

Date	January 28, 2009	Court	Intellectual Property High Court, Third Division
Case number	2008 (Ne) 10070		
– A case in which the court revoked the judgment in prior instance that found a mistake in elements with regard to the agreement for the grant of an exclusive license with respect to the patent and upheld the claim for return of the contract money as unjust enrichment.			

References: Article 95 of the Civil Code

Numbers of related rights, etc.: Patent No. 3396776

### Summary of the Judgment

#### 1. Background

Appellant K (the defendant in prior instance) holds a patent right for Patent No. 3396776 for the invention titled "stone bath device" (the "Patent Right" and the "Patent"). Appellant Ishi no Yu So Honbu (the defendant in prior instance) is a stock company run by Appellant K.

The appellee (the plaintiff in prior instance) entered into an agreement for the grant of an exclusive license (the "License Agreement") with Appellant K with respect to the Patent and paid 30,000,000 yen as contract money to Appellant K on the basis of such agreement, but later, a JPO decision invalidating the Patent became final and binding. Accordingly, the appellee sought against the appellants payment of 30,000,000 yen with delay damages by making [i] a claim for damages based on tort as a principal claim, and making [ii] a claim for damages based on default and [iii] a claim for return of unjust enrichment based on the nullity of the License Agreement due to a mistake in elements or violation of public policy, or violation of the principle of good faith, as alternative claims.

The court of prior instance rendered a judgment to partially uphold the appellee's claims by accepting the claim related to a mistake in elements, while rejecting both the claim related to tort and the claim related to default, and thereby ordered the appellants to pay to the appellee 30,000,000 yen of unjust enrichment with the delay damages. Dissatisfied with the judgment in prior instance, the appellants filed an appeal to the IP High Court.

#### 2. Court decision

In this judgment, the court decided that the following claims alleged by the appellee should all be rejected: [i] claim for damages based on tort: [ii] claim for damages based on default; and [iii] claim for return of unjust enrichment based on the

nullity of the License Agreement due to a mistake in elements or violation of public policy, or violation of the principle of good faith. In conclusion, it revoked the judgment in prior instance with regard to the parts against the appellants, and dismissed all of the appellee's claims.

In this judgement, the court did not find a mistake in elements mentioned in [iii], on the grounds as summarized below.

- The License Agreement has been concluded between the parties who perform profit-oriented business and the subject matter thereof is the Patent Right (exclusive license). Therefore, it is essential, as a generally accepted principle of trading, for the parties to the agreement to examine the substance of the patent right, which is the subject matter of the agreement, in concluding an agreement. More specifically, a reasonable business operator may well be expected to examine and take into consideration the following matters in a comprehensive manner: [i] "the width of the technical scope of the invention;" [ii] the degree of possibility for the relevant patent to be invalidated in the future;" and [iii] "the degree of utility and contribution of the relevant patent right (exclusive license) to the business it plans." Moreover, with respect to the "width of the technical scope" and "possibility of invalidation," they would be required to conduct research and examination on the patent gazette, application procedures and the state of prior art. Even if there is any difficulty in making an analysis or evaluation by themselves, they should be able to make an appropriate evaluation by asking specialists for some opinions.

- In this case, the appellee was planning to gain profits by receiving an exclusive license from Appellant K and granting a sublicense (non-exclusive license) to a third party or operating a facility by itself based on the exclusive license. As such, the appellee should have analyzed, evaluated, and examined the value (technical scope of the invention, etc.) of the Patent Right (exclusive license) in relation to the purpose of such business.

- Meanwhile, the Patent Right was invalidated due to the circumstances which neither party expected. However, since a special provision stipulating that the contract money would not be returned was included in the License Agreement, the appellee could not claim the return of the paid money on the grounds of invalidation of the Patent.

- Nevertheless, if no circumstances had occurred causing the Patent to be invalidated, the Patent Right would have had the technical scope as stated in the scope of claims of the Patent as well as the exclusive right on the equivalents thereof and such exclusive right would have been beneficial to the business planned by the appellee. Actually, the

appellee has received the payment of 5,250,000 yen as contract money for granting a non-exclusive license to a third party based on the authority to sublicense under the License Agreement. As such, it is absolutely impossible to construe that the appellee's mistake in recognizing the technical scope of the Invention hindered the business planned by the appellee. Moreover, it cannot go so far as to say that the appellee would not have manifested its intention to enter into the License Agreement unless Device Z fell within the technical scope of the Invention or the scope of equivalents thereof.

