

Date of Rendition of Judgment: February 1, 2013
2012 (Ne) 10015, Case of an Appeal Filed for the Principal Action Seeking an
Injunction Against Patent Infringement, etc. and an Appeal Filed for the
Counterclaim Seeking Damages
(Court of prior instance: Tokyo District Court; 2009 (Wa) 44391 [Principal action],
2011 (Wa) 19340 [Counterclaim])
Date of conclusion of oral argument: November 16, 2012

Judgment

Appellant/Appellee

(Plaintiff in the principal action/

Defendant in the counterclaim

in the first instance): Sangenic International Ltd.

Counsel attorney: SAMEJIMA Masahiro

Same as above: KURE Mikiko

Same as above: TAKAMI Ken

Same as above: ITO Masahiro

Same as above: WADA Yuzo

Sub-counsel attorney: OGURI Hisanori

Same as above: MIZOTA Soji

Same as above: YAGISHITA Akihiko

Patent attorney as an assistant in court: KURATA Masatoshi

Same as above: KOIDE Toshimi

Same as above: SUNAGAWA Masaru

Same as above: YOSHIDA Chikashi

Appellee/Appellant

(Defendant in the principal action/

Plaintiff in the counterclaim

in the first instance): Aprica Children's Products Inc.

Counsel attorney: KUNIYA Shiro

Same as above: SHIGETOMI Takamitsu Same

as above: WAKABAYASHI Motonobu Same

as above: TAKEHIRA Seigo

Same as above: YOSHIMURA Kousuke

Counsel patent attorney: ITO Hidehiko

Same as above: TAKEUCHI Naoki

Main Text

1. Based on the appeal filed by Appellant/Appellee Sangenic International Ltd. and an expansion of claims made in this instance, a part of the judgment in the prior instance that is related to the principal claim is modified as follows.

(1) Appellee/Appellant Aprica Children's Products Inc. shall not import, sale, or offer to sell the product stated in the attached Product List A.

(2) Appellee/Appellant Aprica Children's Products Inc. shall dispose of the product stated in the attached Product List A.

(3) Appellee/Appellant Aprica Children's Products Inc. shall pay Appellant/Appellee Sangenic International Ltd. 148,077,022 yen and delinquency charges at an annual rate of 5% on a portion amounting to 1,322,725 yen from December 1, 2009 until the payment completion date, on a portion amounting to 7,159,511 yen from January 1, 2010 until the payment completion date, on a portion amounting to 4,024,701 yen from February 1, 2010 until the payment completion date, on a portion amounting to 8,998,191 yen from March 1, 2010 until the payment completion date, on a portion amounting to 6,950,039 yen from April 1, 2010 until the payment completion date, on a portion amounting to 9,848,822 yen from May 1, 2010 until the payment completion date, on a portion amounting to 3,365,174 yen from June 1, 2010 until the payment completion date, on a portion amounting to 5,402,468 yen from July 1, 2010 until the payment completion date, on a portion amounting to 5,907,247 yen from August 1, 2010 until the payment completion date, on a portion amounting to 7,860,123 yen from September 1, 2010 until the payment completion date, on a portion amounting to 5,498,313 yen from October 1, 2010 until the payment completion date, on a portion amounting to 5,858,298 yen from November 1, 2010 until the payment completion date, on a portion amounting to 8,050,427 yen from December 1, 2010 until the payment completion date, on a portion amounting to 390,257 yen from January 1, 2011 until the payment completion date, on a portion amounting to 1,751,009 yen from February 1, 2011 until the payment completion date, on a portion amounting to 4,468,834 yen from March 1, 2011 until the payment completion date, on a portion amounting to 12,599,360 yen from April 1, 2011 until the payment completion date, on

a partial deposit of 4,216,213 yen from May 1, 2011 until the payment completion date, on a partial deposit of 3,398,793 yen from June 1, 2011 until the payment completion date, on a partial deposit of 2,571,290 yen from July 1, 2011 until the payment completion date, on a portion amounting to 3,680,535 yen from August 1, 2011 until the payment completion date, on a portion amounting to 4,715,082 yen from September 1, 2011 until the payment completion date, on a portion amounting to 3,625,097 yen from October 1, 2011 until the payment completion date, on a portion amounting to 3,874,901 yen from November 1, 2011 until the payment completion date, on a portion amounting to 6,440,256 yen from December 1, 2011 until the payment completion date, on a portion amounting to 2,639,356 yen from January 1, 2012 until the payment completion date, and on a portion amounting to 13,460,000 yen from September 26, 2012 until the payment completion date.

(4) The court dismisses the other claims filed by Appellant/Appellee Sangenic International Ltd. (including the part expanded in this instance).

2. The court dismisses the appeal filed by Appellee/Appellant Aprica Children's Products Inc.

3. The court cost for the principal action and the counterclaim made in the first instance and the second instance shall be divided into five, one of which shall be borne by Appellant/Appellee Sangenic International Ltd., while the remaining four-fifths borne by Appellee/Appellant Aprica Children's Products Inc.

4. This judgment may be provisionally enforced as far as subparagraphs (1) to (3) of paragraph 1 are concerned.

5. Appellant/Appellee Sangenic International Ltd. shall be granted an additional 30 days to file a final appeal against this judgment and a petition for acceptance of the final appeal.

Facts and Reasons

In this judgment, Appellant/Appellee (the plaintiff in the principal action and the defendant in the counterclaim in the first instance) Sangenic International Ltd. shall be referred to as "Plaintiff." Appellee/Appellant (the defendant in the principal action and the plaintiff in the counterclaim in the first instance) Aprica Children's Products Inc. shall be referred to as "Defendant." The abbreviations used in the first instance shall be used in this instance as well without any change.

No. 1 Judicial decision sought by the parties

1. Plaintiff

Regarding the judgment in the prior instance, the following modifications shall be made to the section concerning the principal claim. (In this instance, Plaintiff has expanded the claim for damages as stated in (2) below.)

(1) The same as paragraph 1 (1) and (2) of the Main Text

(2) Defendant shall pay Plaintiff 259,691,340 yen and delinquency charges at an annual rate of 5% on a portion amounting to 15,215,084 yen from November 6, 2009 until the payment completion date, on a portion amounting to 2,242,800 yen from December 1, 2009 until the payment completion date, on a portion amounting to 12,352,488 yen from January 1, 2010 until the payment completion date, on a portion amounting to 5,216,112 yen from February 1, 2010 until the payment completion date, on a portion amounting to 11,117,880 yen from March 1, 2010 until the payment completion date, on a portion amounting to 9,503,064 yen from April 1, 2010 until the payment completion date, on a portion amounting to 13,372,428 yen from May 1, 2010 until the payment completion date, on a portion amounting to 4,744,056 yen from June 1, 2010 until the payment completion date, on a portion amounting to 7,632,996 yen from July 1, 2010 until the payment completion date, on a portion amounting to 8,330,400 yen from August 1, 2010 until the payment completion date, on a portion amounting to 10,311,540 yen from September 1, 2010 until the payment completion date, on a portion amounting to 7,062,684 yen from October 1, 2010 until the payment completion date, on a portion amounting to 7,364,928 yen from November 1, 2010 until the payment completion date, on a portion amounting to 10,386,300 yen from December 1, 2010 until the payment completion date, on a portion amounting to 795,660 yen for the period from January 1, 2011 until the payment completion date, on a portion amounting to 2,747,964 yen from February 1, 2011 until the payment completion date, on a portion amounting to 5,852,640 yen from March 1, 2011 until the payment completion date, on a portion amounting to 15,791,448 yen from April 1, 2011 until the payment completion date, on a portion amounting to 5,494,860 yen from May 1, 2011 until the payment completion date, on a portion amounting to 4,430,064 yen from June 1, 2011 until the payment completion date, on a portion amounting to 3,551,100 yen from July 1, 2011 until the payment completion date, on a portion amounting to 4,589,196 yen from August 1, 2011 until the payment completion date, on a portion amounting to 6,003,228 yen from September 1, 2011 until the payment completion date, on a portion amounting to 4,566,768 yen from October 1, 2011 until the payment completion date, on a portion amounting to 4,972,608 yen from November 1, 2011 until the payment completion date, on a portion amounting to 8,626,236 yen from December 1, 2011 until the payment

completion date, on a portion amounting to 4,352,100 yen from January 1, 2012 until the payment completion date, and on a portion amounting to 63,064,708 yen from September 26, 2012 until the payment completion date.

2. Defendant

(1) The court shall revoke the judgment in the prior instance with respect to the issue for which Defendant lost the case.

(2) Plaintiff shall pay Defendant 75,274,696 yen and delinquency charges at an annual rate of 5% on said amount from June 15, 2011 until the payment completion date.

(3) Plaintiff's claims (including the claim expanded in this instance) shall be dismissed.

