

Date	May 29, 1998	Court	Tokyo District Court
Case number	1994 (Wa) 9183		29th Civil Division
<p>– A case in which the court held that Article 103 (provision to presume negligence) of the Patent Act as applied mutatis mutandis pursuant to Article 30 of the Utility Model Act prior to the amendment by Act No. 26 of 1993 shall apply, by analogy, to infringement of a monopolistic non-exclusive license for a utility model right.</p> <p>– A case in which the court calculated the amount of damages by presuming the profits gained by the infringer to be the damages suffered by the right holder based on the finding that Article 29, paragraph (1) (provision to presume the amount of damages) of the Utility Model Act prior to the amendment by Act No. 51 of 1998 shall apply to infringement of the monopolistic non-exclusive right for a utility model right.</p>			

References: Article 30 of the Utility Model Act prior to the amendment by Act No. 26 of 1993, Article 103 of the Patent Act, and Article 29, paragraph (1) of the Utility Model Act prior to the amendment by Act No. 51 of 1998 (paragraph (2) after the amendment of the Utility Model Act)

Number of related rights, etc.: Utility Model No. 1998355

Summary of the Judgment

Plaintiff 1 (individual) is a former representative director of Plaintiff 2 (company) and holds a utility model right (the "Utility Model Right") for a device titled "correction insoles for bowlegs" (the "Device"). Plaintiff 2 is granted a monopolistic non-exclusive license for the Device from Plaintiff 1 and sells the correction insoles for bowlegs in which the Device is worked.

Defendant 1 (company) is engaged in the manufacture and sale of shoe insoles ("Product") and Defendant 2 (company) has been wholesaling the Product purchased from Defendant 1.

In this judgment, the court made the following findings and determinations and upheld Plaintiff 1's claim for injunction and Plaintiff 2's claim for damages.

- i. The Product falls under the technical scope of the Device and thus there are grounds for Plaintiff 1's claim for an injunction against the defendants' act of manufacturing and selling the Product.
- ii. As Plaintiff 2 has the legal interest in monopolizing the market and profits in the course of manufacturing the products by working the Device and selling them, the defendants' act of manufacturing and selling the Product constitutes infringement of the aforementioned interest.

- iii. Article 103 of the Patent Act as applied mutatis mutandis pursuant to Article 30

of the Utility Model Act prior to the amendment by Act No. 26 of 1993 specifies that "An infringer of a patent right or exclusive license of another person is presumed negligent in the commission of the said act of infringement." What this provision means is that, since the existence and details of each patented invention are publicized, any person who plans to manufacture, sell, or otherwise handle a new product or use a new method as a business can and should search through the aforementioned publicized information to check whether such new product or the method could infringe another person's patent right and therefore that, if such product or method infringes another person's patent right or exclusive license, the infringer can be presumed to have committed negligence such as failing to carry out such search or make an appropriate decision based on the search results. As described above, since the grounds for the aforementioned presumption provision lie not in the fact that the information as to by whom each right is held is publicized, but in the fact that the existence and details of each patented invention are publicized, the aforementioned provision shall be applied by analogy to an act of infringing the legal interest of any monopolistic non-exclusive licensee who is not publicized as a right holder of the patented invention.

Thus, since the defendants' act of infringing Plaintiff 2's monopolistic non-exclusive license can be presumed to have been committed negligently, the defendants are liable for compensating the damage suffered by Plaintiff 2 as a result of the defendants' act.

iv. Article 29, paragraph (1) of the Utility Model Act prior to the amendment by Act No. 51 of 1998 is a political provision established in light of the fact that it is difficult for a utility model right holder to prove the amount of damage caused as a result of infringement of the utility model right or the exclusive license. The political purpose of establishing said provision is to presume that the lost earnings of the infringed party are equivalent to the profits gained by the infringer as a result of the act of infringement and increase the number of options available for the right holder to choose from in order to prove the damage to receive a remedy for the damage, and also to leave the infringer an opportunity to prove the need for a partial reduction of the presumed amount of damage, thereby allowing the right holder to recover the objectively reasonable amount of lost earnings. The aforementioned presumption provision is found to be premised on socially observed facts that can support the presumption that, since the infringer that is in competition with the right holder actually achieved a certain sales figure as a result of the act of infringement, the right holder could have achieved the same level of sales figure.