- Based on the abovementioned findings, even if the appellee made a mistake in recognizing the technical scope of the invention related to the Patent Right, which is the subject matter of the License Agreement, such mistake cannot be regarded as a "mistake in elements" in relation to the License Agreement. Moreover, even if there was any mistake in recognition on the part of the appellee, it was attributable to the appellee's negligence in conducting research and examination on the matters, which should have naturally been done in concluding an agreement in the course of performing such a business, and thus, it should be deemed to be misconception resulting from the appellee's gross negligence.

Judgment rendered on January 28, 2009

2008 (Ne) 10070, Appeal case claiming damages

(Court of prior instance: Tokyo District Court, Case No. 2007 (Wa) 17344)

Date of conclusion of oral argument: November 27, 2008

#### Judgment

Appellant: Kabushiki Kaisha Ishi no Yu So Honbu

Appellant: K

Counsel attorney of the appellants: KAKIZAKI Kiyoki

Appellee: Kabushiki Kaisha Ishi no Yu Gifu

Counsel attorney of the appellee: MIKIYA Osamu

Same as above: SHIMAZU Mamoru

Same as above: UMETSU Yuki

Same as above: KURITA Yutaro

#### Main Text

1. The decisions made against the appellants in the judgment in prior instance shall be rescinded.
2. All of the claims of the appellee shall be dismissed.
3. The appellee shall bear the court costs for both the first and second instances.

#### Facts and Reasons

##### No. 1 Object of the appeal

The same as the main text.

##### No. 2 Outline of the case

1. Background to the prior instance, etc.

The appellee (the plaintiff in prior instance; hereinafter referred to as the "Plaintiff") entered into an agreement for the grant of an exclusive license (hereinafter referred to as the "License Agreement" in some cases) with the appellant, K, (the defendant in prior instance; hereinafter referred to as "Defendant K") with respect to a patent granted for an invention titled "stone bath device" for which the Defendant K holds a patent right (Patent No. 3396776; hereinafter referred to as the "Patent" and the invention thereof shall be referred to as the "Invention"). Although the Plaintiff paid 30,000,000 yen as contract money to Defendant K on the basis of such agreement, later, a JPO decision invalidating the Patent became final and binding. Thus, the Plaintiff made the following claims against Defendant K and the appellant, Kabushiki Kaisha Ishi no Yu So Hombu (the defendant in prior instance; hereinafter referred to as the "Defendant Ishi no Yu So Hombu" or "Defendants" together with Defendant K), managed by Defendant K.

(1) (Primary claim) The Plaintiff alleged as follows and claimed payment of damages of

30,000,000 yen and delay damages accrued thereon at the rate of 5% per annum as prescribed in the Civil Code for the period from October 27, 2006 until the completion of payment: [i] The Defendants' following act constitutes joint tort: The Defendants, knowing that there were causes for invalidation of the Patent, led the Plaintiff to erroneously believe that the Patent was in force without informing the Plaintiff of such fact. Further, the Defendants erroneously explained that the stone bath device is a product in which the Invention is worked though it is not in reality and thereby induced the Plaintiff to enter into the License Agreement and pay 30,000,000 yen as contract money; [ii] The Defendants' act of causing the Patent to be invalidated and thereby preventing the Plaintiff from exclusively using the stone bath device related to the Patent constitutes joint tort (the Plaintiff preliminarily alleged the application of Article 350 of the Companies Act against the Defendant Ishi no Yu So Hombu);

(2) (Preliminary claim) The Plaintiff claimed payment of damages for the same amount against Defendant K and Defendant Ishi no Yu So Hombu, who is the substantial party to the agreement, by alleging that the Defendants' act of causing the invalidation of the Patent and preventing the Plaintiff from exclusively using the stone bath device related to the Patent constitutes default; and

(3) (Preliminary claim) The Plaintiff claimed against the Defendants the return of the same amount as the abovementioned contract money based on the right to claim return of unjust enrichment by alleging that the License Agreement is invalid due to a mistake or violation of public policy.