No. 2 Outline of the Case and the Allegations, etc., of the Parties

1. Summary of the case

Plaintiff, which holds patent rights to a "waste storage cassette" and "waste storage device" as well as design rights to a "waste disposal cassette," has concluded a distributorship agreement with Aprica Kasai/Aprica Childcare Institute (formerly Aprica), the predecessor of Defendant. Plaintiff has alleged that the product stated in the attached Product List A (Product A), which is imported, sold, and otherwise handled by Defendant under said agreement, infringes said patent rights and design rights or that, when concluding said agreement, Defendant agreed to stop using Plaintiff's IP rights upon termination of said agreement. Plaintiff has sought an injunction against the import, sale, etc., of Product A (Article 100, paragraph (1) of the Patent Act, Article 37, paragraph (1) of the Design Act, and said agreement) and also demanded disposal thereof (Article 100, paragraph (2) of the Patent Act, Article 37, paragraph (2) of the Design Act), as well as a payment of 206,729,983 yen in damages (Article 102, paragraphs (2) and (3) of the Patent Act, Article 39, paragraphs (2) and (3) of the Design Act, and Article 709 of the Civil Code) plus delinquency charges thereon calculated at an annual rate of 5% as specified in the Civil Code for each term from the day following the last day of each period starting subsequent to an act of tort (or from July 12, 2011 as far as the costs of lawyers and patent attorneys for July 2011 are concerned, which is the date following the delivery date of "Request for Modification of the Complaint," dated July 7, 2011) until the payment completion date. (Principal action)

On the other hand, Defendant has alleged that Plaintiff's act of notifying Defendant's clients that Product A, which Defendant has been selling, infringes Plaintiff's IP rights constitutes announcement or dissemination of a falsehood that is injurious to the

business reputation of Defendant (Article 2, paragraph (1), item (xiv) of the Unfair Competition Prevention Act). Defendant demanded from Plaintiff a payment of 75,274,696 yen in damages (Article 4 of the Unfair Competition Prevention Act, Articles 709 and 710 of the Civil Code) plus delinquency charges thereon calculated at an annual rate of 5% as specified in the Civil Code for the period from June 15, 2011, which is the date following the date of delivery of the written counterclaim, until the payment completion date. (Counterclaim)

Regarding the principal action, the court of prior instance found that (1) Product A meets every constituent feature of Invention 1 and falls within its technical scope and also found that (2) as far as the Invention is concerned, there are no reasons for invalidation, i.e., the lack of novelty or inventive step or the violation of Article 36, paragraph (6), item (ii) of the Patent Act (Clarity requirement). The court of prior instance accepted the request for an injunction against the import, sale, etc., of Product A and for the disposal thereof. Furthermore, the court of prior instance found that, since Plaintiff may not be considered to be exercising the Patent Right in Japan, the requirement for making presumption under Article 102, paragraph (2) of said Act has not been satisfied and that the damages may not be calculated based on said paragraph. Therefore, the court of prior instance ordered a payment of 21,139,152 yen, i.e., 18,139,152 yen in damages (equivalent to the royalties) calculated based on paragraph (3) of said Article and 3,000,000 yen to cover the costs of lawyers and patent attorneys, plus delinquency charges thereon calculated at an annual rate of 5% as specified in the Civil Code for each term from the day following the last day of each period starting subsequent to an act of tort (or from July 12, 2011 as far as the costs of lawyers and patent attorneys for July 2011 are concerned) until the payment completion date. On the other hand, the court found that the design of Product A is dissimilar to the Registered Design and dismissed Plaintiff's claim made based on the Design Right. Furthermore, the court of the prior instance found that Plaintiff's act of notification did not constitute an act of notification of "a falsehood that is injurious to the business reputation of a competitor" and dismissed Defendant's claim.

In response, Plaintiff and Defendant each filed these appeals to seek revocation of the judgment with respect to the parts for which the parties respectively lost their cases. In this instance, Plaintiff has expanded its claim for damages and demanded a payment of 259,691,340 yen plus delinquency charges thereon calculated at an annual rate of 5% as specified in the Civil Code for each term from the day following the last day of each period starting subsequent to an act of tort (or from September 26, 2012 as far as the

costs of lawyers and patent attorneys are concerned, which is the date following the delivery date of "Request for Modification of the Complaint" dated September 24, 2012) until the payment completion date. The main issue at an appeal trial is whether Article 102, paragraph (2) of the Patent Act is applicable to the damage caused by the infringement of the Patent Right and, if it is found to be applicable, whether there are any reasons to reduce the presumed amount.

2. Assumed facts and points at issue

Except for the parts modified as follows, the assumed facts and points at issue are the same as those presented in the judgment in the prior instance, i.e., the statements presented in section titled "2. Assumed Facts" and "3. Points at Issue" (line 10 of page 5 to line 3 of page 15 of the judgment in the prior instance) of the subsection "No. 2 Outline of the Case" under the section "Facts and Reasons" in the judgment in the prior instance. Therefore, the corresponding part of the judgment in the prior instance may be cited (evidence numbers include branch numbers; hereinafter the same).

The content from line 19 to line 25 of page 12 and the table on page 13 of the judgment in the prior instance is modified as follows.

" (11) Sales Volume and Sales of Product A (Exhibits Otsu No. 38, No. 55, No. 75, and No. 76)

The sales volume and sales of Product A during the period from November 6, 2009 until the end of December 2011 are as follows. The total sales volume is 169,861 sets (one set contains three units of Product A) or 509,583 units ($=169,861 \times 3$). The total sales revenue is 215,043,189 yen.

Periods	Sales volume	Sales
November 2009 (Nov. 6 to 30)	2,100 sets	¥2,112,980
December 2009	11,566 sets	¥11,436,919
January 2010	4,884 sets	¥6,429,236
February 2010	10,410 sets	¥14,374,108
March 2010	8,898 sets	¥11,102,300
April 2010	12,521 sets	¥15,732,943
May 2010	4,442 sets	¥5,375,678
June 2010	7,147 sets	¥8,630,142
July 2010	7,800 sets	¥9,436,498
August 2010	9,655 sets	¥12,556,108
September 2010	6,613 sets	¥8,783,248
October 2010	6,896 sets	¥9,358,305
November 2010	9,725 sets	¥12,860,108
December 2010	745 sets	¥623,414
January 2011	2,573 sets	¥2,797,139
February 2011	5,480 sets	¥7,138,714
March 2011	14,786 sets	¥20,126,774
April 2011	5,145 sets	¥6,735,166
May 2011	4,148 sets	¥5,429,383
June 2011	3,325 sets	¥4,107,493

July 2011	4,297 sets	¥5,879,449
August 2011	5,621 sets	¥7,532,080
September 2011	4,276 sets	¥5,790,891
October 2011	4,656 sets	¥6,189,939
November 2011	8,077 sets	¥10,287,950
December 2011	4,075 sets	¥4,216,224
Total	169,861 sets	¥215,043,189 "

3. Allegations of the parties concerning the points at issue

Except for the additions and modifications made as follows, the allegation of the parties concerning the issue are the same as those presented in the judgment in the prior instance, i.e., the statements presented in the subsection titled "4. Allegations of the parties concerning the points at issue" (line 4 of page 15 to line 3 of page 77 of the judgment in prior instance) under the section "Facts and Reasons." Therefore, the corresponding part of the judgment in the prior instance may be cited.

(1) The content from line 17 to line 22 of page 54 of the judgment in the prior instance is modified as follows.

"(5) Reasonableness of demand for injunction and disposal (Plaintiff)

Defendant has infringed Plaintiff's Patent Right and Design Right by manufacturing and selling Product A.

Even if Defendant were to stop manufacturing and selling Product A, Defendant could still have Product A in stock and would be able to resume an act of manufacturing and selling Product A at any time. Therefore, the risk of infringing the Patent Right continues to exist.

On these grounds, Plaintiff has reasons for demanding injunction against and disposal of Product A.

(Defendant)

Defendant denies Plaintiff's allegations.

Defendant stopped manufacturing and selling Product A at the end of December 2011. Therefore, the demand for an injunction made based on the Patent Right shall be dismissed."

(2) The content from line 3 of page 55 to line 13 of page 62 of the judgment in the

prior instance is modified as follows.

" (7) Damage

(7)-1 Calculation of the damage amount (Article 102, paragraph (2) of the Patent Act, Article 39, paragraph (2) of the Design Act)

(Plaintiff)

Plaintiff has sustained the following damages as a result of Defendant's patent infringement and design infringement (Article 102, paragraph (2) of the Patent Act, Article 39, paragraph (2) of the Design Act). The allegation concerning the presumed damage amount under Article 39, paragraph (2) of the Design Act to demand damages for the infringement of the Design Right is the same as the following allegation concerning the presumed damage amount under Article 102, paragraph (2) of the Patent Act. Regarding the damage amount during the period in which the infringement of the Patent Right and the infringement of the Design Right occurred concurrently, we do not claim the damage amount equivalent to the total of the amounts of damage caused by the patent infringement and the design infringement respectively, but we selectively claim the amount of damage caused by either patent infringement or design infringement.