The political purpose of establishing such a presumption provision as Article 29, paragraph (1) of the Utility Model Act and the socially observed facts that support such presumption would stay the same even in the case where it is a monopolistic non-exclusive license for a registered utility model that has been infringed. Therefore, Article 29, paragraph (1) of the Utility Model Act mentioned above can be applied, by analogy, to the case where a right holder requests compensation for the damage caused by infringement of a monopolistic non-exclusive license.

Judgment rendered on May 29, 1998

1994 (Wa) 9183

Judgment

Plaintiff : X

Plaintiff : STYLE CREATION Co. Ltd.

Defendant : Mochida Corporation

Defendant : Daiwa-Health Inc.

Main Text

- (1) The defendant, Mochida Corporation, shall not manufacture and sell the insole presented in the attached defendants' product list.
- (2) The defendant, Mochida Corporation, shall dispose of the metal molds used to manufacture the insole presented in the attached defendants' product list.
- (3) The defendant, Daiwa-Health Inc., shall not sell the insole presented in the attached defendants' product list.
- (4) The defendant, Daiwa-Health Inc., shall dispose of the finished products of the insole presented in the attached defendants' product list.
- (5) The defendant, Mochida Corporation, shall pay the plaintiff, STYLE CREATION Co. Ltd., 4,357,543 yen and delay damages accrued thereon at a rate of 5% per annum from May 28, 1994 until the date of full payment.
- (6) The defendant, Daiwa-Health Inc., shall pay the plaintiff, STYLE CREATION Co. Ltd., 8,111,976 yen, as well as delay damages accrued on a part thereof, namely, 7,339,976 yen, at a rate of 5% per annum from May 28, 1994 until the date of full payment and delay damages accrued on the remaining part, 772,000 yen from March 31, 1995 until the date of full payment.
- (7) The other claims of the plaintiff, STYLE CREATION Co. Ltd., shall be dismissed.
- (8) The court costs shall be borne by the defendants.
- (9) This judgment with respect to the part for which the plaintiffs won the case may be provisionally enforced.

Facts

No. 1 Judicial decision sought by the parties

I. Objects of claims

1. The same as those mentioned in paragraphs (1) to (5), and paragraphs (8) and (9) of the main text.
2. The defendant, Daiwa-Health Inc., shall pay the plaintiff, STYLE CREATION Co.

Ltd., 8,111,976 yen and delay damages accrued thereon at a rate of 5% per annum from May 28, 1994 until the date of full payment.

II. Answers concerning the objects of claims

1. The claims of the plaintiffs shall be dismissed.
2. The plaintiffs shall bear the court costs.

No. 2 Allegations made by the parties concerned

I. Grounds for claims

1. Parties concerned

(I) Plaintiff X ("Plaintiff X") is a former representative director of the plaintiff, STYLE CREATION Co. Ltd. (the "plaintiff company"), and holds the following utility model right (the "Utility Model Right"; the registered device shall be hereinafter referred to as the "Device").

(1) Name of the Device: Correction insoles for bowlegs

Application Filing Date: June 4, 1988

Application Publication Date: March 17, 1993 (Publication of Examined Utility Model Application No. 1993-10813)

Registration Date: December 22, 1993

Registration No. 1998355

(omitted)

(II) The plaintiff company is granted a monopolistic non-exclusive license for the Device from Plaintiff X and sells the correction insoles for bowlegs in which the Device is worked.

(III) Since February 1993, the defendant, Mochida Corporation ("Defendant Mochida"), has been manufacturing and selling the insole ("Product (A)") presented in the attached defendants' product list (the "attached list").