The court of prior instance rendered a judgment to partially uphold the Plaintiff's claims by rejecting both the claim related to tort as mentioned in (1) above and the claim related to default as mentioned in (2) above, but accepting the claim related to the mistake in elements mentioned in (3) above and thereby ordering the Defendants to pay to the Plaintiff 30,000,000 yen of unjust enrichment, which is equivalent to the amount of contract money, and the delay damages (indivisible obligation) accrued thereon at the rate of 5% per annum as prescribed in the Civil Code for the period from December 1, 2006 (the day following the day on which the demand for return was made) until the completion of payment.

Dissatisfied with the judgment in prior instance, the Defendants filed the appeal in question.

Except for the parts added as in 2. below, the allegations of the parties are the same as those presented in the judgment in prior instance, i.e. the statements presented in the section titled "1. Undisputed facts between the parties" and "2. Issues" of the subsection "No. 2 Outline of the case" and "No. 3 Allegations of the parties concerning the issues"

under the section "Facts and reasons" in the judgment in prior instance. Therefore, the corresponding parts of the judgment in prior instance may be cited.

The abbreviations used in the prior instance shall be used in this court without any change.

## 2. Allegations in this court

(1) The following description shall be inserted after line 10 of page 11 of the judgment in prior instance, beginning on a new line.

"(4) Absence of mistake

A. Since system Z falls within the technical scope or the scope of equivalents of the Invention, there was no mistake in the Plaintiff's recognition upon concluding the License Agreement.

B. Even if system Z neither falls within the technical scope or the scope of equivalents of the Invention and there was a mistake in the Plaintiff's recognition on the technical scope of the Invention, such mistake is nothing but a mistake in the motivation for concluding a license agreement. Moreover, since there is no manifestation of such motivation, such mistake is not a mistake in the elements.

In addition, while the Plaintiff has granted a non-exclusive license to Yumotokan based on the authority to sublicense granted under the License Agreement (Exhibits Otsu No. 38 and No. 39), the system of Yumotokan does not have a structure identical to that of system Z (Exhibits Otsu No. 40 through No. 43).

(5) Existence of the Plaintiff's gross negligence with respect to the mistake (re-defense)

Even if there was a mistake in the Plaintiff's recognition, the Plaintiff cannot allege the nullity of its manifestation of intention against the Defendants due to its gross negligence (proviso to Article 95 of the Civil Code).

The Plaintiff is a corporation established for the purpose of operating stone baths and bathhouses, etc. Therefore, in order to perform the business in line with the purpose of the corporation, the Plaintiff should conduct the necessary research in entering into an agreement concerning a non-exclusive license. Moreover, there is no difficulty in making a research on the contents of the patent right. Therefore, even if there was a mistake in the contents of the patent right upon entering into the License Agreement, such mistake is based on the gross negligence of a business operator."

(2) The following description shall be inserted after line 13 of page 11 of the judgment in prior instance, beginning on a new line.

"[Reallegation of the Plaintiff] There is no gross negligence on the part of the Plaintiff for committing a mistake. Moreover, since the Defendants themselves have

admitted that they did not have a sufficient understanding on the difference between the Invention and system Z, there is no gross negligence on the part of the Plaintiff for committing a mistake."

### No. 3 Decision of the court

The court decides that the following claims alleged by the Plaintiff should all be rejected: [i] claim for damages based on tort; [ii] claim for damages based on default; and [iii] claim for return of unjust enrichment based on invalidation of the License Agreement due to mistake in elements or violation of public policy, or violation of the principle of faith and trust.

With respect to the claims mentioned in [i] and [ii], the reasons are as mentioned in the judgment in prior instance, and thus the part from line 17 of page 12 to line 22 of page 22 of the judgment in prior instance shall be cited.

1. Regarding the existence or absence of the mistake in elements and gross negligence in relation to the mistake

#### (1) Background to the facts

The circumstances before and after the conclusion of the License Agreement are the same as those stated in line 21 of page 2 to line 25 of page 5 and line 17 of page 12 to line 12 of page 19 of the judgment in prior instance. Therefore, the corresponding parts of the judgment in prior instance shall be cited.

