

Patent Right/ Design Right	Date	August 28, 2019	Court	Intellectual Property High Court, First Division
	Case number	2019 (Ne) 10023		
<p>- A case in which the design right was also permitted implicitly upon licensing of the patent invention in the memorandum.</p> <p>- A case in which the patent right and the design right were decided to be exhausted by assignment of the worked product for the act of sales of a product to which the worked product of the patent right holder and the design right holder is attached.</p>				

Case type: Injunction

Result: Appeal dismissed

References: Article 2, paragraph (1), item (xv) (Article 2, paragraph (1), item (xxi) after amendment of Act No. 33 of 2018), Article 3, paragraph (1) of the Unfair Competition Prevention Act, Article 78 of the Patent Act, Article 28 of the Design Act

Number of related rights, etc.: Patent No. 3894828, Design Registration No. 1176264

#### Summary of the Judgment

1 This case is a case in which the appellee (plaintiff in the first trial) who purchased an earpad to be attached to an earphone from the appellant (defendant in the first trial) and performed manufacture, sales, and the like of the earphone alleged that publication of an article by the appellant on the website opened thereby that the manufacture, sales, and the like of the earphone by the appellee infringe the present intellectual property rights (present patent right 1 and the present design right) as well as the present patent right 2 held by the appellant, and announcement to the customers of the appellee (the present act) were applicable to an act of unfair competition under Article 2, paragraph (1), item (xv) of the Unfair Competition Prevention Act (Article 2, paragraph (1), item (xxi) after amendment of Act No. 33 of 2018) and claimed for injunction of the present act from the appellant under the right to seek injunction by Article 3, paragraph (1) of the Act.

The court of prior instance found that, since the appellant's rights (present intellectual property rights) mentioned by the present act had already been exhausted by the appellant's assignment of the defendant's product, the fact that the appellee infringed the present intellectual property rights was false and approved the appellee's claim for injunction of the announcement/spread of the fact.

Then, the appellant instituted the present appeal against the portion in which the appellant lost.

2 This judgment dismissed the appeal by stating as follows in brief:

(1) Presence of licensing according to working of present intellectual property rights

It is found that agreement was made with the present subsidiary in the present memorandum that the appellant (A) licensed the present subsidiary to use all the patents related to the Incore and the earpad held by the appellant and would not claim a consideration related to the license; and (B) licensed the present subsidiary to develop and to sell goods using the appellant's earpad and would cooperate in supply of the earpad. Moreover, the plaintiff's product is found to be a good developed in the present subsidiary by using the earpad supplied by the appellant. Moreover, the appellee was assigned with the business related to the manufacture and sales of the plaintiff's product from the present subsidiary as of November 15, 2016 and succeeded the business, and this was accepted in advance by the appellant in Article 9 of the present memorandum.

Then, it is found that the appellee manufactured and sold the plaintiff's product on the basis of the license of the patent invention according to the present patent right 1 given in the present memorandum.

Moreover, in view of the situation that the gist of the aforementioned license is the manufacture and sales of the plaintiff's product, it is presumed that the present design right was also granted implicitly at licensing of the patent invention according to the present patent right 1.

As described above, the appellee's manufacture/sales of the plaintiff's product should be considered to be within the range of the appellant's grant and not to infringe the present intellectual property rights of the appellant.

Thus, it is found that the facts announced and spread in the present act are false.

(2) Establishment of exhaustion related to present intellectual property rights

A. If the patent right holder assigns the patent product in our country, the patent right is considered to have achieved the purpose for the patent product and is exhausted, and the effect of the patent right no longer reaches acts of using, assigning or lending, or the like of the patent product, and it is interpreted that the patent right holder is not allowed to exercise the patent right of the product (omitted). Such interpretation is made because, if permission of the patent right holder is required each time assignment of the patent product is made, smooth distribution of the patent product in the market is hindered, the interest of the patent right holder himself/herself is rather harmed, and the purpose of the Patent Act prescribed in Article 1 of the Patent Act is contracted, while the patent right holder has already been guaranteed an opportunity to ensure compensation of disclosure of the patent

invention, and there is no need to allow the patent right holder to gain double interests in the distribution process thereof for the patent product assigned from the patent right holder. Since this gist is also applicable to the design right, it is reasonable to understand similarly for the exhaustion of the design right.