(IV) Since February 1993, the defendant, Daiwa-Health Inc. ("Defendant Daiwa"), has been wholesaling Product (A) that Defendant Daiwa purchased from Defendant Mochida.

(omitted)

Reasons

I. Regarding Grounds for Claims 1 to 3, there is no dispute between the parties concerned.

(omitted)

4. Therefore, Product (A) falls under the technical scope of the Device.

III 1. As described above, the defendants' act of manufacturing and selling Product (A) constitutes infringement of the Utility Model Right. According to Exhibits Otsu 8 and 9, which are undisputed by the parties concerned, Defendant Mochida has not been manufacturing and selling Product (A) since March 1, 1994. Also, Defendant Daiwa has not been selling Product (A) since April, 1995 at the latest. However, since the defendants are disputing the aforementioned act of infringement in this case, there is a recognizable risk that the defendants could commit an act of infringing the Utility Model Right. Therefore, there are grounds for Plaintiff X's claim for an injunction against the defendants' act of manufacturing and selling Product (A). Furthermore, in view of the facts that there is no sufficient evidence to prove that Defendant Mochida has already disposed of the metal molds used to manufacture Product (A) and that there is a consensus between the parties concerned that Defendant Daiwa has Product (A) in stock, it can be said that there are also grounds for Plaintiff X's claim for Defendant Mochida's disposal of the aforementioned metal molds and for Defendant Daiwa's disposal of Product (A).

2. In view of the facts that there is a consensus among the parties concerned that the plaintiff company is granted a monopolistic non-exclusive license for the Device from Plaintiff X and that the plaintiff company has the legal interest in monopolizing the market and profits in the course of manufacturing the products by working the Device and selling it, the defendants' act of manufacturing and selling Product (A) constitutes infringement of the aforementioned interest. Article 103 of the Patent Act, which applies *mutatis mutandis* under Article 30 of the Utility Model Act prior to the amendment specifies that "any person who infringed another person's patent right or utility model right shall be presumed to have negligently committed such infringement." What this provision means is that, since the existence and details of each patented invention are publicized, any person who plans to manufacture, sell, or otherwise handle a new product or use a new method as a business can and should search through publicized information to check whether such new product or the method could infringe another person's patent right and therefore that, if such product or method infringes another person's patent right or utility model right, the infringer can be presumed to have committed negligence such as failing to carry out such search or make an appropriate decision based on the search results. As described above, since the grounds for the

aforementioned presumption clause lie not in the fact that the name of each right holder is publicized, but in the fact that the existence and details of each patented invention is publicized, the aforementioned provision shall be applied by analogy to an act of infringing the legal interest of any monopolistic non-exclusive licensee who is not publicized as a right holder of the patented invention.

Thus, since the defendants' act of infringing the plaintiff company's monopolistic non-exclusive license can be presumed to have been committed negligently, the defendants are liable for compensating the damage suffered by the plaintiff company as a result of the defendants' act.

IV. Damage suffered by the plaintiff company

1. Article 29, paragraph (1) of the Utility Model Act is a political provision established in light of the fact that it is difficult for a utility model right holder to prove the amount of damage caused as a result of infringement of the utility model right or the exclusive license. The purpose of this provision is found to be as described in 2.(II)(1) below. The political purpose of establishing such a presumption provision as said paragraph and the social fact that supports such presumption would stay the same even in the case where it is a monopolistic non-exclusive license for a registered utility model that has been infringed. Therefore, Article 29, paragraph (1) of the Utility Model Act can be applied, by analogy, to the case where a right holder requests compensation for the damage caused by infringement of a monopolistic non-exclusive license.

2. Profits gained by Defendant Mochida

(I) There is a consensus between the parties concerned that, since March 17, 1993, Defendant Mochida has manufactured 19,664 units of Product (A), sold each unit at 880 yen, and achieved the sales of 17,304,320 yen in total and that one of the expense items, i.e., the total manufacturing costs alleged by the plaintiff company, is 658.4 yen per unit (12,946,777 yen in total).