The summary of the cited parts is as follows (in addition to the undisputed facts, etc. between the parties as mentioned above, the evidence (Exhibits Ko No. 1, No. 9, No. 12 through No. 14, and No. 20, Exhibits Otsu No. 1, No. 20 through No. 23, No. 29, No. 30, and No. 35 through No. 37, Exhibits Hei No. 1 through No. 3, No. 4-1 and No. 4-2, No. 5, No. 8-1 and No. 8-2, No. 9 through No. 14, No. 15-1 and No. 15-2, and No. 16 through No. 18, testimony of F in the prior instance, statement of Defendant K in the prior instance, and statement of codefendant Z in the prior instance)).

A. In March 2003, Defendant K, who was engaged in the research and development of the stone bath device, and Z, who manages a bathhouse named "Arashi no Yu" (at that time, the name was "Yugen Kaisha Minna no Ishi no Yu"), agreed to promote a business to jointly sell the stone bath device related to the Invention. In performing the joint business, Defendant K entered into an agreement to grant a non-exclusive license of the Patent to "Arashi no Yu."

Around March 2003, in order to provide a model for sales of the stone bath device, Z installed stone bath device No. 1 in a hot spring accommodation facility named "Tabiyakata Arashi Yu" (Yamagata prefecture), which is related to the management of "Arashi no Yu," under the instructions of Defendant K. Moreover,

around October 2003, Z installed system Z in "Tabiyakata Arashi Yu." System Z was attached with a structure to inundate the inside of the stone bathtub with vapor of hot spring water by introducing hot spring water to the medical stone layer of stone bathtub system No. 1 and vaporizing it (stone bath device No. 2).

B. Around October 2003, F (the officer of the Plaintiff which was subsequently established) and others visited "Tabiyakata Arashi Yu" with an intention to conduct a business related to a facility using a stone bath device. Upon such visit, they received an explanation from Z on the outline of the structure of system Z as well as on the fact that the patent right in question (hereinafter referred to as the "Patent Right") held by Defendant K is worked in system Z.

Around November 2003, because they were short of funds to establish and manage a facility using a stone bath device by themselves, F and others came up with the idea of conducting a business to sublicense a third party by receiving an exclusive license of the Patent. As such, in December 2003, a negotiation was held between Defendant K, F and others. Upon such negotiation, Defendant K and others explained to F and others the contents of the contract terms of the draft of the abovementioned license agreement and especially explained to the effect that the contract money, etc. shall not be returned even if the Patent is invalidated in relation to Article 6, paragraph (1) of the License Agreement, and F and others gave their consent to the draft license agreement. Immediately after such negotiation, on December 12, 2003, the Plaintiff was established as a stock company.

On December 22, 2003, in the presence of Defendant K, representative of the Plaintiff, F, Z and others, an agreement to grant an exclusive license with respect to the Patent Right was concluded. The details of the agreement are as follows: The area in which the Invention will be worked is Gifu and Nagano prefectures and the price is 30,000,000 yen. The Plaintiff is an exclusive licensee and is able to grant a non-exclusive license to others by obtaining consent from Defendant K. A special provision that the amount already paid shall not be returned is attached. On December 24, 2003, the Plaintiff paid 30,000,000 yen as the contract money in question, to Defendant K, based on the License Agreement.

C. Later, Defendant K and "Arashi no Yu" (managed by Defendant Z), who was a non-exclusive licensee, came to have different views concerning the recognition of the validity of a patent and thus, the Plaintiff, while cancelling the agreement for non-exclusive license, filed an action for injunction of the infringement of patent right against "Arashi no Yu" by alleging that system Z infringed the Patent Right. However, due to an action for injunction of the infringement of patent right filed against "Arashi

no Yu" by Defendant K, "Arashi no Yu" filed a request for a trial for patent invalidation. In response to this, in April 2005, the JPO rendered a trial decision to invalidate the Patent for reasons such as lack of inventive steps, and such JPO decision became final and binding in October 2006.