B. The appellee purchased the defendant's product (earpad) which is a worked product of the present intellectual property rights from the appellant having the present intellectual property rights, put it together with the earphone which is the plaintiff's product, a transceiver body, a connector, and a PTT switchbox intermediating the plaintiff's product in separate zipped plastic bags, respectively, sealed in one paper box together with a warranty and an operation manual of the plaintiff's product, and sold it.

In view of the facts as above, the appellee sold the plaintiff's product attached with the defendant's product, and it cannot be considered that the patent product which is not identical to the defendant's product is newly manufactured, but it is interpreted that the present intellectual property rights are exhausted for the defendant's product by assignment of the defendant's product from the appellant to the appellee. Then, since the appellant is no longer allowed to exercise the present intellectual patent right with respect to the appellee, the act of manufacture and the like of the plaintiff's product by the appellant should not be considered to infringe the present intellectual property rights held by the appellant.

Judgment rendered on August 28, 2019

2019 (Ne) 10023 Appeal case of seeking injunction against Unfair Competition Act (court of prior instance: Tokyo District Court, 2018 (Wa) 6962)

Date of conclusion of oral argument: July 8, 2019

## Judgment

Appellant: NAP ENTERPRISE Co., Ltd.

Appellee: S.O.W. Inc.

### Main text

1. This appeal shall be dismissed.
2. The Appellant shall bear the cost of the appeal.

### Facts and reasons

#### No. 1 Gist of the appeal

1. The portion in which the appellant lost in the judgment in prior instance shall be rescinded.

2. The appellee's claim related to the portion in the preceding clause shall be dismissed.

#### No. 2 Outline of the case (abbreviations follow the judgment in prior instance unless otherwise specified.)

1. This case is a case in which the appellee (plaintiff in the first trial) who purchased an earpad to be attached to an earphone from the appellant (defendant in the first trial) and performed manufacture, sales, and the like of the earphone alleged that publication of an article by the appellant on the website opened thereby that the manufacture, sales, and the like of the earphone by the appellee infringe the present patent right 1 and the present design right (the present intellectual property rights) as well as the present patent right 2 held by the appellant and announcement to the customers of the appellee (the present acts) were applicable to an act of unfair competition under Article 2, paragraph (1), item (xv) of the Unfair Competition Prevention Act (Article 2, paragraph (1), item (xxi) after

amendment of Act No. 33 of 2018) and claimed for injunction of the present acts from the appellant under the right to seek injunction by Article 3, paragraph (1) of the Act.

The court of prior instance found that the present patent right 2 is not included in the rights mentioned by the present acts, and since the appellant's rights (present intellectual property rights) mentioned by the present acts had already been exhausted by the appellant's assignment of the defendant's product, the fact that the appellee infringed the present intellectual property rights was false, and approved the appellee's claim to the extent that the injunction of the announcement/spread of the fact was sought.

Then, the appellant instituted the present appeal against the portion in which the appellant lost.

2. Since the basic facts are as described in No. 2, 2 of "Facts and Reasons" in the judgment in prior instance, they are cited.

### 3. Issues

(1) Whether the facts the appellant announced or spread are false (issue 2 in the court of prior instance)

A. Presence of approval related to working of the present intellectual property rights (issue 2-1 in the court of prior instance)

B. Establishment of exhaustion related to the present intellectual property rights (issue 2-2 in the court of prior instance)

(2) Propriety of injunction (issue 3 in the court of prior instance)

(omitted)

### No. 4 Judgment of this court

This court also judges that the appellant's present acts fall under the announcement or spread of false facts, and the appellee's claim for injunction thereof is grounded.

