

**Tokyo High Court Ruling Regarding Compensation for Assignment of
Employee's Work Invention
— Decision rendered an interpretation of the Patent Law, Section 35 that
shakes patent management of firms —***

Tokyo High Court Decision on May 22, 2001
Case No. Heisei 11 (NE)3208, 1999
Case of Appeal for claiming Compensation

Policy & Strategy Group

1. Introduction

This is the decision that was rendered to an appeal trial against the original decision (Tokyo District Court on April 16, 1999, Case No. *Heisei 7* (WA)3841, Claim for Compensation) in connection with the following case;

Shunpei Tanaka (hereinafter referred to as “the Plaintiff” or “the Plaintiff in the first instance court”) sued *Olympus Optical Industry* (herein after referred to as “the Defendant” or “the Defendant in the first instance court”) for payment of reasonable compensation pursuant to Section 35, Paragraphs 3 and 4 of the Patent Law for an employee's work invention made by the Plaintiff and transferred to the Defendant when he was an employee of the Defendant.

In the first instance court, the Plaintiff claimed that the reasonable compensation for an employee's work invention related to a pickup device made by the Plaintiff was over 1 billion yen, and demanded payment of 200 million yen as a part payment. The original decision assessed the amount of profit the Plaintiff should have received for the employee's work invention made by the Plaintiff at 50 million yen based on the total amount of royalty that the Defendant earned by licensing a large number of pickup-related patent rights to other companies, and by finding the degree of contribution by the Defendant at 95%, assessed the reasonable compensation therefor at 2.5 million yen (50 million x 5%). Thus, the decision demanded the Defendant to pay 2,289,000 yen which is a resultant amount after subtracting the amount already paid. Both the Plaintiff and Defendant were discontent with the original decision, and appealed to the High Court against it. The Plaintiff claimed for payment of 52,289,000 yen which is the amount granted by the first instance court with an addition of 50 million yen, and the Defendant appealed against the part of the original decision dismissing the Defendant's claims.

The appeal trial decision dismissed the both parties' appeals and held the original decision for the amount of reasonable compensation. The decision reasoned that, although an employer may provide any stipulation as a basis for calculating an amount of compensation, it is appropriate to judge that, when such stipulation is applied to an individual case, and if an amount of the compensation prescribed according to such stipulation is below a reasonable compensation pursuant to Section 35, Paragraphs 3 and 4 of the Patent Law, the employee shall not be bound by the amount prescribed by the employer and may demand a reasonable compensation from the employer.

Both the Plaintiff and Defendant in the first instance court filed requests for accepting appeals to the Supreme Court. However, since causes of acceptance of requests for accepting appeals to the Supreme Court are limited under the new Civil Procedure Law, whether or not the Supreme Court will accept their requests for accepting appeals is not known as of the date this paper is being drafted.

* “CHIZAI KANRI”(Intellectual Property Management) Vol.51, No.8, pp.1363-1369(2001)

2. Problems

At a glance, this decision seems reasonable. However, the decision is the one derived from the erroneous or inflexible interpretation of Section 35, Paragraphs 3 and 4 of the Patent Law, and it unduly denies the long-standing patent management systems in firms. First of all, Section 35, Paragraphs 3 and 4 provide, "The employee, etc. shall have the right to a reasonable compensation when he has transferred the right to obtain the patent right with respect to an employee's work invention to the employer, etc. ... The amount of such compensation shall be decided by reference to the profits that the employer, etc. will make from the invention and to the degree of contribution by the employer, etc. made to the making of the invention." Section 35 of the Patent Law does agree with a lump sum compensation scheme adopted by many of members of our association so long as considerations are given to the future profit to be received by the employer, etc. from the employee's work invention assigned to the employer (Tokyo District Court Decision on September 30, 1992). According to this compensation scheme, the amount of profit received by the employer, etc. is not fixed, but since how the patent right associated with the employee's invention is utilized is affected by the business environment and policies at any given time, it falls within the domain of the employer's own discretion, and there should be no requirement for the employer, etc. to balance the compensation at later time. The reasonability of a reasonable amount of remuneration should be determined based on the rationality of the contract or other stipulations (or should be considered in a same manner as general commercial transactions). If, as the subject decision suggests, the profits occurred after the assignment date must always be accounted, such an idea contradicts with the statutory provision that agrees with the lump sum compensation scheme, and besides that, it may result in an unstable condition that, while the inventor can receive a lump sum compensation from the transfer of his invention, but the ultimate amount of remuneration would not be fixed during the term of the patent (20 years). [Of course, this is not to deny the pay-for-performance compensation (the amount of remuneration is calculated based on the profit the employer etc. actually gains) that has a different scheme from the lump sum compensation. Discussed hereinbefore is a case where the compensation has already been made based on the lump sum compensation scheme.]

