to which the following have been added: high-speed consecutive shooting function, video output terminal, stereo audio output terminal, slow-motion function, etc.
5. The defendant's goods were produced by making substantial modifications to the main body and controller of the game console of the plaintiff's goods. As a result of this modification, the defendant's goods have become products not identical with the plaintiff's goods. While the sales price of the plaintiff's goods is 14,800 yen, the sales price of the defendant's goods is 22,800 yen. The modified part (corresponding to the

difference of 8,000 yen between these prices) accounts for 54% of the sales price of the plaintiff's goods. The defendant itself referred to the defendant's goods as the "ultimate Nintendo Entertainment System" with "high-speed consecutive shooting function," "video output terminal," and "stereo audio output terminal" and sold the defendant's goods as products different from the plaintiff's goods.

6. The defendant's act of selling the defendant's goods without removing the Registered Trademark and the plaintiff's indications already affixed thereto constitutes infringement of the plaintiff's Trademark Right and misleads consumers into believing that the source of the defendant's goods is the plaintiff'. It is obvious that such misleading act will damage the plaintiff's business interests. The defendant committed the aforementioned act of unfair competition either willfully or negligently.

(omitted)

Reasons

I. There is a consensus among the parties concerned about the facts mentioned in 1, 2, and 4 of the section titled "Grounds for claims" and such part of the fact mentioned in 5 of said section that the defendant's goods were produced by modifying the main body and controller of the game console of the plaintiff's goods; that the sales price of the plaintiff's goods is 14,800 yen and the sales price of the defendant's goods is 22,800 yen, and thus, the modified part accounts for 54% of the sales price of the plaintiff's goods, and that the defendant sold the defendant's goods as the "ultimate Nintendo Entertainment System" with "high-speed consecutive shooting function," "video output terminal," and "stereo audio output terminal," and also such element of the fact mentioned in 7 of the section titled "Grounds for claims" that the number of units of the defendant's goods sold by the defendant is 585.

According to the undisputed Exhibits Ko 3 and 4 and the entire import of the oral argument, the fact mentioned in 3 of the section titled "Grounds for claims" can be found.

II. Decision as to whether the defendant's act constitutes infringement of a trademark right and an act of unfair competition

1. According to the facts mentioned in the preceding paragraph, the defendant's act of selling the defendant's goods without removing the Registered Trademark and the plaintiff's indications already affixed thereto constitutes infringement of the Trademark Right and would cause confusion and mislead consumers into believing that the source of the defendant's goods is the plaintiff. Such act of the defendant can be considered to

have damaged the plaintiff's business interests. The defendant can be considered to have committed such act either willfully or negligently. Therefore, the defendant should be held liable for compensating the damage suffered by the plaintiff as a result of the act of infringing the Trademark Right and the aforementioned act of unfair competition.

2. Regarding Allegation 1 of the defendant

The defendant alleged that, while the defendant's goods were produced by modifying the plaintiff's goods, in consideration of the facts that the defendant's goods are identical with the plaintiff's goods because modifications were not made to either the basic circuit or the original functions of the plaintiff's goods and that the purchasers of the defendant's goods were aware that the defendant's goods are merely a modified version of the plaintiff's products, there will be no confusion that the source of the defendant's goods is the plaintiff. On these grounds, the defendant alleged that the defendant's act does not constitute infringement of the Trademark Right.

However, according to the facts mentioned in the preceding paragraph, the defendant made modifications to both the main body and the controller of the plaintiff's goods as well. The aforementioned modification, which corresponds to the 8,000 yen difference between the sales price of the plaintiff's goods, 14,800 yen, and the sales price of the defendant's goods, 22,800 yen, accounts for about 54% of the price of the plaintiff's goods. Furthermore, the defendant itself referred to the defendant's goods as the "ultimate Nintendo Entertainment System" with "high-speed consecutive shooting function," "video output terminal," and "stereo audio output terminal" and sold the defendant's goods as an internally and structurally modified version of the plaintiff's goods. It is impossible to consider the defendant's goods to be identical with the plaintiff's goods. Since the defendant sells an internally and structurally modified version of the plaintiff's goods as the defendant's goods, if the defendant's goods, i.e., a modified version of the plaintiff's goods, bear the Registered Trademark of the plaintiff, it could mislead consumers into believing that the modified goods are sold by the plaintiff and could thereby damage the source-indicating function of the Registered Trademark of the plaintiff. Since the plaintiff cannot be held liable for the quality of the modified goods, the act of affixing the plaintiff's Registered Trademark to the defendant's goods could damage the quality-indicating function of said trademark. Therefore, the defendant's act of selling the defendant's goods without removing the Registered Trademark already affixed thereto even after the modification of the plaintiff's goods should be considered to constitute infringement of the Trademark Right of the plaintiff.