A. Presumed damage amount under Article 102, paragraph (2) of the Patent Act

(A) Allegation on the premise that the patentee's "working" (Article 2, paragraph (3) of the Patent A) of the invention in Japan is not required in order for Article 102, paragraph (2) of said Act to apply

a. Article 102, paragraph (2) of the Patent Act is applicable to any case where the patentee has lost earnings. The working of a patented invention by the patentee is not a requirement. In other words, unlike Article 102, paragraph (1) of the Patent Act, in the case of paragraph (2) of said Article, the "working of an invention by the patentee" is not a statutory requirement. If an infringer, who is not supposed to sell a patented product, sells one infringing product, the patentee would lose the opportunity to sell one product. In this way, Article 102, paragraph (2) of the Patent Act has been established on the premise that there is certain causation between the number of infringing products sold by the infringer and the number of products sold by the patentee. Said provision is designed to reduce the burden of proof imposed on patentees by considering it reasonable to a certain extent to presume that the amount of profit gained by an infringer (calculated by multiplying the number of products sold by the infringer by the amount of profit per unit gained by the infringer), if proven, is equivalent to the amount of damage sustained by the patentee (lost earnings). From the perspective of such purpose of Article 102,

paragraph (2) of the Patent Act, said provision would become applicable only if there is causation between the sale of one infringing product by an infringer and the lost opportunity for the patentee to sell one product and if the patentee would be able to gain more profits (lost earnings) if no infringement were committed. However, the working of the patented invention by the patentee is not a requirement. If Article 102, paragraph (2) of the Patent Act is applicable only to a case where a patented invention is worked by the patentee, the burden of proof would be actually imposed on the patentee with respect to the damage amount. This would be against the purpose of Article 102, paragraph (2) of the Patent Act.

b. In this case, there are the facts that (1) Plaintiff has concluded an exclusive distributorship agreement with Combi Corporation, sold Plaintiff-manufactured cassettes to Combi Corporation, distributed the cassettes to the Japanese market through Combi Corporation, and dominated the market and that (2) both Plaintiff-manufactured cassettes and Product A are used by mounting them on Plaintiff-manufactured main bodies (main bodies of Mark II and Mark III) and are therefore competing with each other in the Japanese market. This would indicate that consumers would have purchased Plaintiff-manufactured cassettes if no infringement had been committed by Defendant. These facts indicate (1) that there is causation between the sale of one product by the infringer and the lost opportunity for the patentee to sell one product, and (2) that profits would have been generated on the part of the patentee if no infringement had been committed by Defendant.

It should be noted that, while Combi Corporation receives Plaintiff-manufactured cassettes from Plaintiff and sells them in Japan under the exclusive distributorship agreement, Combi Corporation has neither exclusive license nor non-exclusive license for the Invention and therefore does not have the authorization to exercise rights on the basis of the Patent. If Article 102, paragraph (2) of the Patent Act is found to be inapplicable because Plaintiff has not worked the Invention in Japan, it would be deemed unreasonable because it would prevent Plaintiff from seeking a proper remedy under these circumstances.

c. Even if it were interpreted that Article 102, paragraph (2) of the Patent Act is applicable only to a case where a patentee is working the patented invention, it does not have to be limited to the "working," as specified in Article 2, paragraph (3) of the Patent Act. Moreover, the invention does not have to be worked in Japan. The purpose of requiring a patentee to work the patented invention is to find that the patentee him/herself could have gained profits. Therefore, an act of manufacturing, selling, etc., would suffice

if it were conducted as an act that has a legal effect even without explicitly expressing the intention of the act. The act of "working" an invention does not necessarily have to be limited to the "working," as specified in Article 2, paragraph (3) of the Patent Act. Furthermore, since the occurrence of damage has nothing to do with the principle of territoriality, it is not necessary to impose geographical restrictions on the working of a patented invention by the patentee. The interpretation that the working of a patented invention by the patentee in Japan is a requirement for application of Article 102, paragraph (2) of the Patent Act would prevent overseas residents who do not have a manufacturing or sales base, etc., in Japan and who manufacture and sell patented products outside of Japan from obtaining the same legal remedy as the one available for those who manufacture and sell patented products in Japan. Such a situation would be counter to the national treatment principle specified in Article 2 of the Paris Convention.

(B) Allegation on the premise that the patentee's "working" (Article 2, paragraph (3) of the Patent Act) of the invention in Japan is required in order for Article 102, paragraph (2) of said Act to apply

Even if it were interpreted that the patentee's "working" (Article 2, paragraph (3) of the Patent Act) of the invention in Japan were required in order for Article 102, paragraph (2) of said Act to apply, it would be possible to deem that Plaintiff has been working the invention in Japan.

In other words, since Plaintiff has concluded and subsequently renewed an exclusive distributorship agreement with Combi Corporation in Japan, the act of concluding and renewing said agreement constitutes an act of "offering for assignment, etc.," as specified in Article 2, paragraph (3), item (i) of Patent Act.

While Combi Corporation has been selling and marketing the product of Plaintiff as a distributor of Plaintiff, Plaintiff has provided Combi Corporation with financial assistance for its sales promotion activities (discounts, etc.) targeted at retailers and consumers in Japan and with support for its sales activities, and has also conducted other business activities, such as holding regular sales meetings, checking the progress of the sales plan, devising a new sales plan, and providing consulting services for sales expansion. These activities fall under "offering for assignment, etc.," as specified in Article 2, paragraph (3), item (i) of the Patent Act.

Furthermore, Plaintiff has been selling Plaintiff-manufactured cassettes to Combi Corporation in Japan under an exclusive distributorship agreement concluded with Combi Corporation. This may be regarded as "assigning," as specified in Article 2, paragraph (3), item (i) of Patent Act.

On this point, Defendant alleges that, in view of the facts that Plaintiff, who has agreed

with Combi Corporation to adopt the FOB (Free on Board) terms of delivery and that Plaintiff merely conducts activities, such as obtaining export approval, clearing customs in the U.K., and delivering Plaintiff-manufactured cassettes on a ship at the loading port (U.K.), Plaintiff may not be considered to be involved in the importing procedure in Japan and, therefore, may not be regarded as having conducted "assigning"

(Article 2, paragraph (3), item (i) of the Patent Act) in Japan. However, Defendant's allegation is unreasonable on the following points. First, the allegation that Plaintiff and Combi Corporation agreed to adopt the FOB (Free on Board) terms of delivery was made based on Defendant's presumption. Moreover, it is unreasonable to interpret that the terms of delivery of products, i.e., detailed conditions for transactions, would determine whether the patentee, i.e., the original seller, has worked the patented invention or not, which would then determine the applicability of Article 102, paragraph

(2) of the Patent Act. The fact that the exclusive distributorship agreement concluded between Plaintiff and Combi Corporation specifies *(omitted)* indicates that the ownership of Plaintiff-manufactured cassettes has been transferred from Plaintiff to Combi Corporation in Japan. Furthermore, while *(omitted)*, Plaintiff's consent may be interpreted as mere confirmation of the sale of products that has been agreed to in Japan, the sale of products from Plaintiff to Combi Corporation may be considered to have taken place in Japan.

In addition, Combi Corporation's sale of Plaintiff's product in Japan may be deemed to be Plaintiff's act of "assigning," as specified in Article 2, paragraph (3), item (i) of the Patent Act. In other words, as explained above, Plaintiff, who has concluded an exclusive distributorship agreement with Combi Corporation, has been supplying Plaintiff-manufactured cassettes to the Japanese market through Combi Corporation and has been supporting Combi Corporation's effort to sell Plaintiff's product in Japan. This indicates that Plaintiff has been selling its product in the Japanese market by using Combi Corporation as a distributor and that Plaintiff has been conducting "assigning" (Article 2, paragraph (3), item (i) of the Patent Act) in Japan in substance.

(C) Summary

As described above, the patentee's "working" (Article 2, paragraph (3) of the Patent Act) of the invention in Japan is not required for Article 102, paragraph (2) of said Act to apply. Even if "working" were required, Article 102, paragraph (2) of said Act would be applicable to the calculation of the amount of damage caused by the infringement of the Patent Right because Plaintiff may be deemed to have been working Invention 1 in Japan.

B. Calculation of the damage amount

(A) As stated in the section titled "Assumed Facts (11)," Defendant sold a total of 509,583 units of Product A during the period from November 6, 2009 until the end of December 2011. This means that Defendant sold 236,709 units per year. Therefore, the total number of units sold during the period from September 2009 until the end of December 2011 is 552,322 ($509,583 + 236,709 \times (5/30+2)/12$).

(B) Since profit amount per unit of Product A is 356 yen (the amount alleged by Defendant in the counterclaim), the profit amount that Defendant gained during each period stated in the section "Assumed Facts (11)" (the amount of damage sustained by Plaintiff) may be calculated as follows: Sales volume (the number of sets) in each period $\times 3$ (units) $\times 356$ yen. The obligation to pay a delinquency charge on the calculated amount arises from the date following the last day of each period.

On these grounds, the profit that Defendant gained (the amount of damage sustained by Plaintiff) during the period from September 2009 until the end of December 2011 totals 196,626,632 yen ($552,322 \text{ units} \times 356 \text{ yen}$), which includes the profit that Defendant gained by infringing the Design Right (the amount of damage sustained by Plaintiff) during the period from September 2009 to November 5, 2009, which totals 15,215,084 yen ($= 42,739 \text{ units} \times 356 \text{ yen}$). Therefore, the profit that Defendant gained by infringing the Patent Right or the Design Right (the amount of damage sustained by Plaintiff) during the period from November 6, 2009 until the end of December 2011 totals 181,411,548 yen ($509,583 \text{ units} \times 356 \text{ yen}$).