Under the presumption that, hundreds or thousands of inventions are made in every year in each company, and especially in the field of electronics, several tens of patent rights are utilized in a single product, a stipulation for compensation was provided in each company for the presumed mass-management with considerations given to the spirit of the law and balance, or fairness of evaluation between different employees' inventions in combination with the standard of the industry, and such was operated for the past long time.

It is difficult in each and any company to univocally fix a reasonable compensation by any standard, and therefore there should always be a certain breadth in calculation of the amount. As mentioned above, it is inherently difficult to determine a final amount of profit at any one point, and many factors contribute to the completion of each invention in a complex relationship during the course of making the invention, and how the patent right of an invention is used may vary to a wide extent. Accordingly, as a way for proceeding a trial, the firm's discretion should be respected, and its compensation regulation should be deemed valid so long as it is not evidently irrational pursuant to the purports of Section 35 of the Patent Law which seeks a balanced relationship between the firm and the inventor. According to the subject decision, any reasonable compensation can never be made without the consent of individual employees or a judgment by a court in every invention. The decision is the one which substantially denies the decent operation of firms, shaking the foundation of the patent management systems in the industry. Furthermore, despite the effort to find any clues in the decision which suggest how the future compensation systems in firms should be, no clues are found (the reasons why the profit gained from the Plaintiff's invention is 50 million yen and why the degree of Defendant's contribution is 95% are not so clear in the decision), thus this decision is nothing else but one lacking legal stability. There should be a possibility of triggering off other groundless suits.

3. Presentation of the Case

3.1 Outline

(1) Facts not Contested

i) Subject invention

The Plaintiff made the invention (hereinafter referred to as “the subject invention”) entitled “Pickup Device” in 1977 while he worked for a research and development department of video disc devices. The Defendant succeeded the right to obtain a patent for the subject invention based on the Defendant’s “*Hatsumei-Kouan-Toriatsukai-Kitei*” (Regulation for Handling of Inventions and Utility Models) (hereinafter referred to as “the Defendant’s regulation”), filed an application therefor, and obtained a Japanese Patent No. 1,485,864 (hereinafter referred to as “the subject patent”).

ii) Amount of Compensation Paid Based on the Defendant’s Regulation

A total amount of 211,000 yen had been paid by the Defendant to the Plaintiff for the subject invention in the following manner:

- * Compensation at the time of application:
3,000 yen (January, 1978)
- * Compensation at the time of registration:
8,000 yen (March, 1989)
- * Award for obtaining an outstanding income by the industrial property right:
200,000 yen (April, 1992).

iii) Licensing Agreements with Other Companies

Various manufacturers of pickup devices made licensing agreements with the Defendant. Company A made the agreement in 1990, and set forth on the document attached to the agreement were 15 patent rights including the one for the subject patent along with other pickup-related inventions. In the course of negotiation with Company A, only two patent rights relevant to “Data Detection Head in Optical Data Reading Apparatus” and “Supporting Device for Data Detection Head in Optical Data Reading Apparatus” (hereinafter referred to collectively as “the *Morokuma* patents”) were the primary object considered, and the rate of the licensing fee therefor was discussed based on the *Morokuma* patents, however, at a later point when the agreement was being drafted, the other pickup-related patents as well had become the object of the agreement to provide an exhaustive coverage, because it was mutually agreed that so far as Company A had to pay the licensing fee anyway, it is reasonable to make sure that Company A’s business should not be disturbed by the other patent rights. Company A, after the expiration of the terms of the *Morokuma* patents, terminated the payment of the licensing fee, as Company A recognized the payment of the licensing fee was the one made for the *Morokuma* patents.

In 1992, a cross-licensing agreement was made with Company B. The number of patent rights that the Defendant granted to Company B counted to 718. This agreement was automatically renewed after the expiration of the terms of the *Morokuma* Patents.

As of the date the District Court decision was rendered, the Defendant was in negotiation with Companies C, D and E for licensing agreements, and it had not yet arrived at an agreement. In the negotiation for the terms and conditions after the expiration of *Morokuma* patents, Companies C and D refused to include the subject patent as the subject for payment, asserting that the patent has a reason for invalidation. The Defendant also made cross-licensing agreements with Company F in 1994 and Company G in 1995 respectively, and in these agreements, the subject invention was incorporated as the object of the agreement.

The amount received as considerations of the licensing agreements between 1990 and 1996 is approximately 14.1 billion yen.