3. Regarding Allegation 2 of the defendant

The defendant alleged that the defendant's goods bear not only the Registered Trademark and the plaintiff's indications, but also the indication "HACKER JUNIOR," which indicates that the marked goods are a modified version of the plaintiff's goods manufactured and sold by the defendant. The defendant also alleged that the defendant's trade name was clearly indicated in the advertisements of the defendant's goods published in magazines targeted at the enthusiastic users of the plaintiff's goods and that, since people who would read such magazines and notice such advertisements of the defendant's goods usually have deep knowledge about the functions of the plaintiff's goods, and that, when the defendant sells the defendant's goods, the defendant issues a warranty certificate containing such information as the product name "HACKER JUNIOR," and the defendant's trade name, address, and telephone number. The defendant argues that any person who purchases the defendant's goods could be found to be aware that the defendant's goods are not identical with the plaintiff's goods. On these grounds, the defendant alleged that the consumers of the defendant's goods would not confuse the defendant's goods with the plaintiff's goods.

However, as long as it can be found that the Registered Trademark and the plaintiff's indications affixed to the defendant's goods in the manner they are affixed to the plaintiff's goods are widely recognized as indications of the goods sold by the plaintiff as mentioned above, it could mislead the consumers of the defendant's goods into believing that the source of the defendant's goods, i.e., a modified version of the plaintiff's goods, is the plaintiff. Even if the indication "HACKER JUNIOR" is affixed to the defendant's goods in addition to the plaintiff's mark and the Registered Trademark already affixed thereto, it should not be found to prevent such misunderstanding that the source of the defendant's goods is the plaintiff. According to the undisputed Exhibits Ko 8, 10, 11-1 to 11-4, 12-1 to 12-3, 13, 14-1 to 14-4, 15 to 38-1 to 38-3, in view of the facts that the magazines containing the advertisements of the defendant's goods were sold at ordinary bookstores and that some of the leaflets distributed for the purpose of advertising the defendant's goods did not contain the trade name of the defendant, it is impossible to accept the defendant's allegation that all of those who purchased the defendant's goods had been well aware that it was a modified version of the plaintiff's goods sold by the defendant and that the source of the defendant's goods is not the plaintiff.

As described above, it should be found that consumers could confuse the defendant's goods, which were sold without removing the plaintiff's indications and the Registered Trademark affixed thereto, with the plaintiff's goods. Therefore, the aforementioned allegation of the defendant is groundless.

4. Regarding Allegation 3 of the defendant

The defendant argued that, as of the time when the holder of a trademark right sells goods bearing the registered trademark, the effect of the trademark right can be interpreted to be exhausted as long as the trademark remains affixed to the goods. The defendant alleged that, if this interpretation is applied to this case, the effect of the Trademark Right for the plaintiff's goods can be considered to be exhausted at the time when the plaintiff distributes the plaintiff's goods through an authorized sales channel and obtains compensation for the goods. The defendant also alleged that, since the defendant modified goods for which the Trademark Right has already been exhausted, the defendant's act does not constitute infringement of the Trademark Right.

However, as mentioned above, the defendant produced the defendant's goods by modifying the plaintiff's goods bearing the Registered Trademark, sold them as products not identical with the plaintiff's goods without removing the Registered Trademark already affixed thereto. It is clear that such act of the defendant constitutes infringement of the Registered Trademark.

The so-called doctrine of exhaustion of trademark rights is applicable only to the cases where goods bearing a registered trademark are initially sold by the holder of the trademark right and subsequently sold by a third party to another third-party. However, this court case is different from the aforementioned cases to which the doctrine of exhaustion of trademark rights is applicable. In this case, the defendant modified the plaintiff's goods and sold them as products not identical with the plaintiff's goods.

(omitted)

IV. As described above, the plaintiff's claims in this action are well grounded to the extent that the plaintiff seeks payment of 1,067,040 yen and delay damages accrued thereon at the rate of 5% per annum from February 19, 1988, prior to which the act of tort was already committed, until the date of full payment. Any other claims of the plaintiff are groundless and shall therefore be dismissed. The judgment shall be rendered in the form of the main text by applying Article 89 and the main clause of Article 92 of the Code of Civil Procedure to the payment of the court costs and applying Article 196, paragraph (1) of said Act to the declaration of provisional execution.

Tokyo District Court

Judges: ICHIMIYA Kazuo, WAKABAYASHI Tatsushige, HASEGAWA Koji