The reasons for this are as follows:

#### 1. Found facts

In addition to the basic facts (No. 2, 2 in "Facts and Reasons" of the judgment in prior instance according to the citing), each of the following facts can be found by integrating the evidences (Exhibits Ko 5, 6, 12 to 15, Exhibits Otsu 1-1, 1-2, 2, 15) and the entire import of the oral argument:

- (1) The appellant founded Nap Communications (trade name at that time was Nap Sales Company; hereinafter, referred to as the "present subsidiary") in 2006 and sold the defendant's product (earpad, the name was "Incore") through the same company.
- (2) The appellant made the same company a subsidiary of the appellee by assigning stocks of the present subsidiary to the appellee in order to reconstruct management by receiving economic support by the appellee in 2010 and concluded the present license agreement as of April 16 of the same year with the present subsidiary which had become the subsidiary of the appellee. The trade name of the company was changed to the present one on June 30 of the same year, and sales of the defendant's product were promoted by producing and selling the earphone by working the patent invention according to the present patent right 1 in the company.
- (3) However, the aforementioned intention was not necessarily successful, and on March 23, 2016, the present memorandum (Exhibit Ko 5) was prepared between the appellant and the present subsidiary on the business with the purpose of sales of Incore (hereinafter referred to as the "Incore business").

In the present memorandum, together with the sales business of the defendant's product and reorganization of the credit/debt relationship and capital relationship between the appellant and the present subsidiary (Articles 1 to 4 of the present memorandum), it was agreed that the appellant (A) licenses the present subsidiary to use all the patents related to Incore and the earpad held by the appellant (first half of Article 5) and would not claim a consideration related to the license (second half of the same Article); (B) licenses development and sales of goods using the appellant's earpad and cooperates in supply of the earpad (Article 6); (C) understands development of a new earphone microphone by using the supplied earpad and licensed patents in advance and confirms that the appellant's consent or the like is not needed for the goods development (Article 7); (D) with reorganization/reconstruction of the Incore business by the present subsidiary, confirms that the business would be assigned to an affiliated company of the present subsidiary (including affiliated companies of the appellee) in advance

and would not object to it (first half of Article 9); and (E) when the business is assigned, the present subsidiary allows the present memorandum to be succeeded to by the affiliated company who is the assignee, and the appellant also does business mutually with good faith on the basis of the contents of the present memorandum with the aforementioned company who is the assignee (second half of the Article).

- (4) After that, on the basis of the present memorandum, the defendant's product was delivered from the appellant to the present subsidiary several times, the plaintiff's product (earphone, name: "aurocap") was developed by the present subsidiary by using the earpad supplied by the appellant, and manufacture and sales thereof were performed.
- (5) The appellee was assigned the business related to the manufacture/sales of the plaintiff's product from the present subsidiary as of November 15 of the same year and continued the business.
- (6) The appellee purchased the defendant's product (earpad) from the appellant, put it together with the earphone which is the plaintiff's product, a transceiver body, a connector cable, and a PTT switchbox intermediating with the plaintiff's product in separate zipped plastic bags, respectively, sealed in one paper box together with a warranty and an operation manual of the plaintiff's product, and sold it.

## 2. Presence of licensing according related to present intellectual property rights

(1) As described in the aforementioned 1(3), it is found that in the agreement that was made with the present subsidiary in the present memorandum, the appellant (A) licensed the present subsidiary to use all the patents related to Incore and the earpad held by the appellant (first half of Article 5) and would not claim a consideration related to the license (second half of the same Article); and (B) licensed the present subsidiary to develop and to sell goods using the appellant's earpad and would cooperate in supply of the earpad (Article 6).

Moreover, as described in the aforementioned 1(4), the plaintiff's product is found to be a good developed in the present subsidiary by using the earpad supplied by the appellant.

Furthermore, as described in the aforementioned 1(5), The appellee was assigned the business related to the manufacture and sales of the plaintiff's product from the present subsidiary as of November 15, 2016 and succeeded the business, and this was accepted in advance by the appellant in Article 9 of the present memorandum.