Therefore, Defendant Mochida can be considered to have gained the profits of 4,357,543 yen in total by manufacturing and selling Product (A). Said amount can be presumed to be equivalent to the amount of damage suffered by the plaintiff company.

(II) Defendant Mochida alleged that, from the aforementioned amount of profits, the costs of metal molds used to manufacture Product (A), marketing costs, and general administration costs should be deducted. However, such allegation is unacceptable for the following reasons.

(1) The purpose of the provision of Article 29, paragraph (1) of the Utility Model Act is as follows: In the case where the holder of a utility model right or an exclusive licensee hopes to seek payment of damages for an act of infringement and tries to determine the

scope of damage caused by the loss of the earnings (lost earnings), which accounts for a large part of the total amount of damage, and to calculate the amount of damage, it is often difficult to prove the existence of causality between the damage and the act of infringement and also to prove various figures that provide a basis for calculation of the amount of damage due to the nature of the situation where a presumption must be made based not on actual facts but on hypothetical facts, i.e., the profits that the right holder could have gained if there had been no act of infringement. Thus, it can be interpreted that the political purpose of establishing Article 29, paragraph (1) of the Utility Model Act, the provision to presume the amount of damage, is to presume that the lost earnings of the infringed party are equivalent to the profits gained by the infringer as a result of the act of infringement and thereby increase the number of options available for the right holder to choose from in order to prove the damage and provide the right holder with a remedy for the damage, and also to leave the infringer an opportunity to prove the need for a partial reduction of the presumed amount of damage in order to allow the right holder to recover the objectively reasonable amount of lost earnings. The aforementioned presumption clause was established on the premise that there are some socially observed facts that can support the presumption that, since the infringer that is in competition with the right holder actually achieved a certain sales figure as a result of the act of infringement, the right holder could have achieved the same level of sales figure.

Therefore, the meaning of the profits gained by the infringer as a result of the act of infringement, which provides a basis for the aforementioned presumption, should be determined based on the relation between said profits and the presumed facts without being influenced by the notion of profits within the framework of financial accounting. Furthermore, in the case where the utility model right holder has finished developing a product manufactured by working the registered utility model and completed the related investments, and the commercial manufacturing and sale of that product has already been commenced, the lost earnings suffered by the right holder should be considered to be equivalent to the sales profits calculated by subtracting only the variable costs for sales such as material costs and package costs from the sales of the aforementioned products as long as the number of units of the product does not exceed the level at which the right holder can manufacture and sell them without making additional investment or hiring additional employees for new development. If a presumption is made based only on the aforementioned profits, it is reasonable to interpret that the costs of metal molds that the infringer used to manufacture infringing goods and the costs that would arise regardless of the amount of sales such as marketing costs and

general administration costs are non-deductible.

The same may be said about the damages for infringement of a monopolistic non-exclusive license.

(2) An examination of this case from the aforementioned perspective has revealed the following. According to Exhibits Ko 20 and 27-1, which are undisputed by the parties concerned, and Exhibit Ko 28, which is considered to have been authentically established based on the entire import of oral argument, the following can be found. [i] Since July 1989, the plaintiff company has had a subcontractor manufacture the product by use of the Device (the "plaintiffs' product") and has been selling it. [ii] The plaintiff company purchased the raw materials of correction insoles for bowlegs manufactured by using the Device and supplied the material to the subcontractor. On the other hand, the subcontractor shall be liable for the costs of the metal molds necessary for the manufacturing of the plaintiffs' product. The plaintiff company does not record the costs of metal molds as expenses. [iii] During the period from February 1993 to February 1994, Defendant Mochida manufactured and sold Product (A). The plaintiff company manufactured and sold 41,732 units of the plaintiffs' product during the same period and sold 116,008 units by March 1995. [iv] In a discussion between the plaintiff company and the defendants with regard to this dispute prior to the filing of this lawsuit, a remedy was proposed to the effect that Defendant Mochida will purchase 10,000 units of the plaintiffs' product and that Defendant Daiwa will purchase 60,000 units of the plaintiffs' product per year.