## (2) Decision

In light of the background to the facts before and after the conclusion of the abovementioned License Agreement, the Plaintiff's act of erroneously believing that system Z falls within the technical scope of the Invention in concluding the License Agreement should not be construed as falling under a mistake of elements, and moreover, even if there were any errors in the facts recognized by the Plaintiff, it should be said that such erroneous recognition is based on gross negligence. Therefore, the Plaintiff is not entitled to claim the invalidation of the License Agreement.

The reasons are as follows.

Specifically, the License Agreement has been concluded between the parties who perform profit-oriented business and the subject matter thereof is the Patent Right (exclusive license). Therefore, it is essential, as a generally accepted principle of trading, for the parties to the agreement to examine the substance of the patent right which is the subject matter of the agreement, in concluding an agreement. More specifically, a reasonable business operator may well be expected to examine and take into consideration the following matters in a comprehensive manner: [i] "the width of the technical scope of the invention;" [ii] the degree of possibility for the relevant patent to be invalidated in the future;" and [iii] "the degree of utility and contribution of the relevant patent right (exclusive license) to the business it plans." Moreover, with respect to the "width and narrowness of the technical scope" and "possibility of invalidation," they would be required to conduct research and examination on the patent gazette, application procedures and the state of prior art. Even if there is any difficulty in making an analysis or evaluation by themselves, they should be able to make an appropriate evaluation by asking specialists for some opinions.

In this case, the Plaintiff was planning to gain profits by receiving an exclusive license from Defendant K, relicensing a third party (non-exclusive license) based on the first-mentioned license and operating a facility by itself. As such, the Plaintiff should have analyzed, evaluated, and examined the value (technical scope of the invention, etc.) of the Patent Right (exclusive license) in relation to the purpose of such business.

Meanwhile, the Patent Right was invalidated by circumstances which neither party expected. However, since a special provision stipulating that the contract money would not be returned was provided in the License Agreement, the Plaintiff could not

claim for the return of the paid money on the grounds of invalidation of the Patent.

Nevertheless, if no circumstances had occurred causing the Patent to be invalidated, the Patent Right would have had the technical scope as stated in the scope of claims of the Patent as well as the exclusive right on the equivalents thereof and such exclusive right would have been beneficial to the business planned by the Plaintiff. Actually, the Plaintiff has received the payment of 5,250,000 yen as contract money for granting a non-exclusive license to Yumotokan based on the authority to sublicense granted under the License Agreement (Exhibits Otsu No. 38 and No. 39). As such, it is absolutely impossible to construe that the errors in the Plaintiff's recognition on the technical scope of the Invention acted as a hindrance to the business planned by the Plaintiff. Moreover, it cannot be found that the Plaintiff would not have manifested its intention to enter into the License Agreement unless system Z fell within the technical scope of the Invention or the scope of equivalents thereof.

Based on the abovementioned findings, even if there were errors in the Plaintiff's recognition on the technical scope of the invention related to the patent right, which is the subject matter of the License Agreement, such errors cannot be found to fall under the "mistake of elements" in relation to the License Agreement. Moreover, even if there was any erroneous recognition, such erroneous recognition occurred as a result of neglecting to conduct research and examination on the matters which should have naturally been done in concluding an agreement in the course of performing such a business, and thus, such misconception is due to gross negligence.

## 2. Regarding the violation of public policy or principle of faith and trust

With respect to the Plaintiff's erroneous belief, there is not sufficient evidence to find that the Defendants were, from the very beginning, acting in bad faith upon the conclusion of the License Agreement, and also, taking into account the facts of this case as found above, the conclusion of the License Agreement is not in violation of the public policy. Moreover, the Defendants' act of incorporating a special provision stipulating that the contract money shall not be returned is not a violation of the principle of faith and trust, and thus, the Plaintiff's allegation in this regard is groundless.

## 3. Conclusion

Based on the abovementioned findings, the Plaintiff's claims against the Defendants are all groundless and thus must be dismissed. Therefore, the decisions made against the Defendants in the judgment in prior instance, which are to contrary to the above, shall be rescinded and the Plaintiff's claims shall all be dismissed, and the judgment shall be rendered in the form of the main text.

Intellectual Property High Court Third Division

Presiding Judge: IIMURA Toshiaki

Judge: SAIKI Norio

Judge: SHIMASUE Kazuhide