Then, it is found that the appellee manufactured and sold the plaintiff's product on the basis of the license of the patent invention according to the present patent right 1 given in the present memorandum.

Moreover, in view of the situation that the gist of the aforementioned license is the manufacture and sales of the plaintiff's product, it is presumed that the present design right was also granted implicitly at licensing of the patent invention according to the present patent right 1.

As described above, the appellee's manufacture/sales of the plaintiff's product should be considered to be within the range of the appellant's grant and not to infringe the present intellectual property rights of the appellant.

(2) Appellant's allegation

A. The appellant alleges that the present memorandum was interpreted to be prepared/agreed as integral with the present licensing agreement concluded between the appellant and the present subsidiary in 2010, and although the appellee was obliged to report development and sales of the plaintiff's product to the appellant under Article 6 of the agreement, the appellee did not fulfill the obligation and thus, notification was made in the document as of April 3, 2017 (Exhibit Otsu 7), the intention of cancellation of the agreement was indicated by an e-mail (Exhibit Otsu 6) sent to A who is a representative of the present subsidiary from the representative of the appellant on 12 of the same month and as a result, the agreement of the permission in the present memorandum lapsed.

However, in view of the facts found in the aforementioned 1, it should be considered that the present memorandum was prepared in order to set the new relations of rights between the appellant and the present subsidiary with a view to subsequent business assignment on the basis of circumstances generated from April of 2010 to March of 2016, and in view of the contents of the agreement, it is difficult to interpret that the present memorandum was prepared/agreed integrally with the present licensing agreement.

As described above, the appellant's allegation that, when the intention of cancellation of the present licensing agreement was indicated, the agreement in the present memorandum also lapsed, lacks a premise and is not grounded.

B. The appellant alleges that, since the appellant recognized that the present memorandum is integral with the present licensing agreement, and the present subsidiary or the appellee is obliged to report the case on the basis of the agreement, the agreement according to the present memorandum includes "miscomprehension of the element" and is invalid, and since the present memorandum was signed with the recognition that only the present licensing agreement has a legal binding force and the present memorandum does not have the legal binding force as an agreement, and the present subsidiary who is a counterpart also knew such real intention of the appellant, the agreement according to the present memorandum is invalid due to mental reservation.

However, in the agreement in the present memorandum, the intentions of both parties are indicated in writing. The contents of the recognition mentioned by the appellant fall under the motivation of intention indication in the relation with the contents of the present memorandum, and since the motivation is indicated and it cannot be found to be an element of a legal act, the allegation of miscomprehension is not grounded. Moreover, in view of the description in the aforementioned A, it is not found that there was such recognition that the present memorandum does not have the legal binding force as an agreement in both parties of the present memorandum and thus, the allegation of invalidation due to mental reservation is not grounded.

### (3) Summary

According to the above, the appellee's manufacture and sales of the plaintiff's product are within the range of the appellant's grant and do not infringe the present intellectual property rights of the appellant.

Thus, the facts announced and spread in the present acts are found to be false.

### 3. Establishment of exhaustion related to present intellectual property rights

To make sure, establishment of exhaustion will be also examined.

(1) If the patent right holder assigns a patent product in our country, the patent right is considered to have achieved the purpose for the patent

product and is exhausted, and the effect of the patent right no longer reaches acts of using, assigning, or lending or the like of the patent product, and it is interpreted that the patent right holder is not allowed to exercise the patent right of the product (see Supreme Court 1995 (O) 1988 Judgment of Third Petty Bench on July 1, 1997/Civil Law Reports vol. 51, No. 6, page 2299, Supreme Court 2006 (Accepted) 826 Judgment of First Petty Bench on November 8, 2007/Civil Law Reports vol. 61, No. 8, page 2989). Such interpretation is made because, if permission of the patent right holder is required each time assignment of the patent product is to be made, smooth distribution of the patent product in the market is hindered, the interest of the patent right holder himself/herself is rather harmed, and the purpose of the Patent Act prescribed in Article 1 of the Patent Act is contradicted, while the patent right holder has already been guaranteed an opportunity to ensure compensation of disclosure of the patent invention, and there is no need to allow the patent right holder to gain double interests in the distribution process thereof for the patent product assigned from the patent right holder. Since this gist is also applicable to the design right, it is reasonable to understand similarly for the exhaustion of the design right.