(2) Facts Found by the Courts

The major facts found by the original and appeal decisions are as follows.

i) Significance and Usefulness of the Subject Invention

The subject invention relates to a detection head for optically reading out data stored on an optical storage media, and it is a dependent invention of the *Morokuma* inventions. It mainly relates to an improved pickup of, typically, a video disk player for reading a disk which optically stores data.

ii) The State of Utilizing of the Subject Patent by Other Companies

The possibility of Company A utilizing the subject patent is high. Company B is utilizing the subject patent. The Plaintiff and Defendant both claim that the subject patent is being utilized, however, the above-mentioned companies are arguing against it, and are claiming either no infringement or invalidation of the patent. The possibility of Companies E, F and G not utilizing the subject patent is high.

iii) Degree of Defendant's Contribution

The Plaintiff, in his initial proposal, presumed the use of a fixed objective lens, however, such constitution of the proposal initially made by the Plaintiff would never be utilized by the pickup devices of the above manufacturing companies since in their pickup devices, focusing and tracking are provided by driving the objective lens. It can be said that it is rather the proposal of the person in the patent department that modified the scope of claim to a large extent to yield the possibility of infringement of the subject patent.

3.2 Major Contestation

The major contestations in the subject case are following three issues:

i) Whether or not the Defendant shall be permitted, not only to bind its employee to transfer his employee's work invention, but also to unilaterally prescribe an amount of reasonable compensation for such transfer without the consent of the employee.

ii) How much the reasonable compensation in the present case should be.

iii) Whether the extinctive prescription has been acquired or not.

3.3 Arguments of the Parties

(1) Argument of The Plaintiff

1) Contestation i)

In light of Section 35, Paragraph 4 of the Patent Law, providing that the amount of compensation "shall be decided by reference to the profits that the employer, etc. will make from the invention and to the degree of contribution by the employer, etc. made to the making of the invention", it is obvious that the judgment in the original decision ruling "even if there is a regulation for prescribing an amount of compensation for an employee's invention, when an amount of a compensation prescribed according to such regulation is below a reasonable compensation pursuant to the Patent Law, the employee should be permitted to claim an additional payment from the Defendant" is justified.

With the present fact that there even are firms setting their upper ceiling of award at 100 million yen, it is not understandable, how the amount as small as 2,5 million yen could be derived as a reasonable compensation pursuant to the law for the invention that yielded the profit over 7 billion yen.

2) Contestation ii)

The original decision stated that it is reasonable to deem an amount of 50 million yen as a reasonable amount of profit that the Defendant has received from the subject invention, and provided the

following six reasons for such assessment.

- * Utilization of the *Morokuma* Patents is required in order to make the subject invention be utilized;
- * The primary object of the licensing agreements between the Defendant and each of the companies were the *Morokuma* patents, and no significant emphasis was given to the subject patent.
- * Each of the companies denied the fact of working of the subject patent.
- * The *Morokuma* patents are used in the products of all of the companies, but the subject patent is not used in the products of Company E, F and G.
- * There is an undeniable possibility that the subject patent could be invalidated from the reason of change of gist since the description of the original application had been modified.
- * If the description of the original application had not been modified, there would have been a little possibility that the pickup device of each of the companies was deemed as utilizing the subject patent.

However, the subject invention is not a dependent invention of the *Morokuma* inventions. In the first place, the *Morokuma* inventions do not employ law of nature, thus, even they should not deserve to be called "inventions". What should be emphasized most in calculating a reasonable compensation is whether the subject patent is utilized in the pickup device of each of the companies. Even though the importance had not been attached to subject patent during the negotiation for the licensing agreements, such should not be used as a ground of the calculation of the amount of profit received by the Defendant. The subject patent is a basic patent used in the product of the each of the companies. [the discussion of the Plaintiff to state on the validity of the subject patent and so forth is omitted herein.]

3) Contestation iii)

Since the Defendant paid the compensation for the assignment of the subject invention in installments, it is most natural to construe the date of the final installment as the starting date of the extinctive prescription for the right to claim a compensation.

(2) Defendant's Argument (major issues only)

1) Contestation i)

The original decision stated that since the Defendant's regulation had been the one unilaterally provided by the Defendant, the Plaintiff should not be bound by such regulation for an amount of each compensation. However, calculation of a compensation based on a company's regulation is what is adopted in the majority, if not all, of domestic companies. That is, it is practically impossible to calculate an amount of profit an employer, etc. will receive and the degree of contribution the employer, etc. made to the making of the invention for a large number of individual inventions, and in addition, since the employer must not unfairly handle such compensations among its employees, regulations on compensation are indispensable for the patent management in large-scale companies. Furthermore, the reasonability of an employer prescribing any amount of compensation including such compensation without the consent of an employee does not disagree with any of the precedent decisions and doctrines. If the original decision is to be complied, not only the Defendant in the first instance court, but also many of Japanese firms, would be stranded in handling such inventions, and the economy of Japan would be adversely affected despite its efforts to become a technologically-established nation.