C. Counterargument against Defendant's allegation (the absence of lost earnings and a reduction of the presumed amount)

Defendant alleges that Plaintiff has suffered no lost earnings or that there are circumstances under which the amount presumed under Article 102, paragraph (2) of the Patent Act should be reduced significantly. Such allegation is unreasonable for the following reasons.

(A) There is no agreement between Plaintiff and Combi Corporation about the payment of a penalty to cover the lost profits caused by the failure to achieve the minimum purchase quantity. The agreement concluded between former Aprica and Plaintiff had a provision concerning the minimum purchase requirement, but the penalty for the failure to fulfill the obligation was termination of the agreement. The agreement did not have a provision concerning monetary compensation.

(B) Defendant alleges that a great number of Product A units have been in use in such a way that does not take advantage of the technical features of Invention 1. However, Defendant has provided no concrete proof. Since Product A is designed to be compatible

with the main bodies of both Mark II and Mark III, any specific way of use should not be regarded as a reason to deny the infringement of the Patent Right.

(C) Plaintiff-manufactured cassettes and Product A have a price difference of 500 yen. However, if no infringement had been committed by Defendant, consumers who have purchased Plaintiff-manufactured main bodies would have naturally purchased authentic products, i.e., Plaintiff-manufactured cassettes.

(D) Plaintiff has been selling its product under a double-brand system in collaboration with Combi Corporation, which enjoys a high level of recognition and reputation in the field of baby goods in Japan. The double-brand product is superior to the Defendant-brand product in terms of recognition and reputation.

(E) Other products (non-infringing goods) manufactured by Defendant or Angelcare Co., Ltd., differ from Plaintiff's product in terms of the structure of the main body and the structure of the waste disposal cassette, and they are not compatible with Plaintiff-manufactured main bodies. Therefore, the sale of those products did not cause a decline in the number of Plaintiff-manufactured cassettes. Furthermore, since Defendant commenced the sale of new products from around July 2010, the sale of said products had exerted no influence until then.

On these grounds, it is reasonable to consider that consumers would have purchased Plaintiff-manufactured cassettes if Product A had not been supplied.

(Defendant)

A. Defendant denies all of Plaintiff's legal allegations. Since it is clear that Defendant has not infringed the Design Right, it is unnecessary to discuss the calculation method for the amount of damage caused by the infringement of the Design Right.

B. Presumption of the damage amount under Article 102, paragraph (2) of the Patent Act

(A) Counterargument against Plaintiff's allegation made on the premise that the patentee's "working" (Article 2, paragraph (3) of the Patent Act) of the invention in Japan is not required in order for Article 102, paragraph (2) of the Patent Act to apply

a. Article 102, paragraph (2) of the Patent Act is a provision that presumes, among other general requirements for an act of a tort, causation between an act of infringement and damage as well as the damage amount; it is not a provision that presumes the occurrence of damage itself. In order to argue that the patentee suffered damage in the form of lost earnings as specified in Article 102, paragraph (2) of the Patent Act, the patentee must present an allegation and evidence to establish a premise that the patent infringement disrupted a situation where the patentee was exclusively gaining profits in

Japan by conducting business activities, such as the working of the patented invention. Furthermore, from the perspective of the principle of territoriality, an act of working the patented invention must take place in Japan.

Therefore, the patentee's "working" (Article 2, paragraph (3) of the Patent Act) of the patented invention in Japan is required in order for Article 102, paragraph (2) of the Patent Act to apply.

b. Plaintiff has neither worked Invention 1 in Japan nor proved any equivalence to the working of Invention 1. In other words, Plaintiff has not manufactured Plaintiff-manufactured cassettes in Japan. Plaintiff and Combi Corporation have agreed to the FOB (Free on Board) terms of delivery, the same as those agreed on between Plaintiff and former Aprica. Plaintiff merely conducts activities, such as obtaining export approval, clearing customs in the U.K., and delivering Plaintiff-manufactured cassettes on a ship at the loading port (U.K.). This indicates that Plaintiff is not involved in the importing procedure in Japan. Furthermore, Plaintiff has commissioned Combi Corporation to conduct sales and marketing activities for Plaintiff's product in Japan and has not directly conducted such activities in Japan.

As explained above, Plaintiff has not conducted any activities in Japan in connection with Plaintiff-manufactured cassettes and has not conducted "working," as specified in Article 2, paragraph (3) of the Patent Act. On the other hand, since Defendant has been importing and selling Product A, which is manufactured in China, it may be interpreted that the profits gained by Defendant have been generated by an act of importing and selling the product. However, Plaintiff itself has not conducted any act of importing or selling its product in Japan and, therefore, may not be considered to have sustained the damage amount equivalent to the profits generated by importing and selling the product.

Therefore, Article 102, paragraph (2) of the Patent Act is not applicable to this case.

c. On this point, Plaintiff alleges that the idea that the patentee's working of the patented invention in Japan is required for application of Article 102, paragraph (2) of the Patent Act goes against the national treatment principle.

However, Article 2 of the Paris Convention merely specifies that no requirement as to domicile or establishment in the country where protection for industrial property rights is claimed may be imposed. Said provision does not exempt the patentee from the required working of the patented invention in the country. Even if the patentee were a Japanese company, Article 102, paragraph (2) of the Patent Act would be inapplicable as long as the company does not work the patented invention in Japan. Therefore, the non-application of said provision to this case is in line with the national treatment principle, contrary to Plaintiff's allegation.

Thus, Plaintiff alleges that the idea that the patentee's working of the patented invention in Japan is required for application of Article 102, paragraph (2) of the Patent Act goes against the national treatment principle, but such allegation of Plaintiff is unreasonable.

(B) Counterargument against Plaintiff's allegation made on the premise that the patentee's working of the patented invention in Japan is required in order for Article 102, paragraph (2) of the Patent Act to apply.

Plaintiff alleges that (1) after concluding an exclusive distributorship agreement with Combi Corporation, Plaintiff has been holding regular sales meetings with Combi Corporation, checking the sales plan's progress, devising a new sales plan, and providing Combi Corporation with financial assistance and sales support, which may be regarded as "offering for assignment, etc.," as specified in Article 2, paragraph (3), item (i) of Patent Act; (2) under the exclusive distributorship agreement concluded with Combi Corporation, Plaintiff has been selling Plaintiff-manufactured cassettes to Combi Corporation in Japan, which may be regarded as "assigning," as specified in said item; and (3) Combi Corporation's sale of the Plaintiff's product in Japan may be deemed to be equivalent to the sale by Plaintiff, which may be regarded as "assigning," as specified in said item in substance.

However, Plaintiff's allegation described above is unreasonable for the following points. While the term "offering for assignment, etc." specified in Article 2, paragraph (3), item (i) of the Patent Act refers to sales promotion activities, marketing activities, etc., carried out mainly by displaying patented products for the purpose of selling or renting them, conducted on the presumption that the assignment, etc. of products will be made, Combi Corporation, i.e., an exclusive distributor, is the only company that has been conducting such activities in Japan. Furthermore, as explained above, Plaintiff and Combi Corporation have agreed to the FOB (Free on Board) terms of delivery. Plaintiff merely ships Plaintiff-manufactured cassettes from the U.K. (delivery to a carrier) and is not directly involved in the importing procedures, etc. in Japan. Therefore, Plaintiff's act may not be regarded as "assigning" (Article 2, paragraph (3), item (i) of the Patent Act) in Japan. Furthermore, since Plaintiff and Combi Corporation are independent corporations with no capital ties between them, an act of Combi Corporation may not be deemed to be an act of Plaintiff.

Thus, as far as Invention 1 is concerned, Plaintiff may not be regarded as having conducted "assigning" (Article 2, paragraph (3) of the Patent Act) in Japan. Therefore, Plaintiff's allegation described above is unreasonable.

C. Allegation concerning the absence of lost earnings and a reduction of the presumed amount

In light of the facts described above, it is reasonable to consider that Plaintiff has sustained no lost earnings or that the amount presumed under Article 102, paragraph (2) of the Patent Act should be reduced significantly.

(A) As explained above, it is not Plaintiff but Combi Corporation that has been gaining profits by selling Plaintiff's product in Japan. Furthermore, Plaintiff has been selling its product, including Plaintiff-manufactured cassettes, to Combi Corporation and has granted to Combi Corporation a right of exclusive distribution in Japan. When a sales agreement is concluded to grant a right of exclusive distribution, it is common to set the minimum purchase requirement. In some cases, such an agreement contains a provision that makes it mandatory for the purchaser to purchase the agreed minimum purchase quantity and a provision that requires the payment of a penalty to cover the lost profits caused by the failure to achieve the minimum purchase quantity. Such a provision is presumed to be included in the agreement concluded between Plaintiff and Combi Corporation. Regardless of the actual sales of Plaintiff-manufactured cassettes, said provision allows Plaintiff to receive financial compensation if the minimum purchase requirement is not satisfied. Therefore, even if the sales of Plaintiff-manufactured cassettes were reduced due to an act of selling Product A, Plaintiff would suffer no loss in earnings.

(B) The main bodies of Mark II are still in use in large number. Mark II is a waste storage device that is not equipped with a waste-storage cassette rotator. Mark II users continue purchasing Product A. However, an act of using Product A for the main body of Mark II would not constitute patent infringement because the function and effect brought about by Invention 1 is not exploited at all. Thus, when calculating the amount of damage caused by Product A, the number of units of Product A used for Mark II should be subtracted from the number of units sold.