(2) As described in the aforementioned 1(6), the appellee purchased the defendant's product (earpad), which is a worked product of the present intellectual property rights, from the appellant having the present intellectual property rights, put it together with the earphone which is the plaintiff's product, a transceiver body, a connector cable, and a PTT switchbox intermediating with the plaintiff's product in separate zipped plastic bags, respectively, sealed in one paper box together with a warranty and an operation manual of the plaintiff's product, and sold it.

In view of the facts as above, the appellee sold the plaintiff's product attached with the defendant's product, and it cannot be considered that the patent product which is not identical to the defendant's product is newly manufactured but it is interpreted that the present intellectual property rights are exhausted for the defendant's product by assignment of the defendant's product from the appellant to the appellee. Then, since the appellant is no longer allowed to exercise the present intellectual property rights with respect to the appellee, the act of manufacture and the like of the plaintiff's product by the appellee should not be considered to infringe the present intellectual property rights held by the appellant.

### (3) Appellant's allegation

A. The appellant alleges that the "assignment" of the patent product which is the ground for exhaustion typically refers to the right holder's placement of the patent product in distribution of the market, and whether the patent product is placed in distribution of the market needs to be decided by minutely examining individual assignment contents by considering [i] whether the assigner of the patent product who is the right holder obtains sufficient consideration; [ii] whether it is found that the right holder assumes circulation from one to another of the patent product; [iii] relationship between the assigner of the patent product who is the right holder and the assignee; and [iv] properties and the like of the patent product. Then, the appellant alleges that, under the present relation of facts, since the patent product is not placed in distribution of the market, the "assignment" of the patent product to be the ground for the exhaustion does not exist.

However, the grounds for the interpretation that the exhaustion is approved in a case where the patent right holder assigns the patent product in our country, while the patent right holder is not allowed to exercise the patent right of the product concerned is that, as described above, fundamentally, if the permission of the patent right holder is required each time assignment of the patent product is made, smooth distribution of the patent product in the market is hindered, the interest of the patent right holder himself/herself is rather harmed, and the purpose of the Patent Act prescribed in Article 1 of the Patent Act is contradicted. Then, to cause the circumstances between the assigner and the assignee which cannot be known to a third party to be related with whether or not the effect of the exhaustion is generated does not follow the gist of approval of the exhaustion. The appellant's allegation is not grounded.

B. The appellant also alleges that, even if the effect of exhaustion is generated by assignment, in the case of invalidation on the basis of misinterpretation or cancellation in the assignment, the effect of the exhaustion is lost, and also alleges that this case is such.

However, the appellant alleges invalidation on the basis of misinterpretation and cancellation with regard to the present memorandum in this case and not with regard to the assignment of the defendant's product

which is the ground for exhaustion and thus, the allegation itself on the issue of effect of exhaustion is unreasonable.

(4) Brief

According to the above, the present intellectual property rights are exhausted by the assignment of the defendant's product, and the appellee does not infringe the appellant's present intellectual property rights.

Thus, the facts announced and spread by the present act are found to be false.

4. Propriety of injunction

Since the decision on propriety of injunction is as described in No. 3, 3 of the "Facts and reasons" in the judgment in prior instance, it is cited.

5. Conclusion

As described above, the fact that the plaintiff's product infringes the present intellectual property rights is a false fact, and the appellee's claim for injunction of the announcement or spread is grounded.

Therefore, the judgment in prior instance approving the appellee's claim is reasonable, and since the present appeal is not grounded, it shall be dismissed and decided as in the main text.

Intellectual Property High Court, First Division

Presiding judge: TAKABE Makiko

Judge: KOBAYASHI Yasuhiko

Judge: SEKINE Sumiko