According to the facts found above, the 19,664 units of Product (A) manufactured and sold by Defendant Mochida during the period from March 17, 1993 to February 28, 1994 may be considered to be lower than the maximum number of units that the plaintiff company and its subcontractor could manufacture and sell without any additional investment or personnel costs. Therefore, it would be unreasonable to deduct from the amount of profits mentioned in (I) above the costs of metal molds, marketing costs, and general administration costs alleged by Defendant Mochida. Furthermore, there is no sufficient evidence to justify deduction of any other costs as variable costs.

(III) Therefore, there are grounds for the plaintiff company's request that Defendant Mochida shall pay 4,357,543 yen and delay damages accrued thereon at a rate of 5% per annum as specified in the Civil Code from May 28, 1994, which is after the act of tort, more specifically, the day following the date of the service of complaint, until the date of full payment.

3. Profits obtained by Defendant Daiwa

(I) There is a consensus among the parties concerned that Defendant Daiwa purchased

from Defendant Mochida 19,664 units of Product (A) under the name of Re Project at the total price of 17,304,320 yen, that the aforementioned units of Product (A) were, in form, sold from Re Project to Defendant Daiwa at the total sales price of 21,864,114 yen, that Defendant Daiwa sold 16,562 units out of these units of Product (A) at the total sales price of 22,810,182 yen, and that Re Project made a gross profit of 4,559,794 yen, whereas Defendant Daiwa made a gross profit of 3,552,182 yen.

As mentioned in 2.(II) above, since it would be unreasonable to deduct the marketing costs and the general administration costs, the amount of damage suffered by the plaintiff company can be estimated to be 8,111,976 yen, which is a total of the sales profits of 4,559,794 yen made under the name of Re Project and the sales profits of 3,552,182 yen made under the name of Defendant Daiwa.

(II) The plaintiff company demands payment of delay damages accrued from May 28, 1994, which is the day following the date of the service of complaint. According to the aforementioned Exhibit Otsu 9, 772,000 yen out of the aforementioned profits of 8,111,976 yen can be considered to be the profits gained from the sale of Product (A) during the period from April 1994 to March 1995. However, since the specific timings of sales during said period are unclear, it is inevitable to deem the initial date of the delay damages calculation period for the aforementioned 772,000 yen to be March 31, 1995, which is the last day of said period.

Therefore, as far as 772,000 yen out of the aforementioned profits of 8,111,976 yen is concerned, the plaintiff company's claim is well grounded to the extent that the plaintiff company is entitled to demand payment of delay damages accrued thereon at a rate of 5% per annum as specified in the Civil Code from March 31, 1995, which is after the act of tort, until the date of full payment (Regarding the profits made under the name of Re Project, according to Exhibit Otsu 9 mentioned above, since Re Project is considered to be the purchasing department of Defendant Daiwa, Re Project is presumed to have simply adjusted the accounts and immediately assigned Product (A), which it had purchased from Defendant Mochida, to Defendant Daiwa, and there is no sufficient evidence to prove that any other profits were made under the name of Re Project after the service of complaint).

V. Conclusion

The court found that the plaintiffs' claim is well grounded to the extent specified in the main text and therefore acceptable. However, the court dismissed any other part of the plaintiffs' claim due to lack of grounds. The judgment has been rendered in the form of the main text by applying Article 61, the proviso to Article 64, and Article 65 of the Code of Civil Procedure to the payment of court costs and applying Article 259 of said

Code to the declaration of provisional execution.

(Tokyo District Court: Judge: YAGI Kimiko; Presiding Judge, NISHIDA Yoshiaki, and Judge, IKEDA Nobuhiko, cannot sign and seal this document due to a relocation and a transfer of position, respectively.)

(attached lists omitted)