Regarding this point, in consideration of the facts that Defendant received a total of 282 inquiries about the main body of Mark II during the period from May 24, 2010 to December 27, 2011 and that the number of users is expected to be at least 10 times the number of inquiries, since Product A is sold in the form of a pack of three cassettes, the number of units of Product A used for Mark II included in the total number of Product A sold during said period may be calculated to be at least 8,460 ($282 \times 10 \times 3 = 8,460$).

(C) Each pack (containing three units) of Plaintiff-manufactured cassettes costs 500

yen more than a pack of "Product A" cassettes (containing three units). It is not certain that consumers would purchase Plaintiff-manufactured cassettes if Product A were not supplied.

(D) In view of the facts that "Aprica" is a well-known, highly reliable, long-established brand in the field of baby goods in Japan and that consumers of baby goods pay special attention to product safety and hygiene, it is reasonable to consider that many consumers purchase products because they bear the "Aprica" brand. Therefore, consumers would not necessarily purchase Plaintiff-manufactured cassettes even if Product A were not supplied.

(E) From July 2010, Defendant started selling the bodies of a new product "Niowanakute poi shoushu taipu (Odorless-type waste storage device)" and waste storage cassettes. These products feature the use of deodorant, antibacterial film to wrap up used diapers, and low-running costs made possible by eliminating the twisting motion from the process of wrapping up used diapers so as to easily store many diapers by using a shorter length of film. Thanks to Defendant's sales promotion activities, etc., Defendant sold about 123,000 main bodies and about 668,000 cassettes during the period from the time of product launch until the end of May 2011. According to the research conducted by a third party, as of June 2010, as far as the sales of the main bodies of waste storage devices at major retailers in Japan are concerned (40 stores specialized in baby goods affiliated with five major chain retailers), the market shares of Combi Corporation, Defendant, and Angelcare were 90%, 0%, and 10%, respectively. After the launch of the aforementioned new product, as of March 2011, their shares accounted for 41%, 56%, and 3%, respectively. The significant increase in the market share of said new product within a short period of time indicates that consumers switched from Plaintiff's product to the aforementioned new product, contributing to the decrease in sales of Plaintiff-manufactured cassettes.

Furthermore, Angelcare-manufactured "Rakuraku omutsu baketsu (easy diaper pail)," which is one of the many competing products with the same usage as that of Plaintiff's product, has been well received since the product launch in Japan in 2007, nudging up its market share. Said product is larger than the Plaintiff-manufactured cassette in terms of diaper storage space per cassette, and the price is lower than that of the Plaintiff-manufactured main body. According to the results of the survey conducted by Defendant in 2008, consumers considered the aforementioned product to be superior to Plaintiff's product in terms of shape, color, odor containment, and ease of use. Therefore, it is reasonable to find that the increase in sales volume of the aforementioned competing products contributed to the decrease in sales volume of Plaintiff-manufactured cassettes.

Moreover, in 2010, consumers experienced problems with Plaintiff-manufactured main bodies, such as some parts coming off or the cutter becoming dull. As a result, many consumers stopped using Plaintiff's product or switched to other products, or they stopped purchasing Plaintiff-manufactured cassettes, which are uneconomical in terms of the consumption of film, and, instead, started placing garbage bags or plastic bags inside Plaintiff-manufactured bodies and using them to dispose of diapers in order to cut household costs in the declining economy. "

(3) The content from line 11 to line 21 of page 64 of the judgment in the prior instance is modified as follows.

"A. In consideration of the volume discount of Product A, the total sales revenue for the period from November 6, 2009 until the end of December 2011 is 211,536,887 yen.

B. Royalty rate

In this case, upon comprehensive consideration of various, specific factors, such as (1) that the technical significance and value of Invention 1 is not high, (2) that many users use Product A in such a manner that does not exploit the technical features of Invention 1, and (3) that in order to promote the sales of Product A, Defendant has made great contributions, such as the creation of a market for waste storage devices, the use of the 'Aprica' brand name and Defendant's sales network, and efforts to promote sales, the royalty rate for the working of Invention 1 should be set at 3%."

(4) The content from line 21 of page 66 to line 13 of page 68 of the judgment in prior instance is modified as follows.

"(7)-3 Costs of lawyers and patent attorneys

(Plaintiff)

A. Calculation of the damage amount

(A) For the proceedings of this trial, counsels must be appointed. Therefore, the cost of lawyers and patent attorneys are inevitable. All of the costs should be recognized as the damage amount showing proximate causation with Defendant's act of infringement.

(B) Plaintiff paid 63,064,710 yen to cover the costs of lawyers and patent attorneys in this case in the course of the period from July 2009 until June 6, 2012 (1 pound = 135 yen).

(C) About 22% of the costs mentioned in (B), i.e., 13,874,236 yen, cannot be categorized into the costs related to the infringement of the Patent Right nor the costs related to the infringement of the Design Right. On the other hand, about 78% of the costs mentioned in (B), i.e., 49,190,473 yen, can be divided into the two categories, of which about 80%, i.e., 39,352,378 yen, may be categorized into the costs related to the infringement of the Patent Right, with the remaining 20% or so, i.e., 9,838,094 yen,

categorized into the costs related to the infringement of the Design Right.

B. Recognition of all of the costs of lawyers and patent attorneys as damage

(A) In cases where damages are sought for patent infringement or design infringement, the costs of lawyers and patent attorneys should not be uniformly assumed to be about 10% of the approved damage amount. The costs should be determined in consideration of the difficulty of each lawsuit, the course of judicial proceedings, the claims upheld by the court, the background of the filing of the lawsuit, etc.

(B) In this trial, in view of the facts that Plaintiff is an overseas resident, it is extremely difficult for Plaintiff to directly carry out the proceedings, that this is a highly specialized IP-right infringement lawsuit concerning a patent right and a design right, that Plaintiff had to take comprehensive anti-infringement measures in this case, that Defendant's act of infringement is quite malicious because the act has violated the principle of good faith applicable to their contractual relationship and also because the act was intentional, and that Defendant predicted or had the ability to predict that Defendant's act of infringement would definitely stir up a dispute and would force Plaintiff, i.e., overseas resident, to appoint counsels, and that, as far as special damage, i.e., the cost of counsels, is concerned, Defendant predicted or had the ability to predict a situation that would cause damage (application mutatis mutandis of Article 416, paragraph (2) of the Civil Code), the existence of proximate causation between the total costs of counsels and patent infringement and design infringement should be recognized.

C. On these grounds, the damage sustained by Plaintiff shall be as follows.

(A) Damage caused by infringement of the Patent Right and the Design Right

(1) Damage caused by the infringement of the Design Right (Article 39, paragraph (2) of the Design Act) 15,215,084 yen + (2) Damage caused by the infringement of the Patent Right or the Design Right (Article 102, paragraph (2) of the Patent Act or Article 39, paragraph (2) of the Design Act) 181,411,548 yen + (3) Damage as the cost of counsels caused by the infringement of the Design Right 9,838,094 yen + (4) Damage as the cost of counsels caused by the infringement of the Patent Right 39,352,378 yen + (5) Damage as the cost of counsels caused by the infringement of the Patent Right or the Design Right 13,874,236 yen = 259,691,340 yen

(B) Damage caused by the infringement of the Patent Right

(2) + (4) + (5) = 234,638,162 yen"

(5) The content from line 4 to line 9 of page 69 of the judgment in prior instance is modified as follows.

"A. From around July 22, 2009, Plaintiff started visiting Defendant's major customers,

including Nishimatsuya and Akachan Honpo, to notify them to the effect that only the Plaintiff-manufactured cassettes should be regarded as authentic goods and that any goods other than Plaintiff's product should not be handled because it would cause a legal problem, i.e., IP infringement. On July 28, 2009, Plaintiff sent Defendant's customers a Notice (Exhibit Otsu No. 48) to the effect that 'Product A infringes Plaintiff's IP rights concerning designs and production' (hereinafter referred to as the 'Notified Matters')."

(6) After line 5 of page 71 of the judgment in the prior instance, new lines are placed to insert the following sentences.

"D. Defendant alleges that, in addition to the Act of Notification, Plaintiff's act of giving and disseminating notification to the effect that any product other than Plaintiff's product should not be handled because it would cause a legal problem, i.e., IP infringement, constitutes announcement or dissemination of a falsehood that is injurious to the business reputation of a competitor. However, the abovementioned Defendant's allegation is unreasonable since there is no objective evidence that proves that Plaintiff committed the aforementioned act. Furthermore, the content of Plaintiff's notification shown in the written statement submitted by Employee A of Defendant (Exhibit Otsu No. 47) is that 'since any products other than the authentic product are legally problematic, we would appreciate if you refrain from using any products other than the authentic product. We will not provide customer service for non-authentic products.' Therefore, Plaintiff's notification did not intend to give or disseminate information to the effect that Product A infringes Plaintiff's IP rights and did not have any influence over the reputation of Defendant's business."

No. 3 Judgment of This Court

This court has found that there are reasonable grounds for a part of Plaintiff's principal claims (including the claim expanded in this instance) and that Defendant's counterclaims are groundless for the following reasons.

1. Principal action

(1) Issue [1] (Infringement or non-infringement of the patent right for Invention 1), Issue [2] (Infringement or non-infringement of the patent right for Invention 2), Issue [3] (Infringement or non-infringement of the Design Right), Issue [4] (Acceptability of the demand for an injunction based on the agreement), Issue [5] (Acceptability of the demand for an injunction and disposal), and Issue [6] (Existence or non-existence of intention or negligence)

Except for the additions and modifications made as follows, the statements presented in this section are the same as those presented in paragraphs 1 to 13 (from line 6 of page 77 to line 5 of page 132 of the judgment in prior instance) of the section titled "Principal

action" of "No. 3 Court Judgment on the Points at Issue" of "Facts and Reasons" of the judgment in the prior instance. Therefore, the corresponding part of the judgment in the prior instance may be cited.

A. The content from line 15 ("Therefore") to line 23 of page 112 of the judgment in the prior instance is modified as follows.

"Therefore, [0024] in the specification, which contains a statement about tube twisting to the effect that 'the aforementioned twisting may be conducted either manually or basically,' suggests a lack of awareness of any issue, e.g., the existence of a demerit of manual twisting, such as a higher risk of untwisting of the twisted part. Moreover, regarding the 'twisting' of film (tube, package) in the case where the twisting is done by using a device, the mechanism in question is neither specified nor suggested. In other words, it is unclear what kind of device is used to rotate the waste storage cassette for the purpose of twisting the tube. Therefore, the statement does not imply the technical idea that the twisting may be done by rotating the suspended cassette itself."

B. After line 6 of page 114 of the judgment in prior instance, new lines are inserted as follows.

"Furthermore, Exhibit Otsu No. 18 describes the configuration where Clutch 270, which fits with Cassette Flange 117, is created inside Main Body 100 of the waste storage device and explains the mechanism by stating that, when Clutch 270 rotates in a single rotating direction, Storage Film Cassette 130, which is located above Clutch 270, rotates as well. The description of this configuration indicates that Storage Film Cassette 130 is supported from the bottom, but neither states nor suggests that the cassette is suspended by using the specially installed parts protruding outwardly from the cassette."

C. The content from line 16 to line 21 of page 118 of the judgment in prior instance is modified as follows.

"Defendant alleges that the difference between Invention 1 and Exhibit Otsu No. 18 Invention in terms of the supporting structure is not significant from the perspective of function and effect and that a choice between the 'suspending method' or the 'bottom supporting method' would be merely a matter of design for any person skilled in the art. However, Defendant's allegation is not acceptable because Defendant does not present any grounds from a technological standpoint and simplistically concludes that any person skilled in the art could easily come up with the idea since it is a matter of design.

Therefore, even though Exhibit Otsu No. 14 Document, Exhibit Otsu No. 20 Document, Exhibit Otsu No. 21 Document, etc., disclose the 'suspending method' as a well-known technology, it is not reasonable to conclude that any party skilled in the art

could have easily created the 'configuration that protrudes from the aforementioned exterior wall' or the 'configuration that is suspended from the aforementioned waste-storage cassettes rotator' by combining the disclosed 'suspending method' with Exhibit Otsu No. 18 Invention."

D. The term "aesthetic appeal" (Bikan) used in line 12 of page 125, lines 6, 13, and 20 of page 130, and line 9 of page 131 is all replaced with "sense of beauty" (Bikan).

E. The content from line 18 to line 23 of page 131 of the judgment in the prior instance is modified as follows.

"On these grounds, Product A falls within the technical scope of the Patent Right of Plaintiff. It is impossible to find any reasons for invalidation of the Patent Right. In light of the facts that Defendant disputes the occurrence of infringement of the Patent Right, that Defendant had been selling Product A until the end of December 2011 even after the filing of the principal action, and that Product A is likely to be still in stock even though it is no longer manufactured or sold at this point in time, there is still a risk that the Patent Right will be infringed by Defendant. Therefore, there are legitimate grounds for Plaintiff to demand an injunction and disposal of Product A based on the infringement of the Patent Right."

(2) Issue [7] (Damage)

A. As explained above, Defendant has infringed the patent right for Invention 1 by importing, selling, and offering for sale Product A. Thus, Defendant is obliged to compensate the damage sustained by Plaintiff.

B. Calculation of the damage amount under Article 102, paragraph (2) of the Patent Act

Plaintiff demands that the damage amount be calculated under Article 102, paragraph (2) of the Patent Act. On the other hand, Defendant alleges that, since Plaintiff does not work Invention 1 in Japan, said provision is not applicable and that, even if said provision were applicable, there are circumstances that require a reduction in the presumed damage amount. For the following reasons, this court found that Defendant's allegation is groundless, that Article 102, paragraph (2) of the Patent Act is applicable to the calculation of the amount of damage sustained by Plaintiff, and that there aren't any circumstances that require a reduction in the damage amount presumed under said provision.

(A) Requirement for application of Article 102, paragraph (2) of the Patent Act Article 102, paragraph (2) of the Patent Act provides, "Where a patentee [...] claims against an infringer compensation for damage sustained as a result of the intentional or negligent infringement of the patent right [...] and the infringer earned profits from the act of

infringement, the profit earned by the infringer shall be presumed to be the amount of damage sustained by the patentee [...]."

Under the principle of the Civil Code, any patentee who has sustained damage due to patent infringement may seek damages only if the patentee is able to allege and prove the occurrence and the damage amount as well as the causation between such damage and the act of patent infringement. In light of the fact that such proof, etc., is accompanied by the problematic possibility that it could prevent the patentee from receiving appropriate compensation for his/her damages, Article 102, paragraph (2) of the Patent Act provides that, if the infringer earns profits from the act of infringement, the profit earned by the infringer shall be presumed to be the amount of damage sustained by the patentee, and thereby seeks to reduce the difficulty in providing proof. Taking into account that Article 102, paragraph (2) of the Patent Act was provided for the purpose of reducing the difficulty in proving the damage amount as mentioned above and that the effect thereof is merely presumptive, there are no reasonable grounds for making the requirement for the application of said paragraph particularly strict.

Thus, it should be construed that applying Article 102, paragraph (2) of the Patent Act should be allowed when there are any circumstances suggesting that the patentee could gain profits if no patent infringement had been made by the infringer. It would then be reasonable to construe that various circumstances, such as the difference between the patentee and the infringer in terms of the manner of business, shall be taken into consideration as circumstances that call for a reduction in the presumed damage amount. Furthermore, as mentioned below, it would be reasonable to consider that application of the Article 102, paragraph (2) of the Patent Act does not require the patentee to have worked the patented invention.

In light of this understanding, the applicability of Article 102, paragraph (2) of the Patent Act is examined below.

(B) Facts found by the court

In addition to the facts used as a premise, according to the evidence and the entire import of oral argument, the following facts may be found.

a. Plaintiff and Combi Corporation concluded a "Distributorship Agreement concerning Baby Diaper-disposal Product" (hereinafter referred to as the "Distributorship Agreement") on October 15, 2008 (Exhibit Ko No. 56).

b. The Distributorship Agreement has the following provision (Exhibit Ko No. 56; only the translation is shown below. The term "distributor" used below means Combi Corporation.)

(Omitted)

c. Under the Distributorship Agreement, Plaintiff sells (exports) to Combi Corporation cassettes that Plaintiff manufactured in the U.K. Combi Corporation sells said Plaintiff - manufactured cassettes to general consumers in Japan (Exhibits Ko No. 6, No. 50, and No. 52).

d. Plaintiff and Combi Corporation hold a regular meeting every month or two and a high-level meeting once a year so that Plaintiff can provide Combi Corporation with assistance in sales activities and sales promotion activities, such as checking the sales volume of the product of Plaintiff, devising a next-term sales plan and a sales promotion plan, and offering consultation to expand sales (Exhibits Ko No. 63 to No. 66).

e. Defendant imported Product A from China and sold it in Japan at least during the period from July 30, 2009 until the end of December 2011 (neither party disputes this fact).

f. As described above, Defendant's act of importing and selling Product A constitutes infringement of the Patent Right.

(C) Judgment

According to the facts found by the court as above, with respect to Plaintiff, the Court found as follows: that Plaintiff and Combi Corporation concluded Distributorship Agreement, based on which Plaintiff designated Combi Corporation as a distributor of the product of Plaintiff in Japan and sold (exported) to Combi Corporation the cassettes that Plaintiff manufactured in the U.K. by use of Invention 1; that Combi Corporation sold aforementioned Plaintiff-manufactured cassettes to general consumers in Japan; that Plaintiff thereby may be considered to have sold Plaintiff-manufactured cassettes in Japan through Combi Corporation; that Defendant, which had been importing Product A into Japan and selling it in Japan, was in competition with not only Combi Corporation but also with Plaintiff in the Japanese market for waste storage cassettes; and that the sales of Plaintiff-manufactured cassettes have been decreasing in Japan due to the act of infringement by Defendant (the act of selling Product A).

In view of these facts, it may be found that there were circumstances suggesting that Plaintiff could have gained profits if no infringement had been made by Defendant. Therefore, it is reasonable to conclude that there are no reasons to preclude application of Article 102, paragraph (2) of the Patent Act in calculating the amount of damage sustained by Plaintiff.

In regard to this, Defendant alleges that, in consideration of the principle of territoriality as well as the fact that Article 102, paragraph (2) of the Patent Act is not a provision for the presumption of occurrence of damage per se, the application of said paragraph requires the act of "working," as prescribed in Article 2, paragraph (3) of said

Act, by the patentee in regard to the patented invention in Japan. Defendant further alleges that, in Japan, Plaintiff has not conducted the sale, etc. of the cassettes that Plaintiff manufactured by use of Invention 1; and therefore Article 102, paragraph (2) of said Act shall not be applied to the calculation of the damage sustained by Plaintiff.

However, the above-described Defendant's allegation is unacceptable. Taking into consideration the facts that Article 102, paragraph (2) of the Patent Act does not contain any wording requiring the working of the patented invention by the patentee, and that, as described in (A) above, said paragraph was provided for the purpose of reducing the difficulty in proving the damage amount, and further that, since said paragraph is merely a presumptive provision, it would be unreasonable to impose especially strict requirements for the application of said paragraph. Therefore, the act of working the patented invention by the patentee may not be regarded as a requirement for the application of said paragraph. As described in (A) above, it should be construed that applying Article 102, paragraph (2) of the Patent Act should be allowed where there are any circumstances suggesting that the patentee could have gained profits if no patent infringement had been made by the infringer.

Therefore, in this case, regardless of whether the abovementioned act of Plaintiff may be regarded as the "working" as provided for in Article 2, paragraph (3) of the Patent Act, Article 102, paragraph (2) of the Patent Act may be applied. This construction would not make the Patent Right effective outside Japan and therefore would not violate the principle, which is generally called "the principle of territoriality."

Based on these findings, it is reasonable to conclude that Defendant's allegation is unacceptable and that, since Article 102, paragraph (2) of the Patent Act is applicable to the calculation of the amount of damage sustained by Plaintiff, the damage amount may be presumed under said paragraph.

(D) Calculation of the damage amount under Article 102, paragraph (2) of the Patent Act

a. As described in the section titled "Assumed Facts (11)," the monthly sales volume and sales of Product A during the period from November 6, 2009, on which the Patent Right was granted, until the end of December 2011 are shown in the table above. The total sales volume stands at 509,583 units, while the total sales stands at 215,043,189 yen.

b. On this point, Plaintiff alleges that the profit amount from selling one unit of Product A is 356 yen. It is true that Defendant's allegation presented in the counterclaim is made based on the premise that the profit amount from selling one unit of Product A

is 356 yen. However, since the alleged amount was calculated based on information about the sale of Product A from Defendant to Nishimatsuya on October 5 and 6, 2009, including the sales volume, sales price, and the buying cost, it is unreasonable to calculate the profits that Defendant gained from selling Product A in the course of the entire period alleged by Plaintiff simply by multiplying said amount by the sales volume. Rather, since the details of the costs shouldered by Defendant for selling Product A are unclear, it would be reasonable to calculate the profits gained by Defendant by presuming that Defendant's gross profit margin ratio is 62.6% (2,172,000 yen (total sales) - 812,073 yen (total buying costs; since the buying cost of one set is \$7.2, the total costs are calculated at the exchange rate of 93.99 yen/dollar) / 2,172,000 yen (total sales) = 0.626 (rounded off to three decimal places)) (Exhibits Otsu No. 53, No. 68 to No. 70; While "volume discount" mentioned by Defendant probably means various discounts with different names proposed to buyers as transactional conditions, such as distribution cost sharing, sales promotion assistance money, sales rebate, etc., it is impossible to take such discount into consideration when calculating the profits gained by selling Product A because the details of such discounts are unclear.).

c. On these grounds, the amount of profit gained by Defendant in each period stated in the section titled "Assumed Facts (11)" ($\text{Sales} \times 62.6\%$) is as follows (any fractions are rounded down).

Therefore, the amount of damage sustained by Plaintiff during the period from November 6, 2009 until the end of December 2011 may be presumed to be 134,617,022 yen in total.

Periods	Sales	Profits of Defendant (the amount of damage sustained by Plaintiff)	Initial date of the delinquency charge calculation period
November 2009 (Nov. 6 to 30)	¥2,112,980	¥1,322,725	December 1, 2009
December 2009	¥11,436,919	¥7,159,511	January 1, 2010
January 2010	¥6,429,236	¥4,024,701	February 1, 2010
February 2010	¥14,374,108	¥8,998,191	March 1, 2010
March 2010	¥11,102,300	¥6,950,039	April 1, 2010
April 2010	¥15,732,943	¥9,848,822	May 1, 2010
May 2010	¥5,375,678	¥3,365,174	June 1, 2010
June 2010	¥8,630,142	¥5,402,468	July 1, 2010
July 2010	¥9,436,498	¥5,907,247	August 1, 2010
August 2010	¥12,556,108	¥7,860,123	September 1, 2010
September 2010	¥8,783,248	¥5,498,313	October 1, 2010
October 2010	¥9,358,305	¥5,858,298	November 1, 2010
November 2010	¥12,860,108	¥8,050,427	December 1, 2010
December 2010	¥623,414	¥390,257	January 1, 2011
January 2011	¥2,797,139	¥1,751,009	February 1, 2011
February 2011	¥7,138,714	¥4,468,834	March 1, 2011
March 2011	¥20,126,774	¥12,599,360	April 1, 2011
April 2011	¥6,735,166	¥4,216,213	May 1, 2011

May 2011	¥5,429,383	¥3,398,793	June 1, 2011
June 2011	¥4,107,493	¥2,571,290	July 1, 2011
July 2011	¥5,879,449	¥3,680,535	August 1, 2011
August 2011	¥7,532,080	¥4,715,082	September 1, 2011
September 2011	¥5,790,891	¥3,625,097	October 1, 2011
October 2011	¥6,189,939	¥3,874,901	November 1, 2011
November 2011	¥10,287,950	¥6,440,256	December 1, 2011
December 2011	¥4,216,224	¥2,639,356	January 1, 2012
Total	¥215,043,189	¥134,617,022	

C. Defendant's allegation concerning the absence of lost earnings and a reduction of the presumed amount

On the grounds specified in (A) to (C) below, Defendant alleges that Plaintiff has not suffered any lost earnings or that the amount presumed under Article 102, paragraph (2) of the Patent Act should be reduced. However, Defendant's allegation is unacceptable for the following reasons.

(A) First, Defendant alleges that Plaintiff's demand for damages is unreasonable on the grounds that it is not Plaintiff but Combi Corporation that has gained profits from selling Plaintiff's product in Japan and that, since an agreement concluded between Plaintiff and Combi Corporation contains a provision concerning a mandatory minimum purchase requirement and monetary compensation for not satisfying the minimum purchase requirement, Plaintiff would not sustain any damage.

However, the aforementioned Defendant's allegation is unreasonable for the following reasons.

As explained above, in consideration of the facts that (a) Plaintiff has concluded the Distributorship Agreement with Combi Corporation and, based on the Agreement, designated Combi Corporation as a distributor of the product of Plaintiff in Japan, and sold (exported) to Combi Corporation the cassettes that Plaintiff manufactured in the U.K. by use of Invention 1, (b) Combi Corporation has been selling the aforementioned Plaintiff-manufactured cassettes to general consumers in Japan, and (c) it may be considered that Plaintiff has been selling Plaintiff-manufactured cassettes to general consumers in Japan through Combi Corporation, it would be unreasonable to consider Combi Corporation as being the only company that has gained profits from selling

Plaintiff's product in Japan. Furthermore, there is no sufficient evidence that the agreement between Plaintiff and Combi Corporation contains provisions concerning a mandatory minimum purchase requirement and monetary compensation for not satisfying the minimum purchase requirement.

Furthermore, in this case, in light of the fact that Defendant has not presented any specific allegation or proof concerning the amount of profit, etc. that Combi Corporation has gained from selling Plaintiff-manufactured cassettes, it is not permissible to reduce the aforementioned presumed amount just because it is Combi Corporation that has been selling Plaintiff-manufactured cassettes.

(B) Moreover, Defendant alleges that, when Product A is used for the main body of Mark II, the function and effect brought about by Invention 1 are not exploited at all and, therefore, that the number of units of Product A used for Mark II should be subtracted from the total number of units sold.

However, the abovementioned Defendant's allegation is not acceptable for the following reasons.

It is said that, during the period from May 24, 2010 to December 27, 2011, Defendant received a total of 282 inquiries concerning the main body of Mark II. However, it is unclear how many units of Product A were used for the main bodies of Mark II, and it is, therefore, impossible to determine what proportion of the aforementioned sales volume was purchased for use with the main bodies of Mark II. Thus, a reduction of the presumed amount may not be permitted.

(C) Furthermore, Defendant alleges that Plaintiff's demand for damages is unreasonable on the following grounds: (1) Each pack (containing three units) of Plaintiff-manufactured cassettes costs 500 yen more than a pack of "Product A" cassettes (containing three units). It is not certain that consumers would purchase Plaintiff-manufactured cassettes if Product A were not supplied; (2) Many consumers purchase products because they bear the "Aprica" brand. Therefore, consumers would not necessarily purchase Plaintiff-manufactured cassettes even if Product A were not supplied; and (3) Aside from the sale of Product A, an increase in the sales volume of Defendant's new product (non-infringing goods) and other companies' competing goods, the malfunctioning of Plaintiff-manufactured main bodies, and the change in consumers' method of use have all contributed to a decrease in the sales volume of Plaintiff-manufactured cassettes.

However, the aforementioned Defendant's allegation is unacceptable for the following reasons.

In light of the facts that both Product A and Plaintiff-manufactured cassettes are usually used with the Plaintiff-manufactured main body for the intended purpose only, that Plaintiff-manufactured cassettes cost more than Product A by 500 yen per pack (containing three units) (about 167 yen per unit) (Exhibit Ko No. 50), and that Combi Corporation, which was designated by Plaintiff as a distributor in Japan, is the same as Aprica in terms of brand power in Japan (the entire import of the oral argument), it is reasonable to consider that the sales volume of Plaintiff-manufactured cassettes declined to an extent equivalent to the sales volume of Product A. Therefore, it is not permissible to reduce the aforementioned presumed amount on the basis of the brand power of Aprica, the existence of other products competing with the Plaintiff-manufactured waste storage device, the malfunctioning of Plaintiff-manufactured main bodies, etc.

(D) As described above, the aforementioned Defendant's allegation is unacceptable. It is reasonable to consider that Plaintiff has sustained lost earnings due to Defendant's act of infringement and that a reduction of the aforementioned damage amount presumed under Article 102, paragraph (2) of the Patent Act is impermissible.

D. Cost of lawyers and patent attorneys

It is obvious to this court that Plaintiff has commissioned Plaintiff's counsels to file and follow this lawsuit. In consideration of all of the circumstances of this case, such as the amount of lost earnings, the difficulty of the case, and the content of proceedings, it is reasonable to recognize that the cost of lawyers and patent attorneys that has proximate causation with Defendant's act of infringement is 13,460,000 yen.

E. Summary

Based on these reasons, there are grounds for Plaintiff to demand damages from Defendant up to 148,077,022 yen in total, consisting of 134,617,022 yen as damages (lost earnings) for patent infringement and 13,460,000 yen for the cost of lawyers and patent attorneys, and the delinquency charges calculated at an annual rate of 5% as specified in the Civil Code during the period from the last day of each period until the payment completion date as stated in the section "Initial date of the delinquency charge calculation period" of the table above. This is calculated with regard to the damages (lost earnings) for patent infringement and during the period from the day following the delivery date of "Request for Modification of the Complaint" dated September 24, 2012 until the payment completion date with regard to the cost of lawyers of patent attorneys.

2. Counterclaim

For the following reasons, this court finds that Plaintiff has not conducted, against Defendant, an act of announcing or disseminating a falsehood that is injurious to the business reputation of Defendant (Article 2, paragraph (1), item (xiv) of the Unfair

Competition Prevention Act) and also finds that Defendant's counterclaim is groundless.

(1) Facts found by the court

In addition to the facts used as a premise, according to the evidence (Exhibits Otsu No. 47 to No. 49) and the entire import of oral argument, the following facts may be found.

A. Around May 2009, Defendant finished necessary preparations for the launch of Product A scheduled in late July and commenced marketing activities for customers, such as describing the product and soliciting orders. Around June 2009, Defendant received an unofficial order for Product A from Nishimatsuya, etc.

B. As stated in the section "Assumed Facts (10)," Plaintiff and Combi Corporation sent the Notification (Exhibit Otsu No. 48) to the customers of Plaintiff and Defendant around July 28, 2009. Said Notification contains the following statements.

"Since November 27, 2008, Sangenic International Ltd., a U.K. Corporation manufacturing the Combi/Sangenic disposable diaper-disposal system, has appointed Combi Corporation as a distribution partner in charge of all of the customers and trade channels in Japan. "

"These products have long been successful since their launch in Japan in 1993. Since then, Sangenic's development and production system has established itself as a market leader. Sangenic's team in charge of this project has accumulated broad knowledge in this field and continued investing in product development, while always ensuring patent protection for related technologies, so that high-quality products will be delivered from the production base in the U.K. to the Japanese market. The component parts of Combi/Sangenic diaper-disposal system (main body, spare cassette, and film) are designed to provide a sophisticated, functional, hygienic method to dispose of diapers. [...]"

"As the developer and producer of the diaper-disposal system, Sangenic owns many IP rights around the world with respect to the designs and production of the diaper-disposal pail and the spare cassette. If Sangenic [...] detects infringement of its IP rights by a competing product, Sangenic would take every measure to protect its business from the producer or retailer that has committed the infringement."

C. Around July 28, 2009, Defendant was notified by many customers that they would refrain from purchasing Product A.

D. Defendant sent customers a notification (Exhibit Otsu No. 49) dated July 28, 2009 to the effect that "We would like to notify you that our product, scheduled to be launched shortly, would never infringe another company's patent right," etc.

E. Plaintiff filed this lawsuit against Defendant on December 8, 2009.

(2) Judgment

According to the facts found as above, while Plaintiff's Act of Notification coincided with the launch of Product A by Defendant, the Notification did not contain any specific statements about the IP rights owned by Plaintiff, the entity that has committed the act of infringement, infringing goods, etc. Regarding the "diaper-disposal pail and spare cassettes," the Notification states that, if Plaintiff "detects infringement of its IP rights by a competing product," Plaintiff would "take every measure to protect its business from the producer or retailer that has committed the infringement." Said statements may be interpreted that Plaintiff clarified its general stance that, if Plaintiff detects infringement of any of its IP rights, Plaintiff would exercise the right against the infringer to protect its business.

According to the aforementioned statements, it would be unreasonable to find Act of Notification to be an act of announcing or disseminating a "falsehood that is injurious to the business reputation of a competitor."

On the other hand, Defendant alleges that, in consideration of the timing of Act of Notification and the situation where Product A is the only product that can be mounted on the Plaintiff-manufactured main body, Plaintiff's act constitutes an act of damaging reputation as specified in Article 2, paragraph (1), item (xiv) of the Unfair Competition Prevention Act because the Notification was specific enough for the customers that received it to understand that the notified fact was about Defendant even though Defendant's name was not indicated in the Notification.

However, the aforementioned Defendant's allegation is unacceptable. It may be found that the Notification merely states that, regarding "diaper-disposal pail and spare cassettes," Plaintiff clarified its general stance that, if Plaintiff detects infringement of any of its IP rights, Plaintiff would exercise the right against the infringer to protect its business. Furthermore, it may be found that Product A infringes the Patent right, which was registered about three months after the delivery of the Notification, and that Plaintiff filed the principal action about four months after the delivery of the Notification.

On these grounds, it can be said that Plaintiff sent the Notification to exercise Plaintiff's IP rights. The purpose of sending it is not to damage the reputation of Defendant and to have an advantage over Defendant in the market. The Notification may not be considered to be extremely unreasonable in terms of content and style in light of common sense, nor may the act of sending the Notification be regarded to be outside the scope of exercising the IP rights. Product A does not infringe the Design Right, but based on a comprehensive evaluation of the circumstances, such as the fact that it is not totally groundless for Plaintiff to interpret that Product A falls within the scope of

similarity of the Registered Design, Plaintiff's act of notification may not be considered to be illegal.

Furthermore, from around July 22, 2009, Plaintiff started visiting Defendant's major customers, including Nishimatsuya and Akachan Honpo, to give and disseminate a notification to them to the effect that only the Plaintiff-manufactured cassettes should be regarded as authentic goods and that any goods other than Plaintiff's product should not be handled because it would cause a legal problem, i.e., IP infringement. Defendant alleges that the aforementioned act of Plaintiff constitutes announcement or dissemination of a "falsehood that is injurious to the business reputation of a competitor." As evidence, Defendant has submitted a written statement of Employee A of Defendant (Exhibit Otsu No. 47). However, said statement merely contains the information that Employee A heard from Employee B of Nishimatsuya. The statement alleges that Plaintiff (or an affiliate company of Plaintiff) and Combi Corporation paid a visit to say, "Since any products other than the authentic product are legally problematic, we would appreciate if you could refrain from using any products other than the authentic product. We would not provide customer service for non-authentic products." This statement is not sufficient for the court to find that Plaintiff has committed an act of announcing or disseminating a "falsehood that is injurious to the business reputation of a competitor."

There is no proof that Plaintiff has committed an act of announcing or disseminating a falsehood that is injurious to the business reputation of a competitor.

(3) On these grounds, it is reasonable to conclude that Defendant's counterclaim is groundless without examining any other factors.

3. Conclusion

As described above, there are grounds for Plaintiff's principal claim (including the claim expanded in this instance) to the extent that is specified in subparagraphs (1) to (3) of paragraph 1 of the Main Text, while the other claims are groundless. Based on the appeal filed by Plaintiff and an expansion of claims made in this instance, the judgment in prior instance shall be modified in accordance with paragraph 1 of the Main Text. The appeal filed by Defendant shall be dismissed because it is groundless. This court renders a judgment in the form of the Main Text.

Intellectual Property High Court, Special Division

Presiding judge: IIMURA Toshiaki

Judge: SHIOTSUKI Shuhei

Judge: SHIBATA Toshifumi

Judge: DOI Akio

Judge: CHINO Akira

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