The amount of compensation as prescribed by the Defendant's regulation is comparable to other large-scale companies. While the amounts of compensations paid at the time of application and registration are uniform for every invention, the compensation paid when the industrial property right is obtained has a nature somewhat like a commendation, thus, it can be said that it is reasonable to pay such commendation only when the invention yielded an unexpectedly large profit.

2) Contestation ii)

Although the original decision assessed an amount of profit the Defendant would have received at 50 million yen, the amount of such profit is actually zero. The all licensing fees received under the licensing agreements are what were paid for the *Morokuma* patents. All the other patent rights including the subject patent were merely the additions included in block as the subject patents.

The person in the patent department of the Defendant said that he thought the invention of the Plaintiff as it would not have been granted a patent because the idea of the Plaintiff was poor in its concreteness, so he added specific circuits and schematic drawings before filing the application. However, the business department of the Defendant thought that this application would necessitate a complex arrangement of the optical system, and would make it more difficult to further miniaturize the device, so that it decided not to apply for a patent. But, the patent department of the Defendant decided to completely abandon the idea of the Plaintiff with regard to the driving of the relay lens, and by making a correction to focus on an arrangement for driving the lenses of the pickup device including the objective lens, and as a result, succeeded in having the invention patented. Due to this correction, the probability that the subject invention is invalidated is high on the ground of change of gist of the specification. Since the enforcement of the right demanding an injunction under the patent right that evidently includes a reason for invalidation is deemed abuse of right (Supreme Court Decision rendered in April, 2000), the subject patent has no value.

As for the degree of defendant's contribution, since the Defendant secured the Plaintiff's living by paying salaries, and also provided all material and labor facilities needed for the making of the invention, and since the constitution based on the idea proposed by the Plaintiff is, not at all, included in the subject patent, the original decision erred in the judgment finding any degree of contribution by the Plaintiff, even though it is a degree as small as 5%.

3) Contestation iii)

All decisions in precedent cases agree that the extinctive prescription for the right to claim compensation under Section 35, Paragraph 3 runs from the moment the right to obtain a patent is assigned.

3.4 Judgment by the Court

1) Contestation i)

Although the employer, etc. is permitted to unilaterally provide a regulation for the transfer of the patent right etc. relevant to an employee's invention as provided by Section 35, Paragraph 3 "in accordance with employment regulations or other stipulations", it is reasonable to construe that an amount of the "reasonable compensation" shall not be prescribed unilaterally. If the employer, etc. is permitted to unilaterally prescribe a specific amount of the "reasonable compensation", such situation shall be deemed improper in the light of the law. It goes without saying that, if the employer, etc. is allowed to establish in an one-sided manner a regulation providing how to calculate the compensation resulting from the assignment of a patent right, and if the employee must be bound by the established regulation, the regulation will be biased in favor of the employer, showing a contrary to the purpose of legislation.

The employer, etc. is of course permitted to establish a regulation prescribing how to calculate or when to make payment. And if what was prescribed by the employer, etc. is reasonable pursuant to the purports of Section 35, Paragraphs 3 and 4 of the Patent Law, and it is properly applied to a specific case, then the employee, etc. will receive the payment of "reasonable compensation". However, if it is found that the amount of compensation as calculated according to the above regulation does not reach the reasonable amount of compensation set forth in the Section 35, Paragraphs 3 and 4 of the Patent Law, the employee, etc. is allowed to claim the reasonable amount of compensation as set forth in those paragraphs against the employer, etc., without being bound by such an amount of compensation that the employer, etc. calculated according to the above regulation.

The above interpretation, nevertheless shall not be construed that the compensation must always be paid upon any special claim. As explained above, an employee will receive the payment of rea-

reasonable compensation when the in-house regulation is reasonable pursuant to the Section 35, Paragraphs 3 and 4 of the Patent Law, and it is properly applied to a specific case.

Although the actual circumstance to date has permitted many of Japanese firms to one-sidedly prescribe the amounts of reasonable compensation based on their own regulations, and to rule their employees not to claim for more, such circumstance is a mere indication of the violation of the mandatory rules by such handling, and that shall not inhibit the court from adopting the above interpretation.

2) Contestation ii)

There is no contest between the parties on the fact that the *Morokuma* patents are being worked in the product of each of the companies. Since the use of the constitutions of the *Morokuma* patents enabled the reduction of the number of components to achieve the minimization of the whole device in size and weight, the *Morokuma* patents can neither be said to be lacking the law of nature nor being not inventions. There is no other evidence sufficient to demonstrate the obvious invalidity of the *Morokuma* patents. Based on the facts and evidence that are not contested by the both parties, the subject patent may be found as a dependent invention of the *Morokuma* patents.

It is quite fair to think that there is a difference in the amount of profit the employer, etc. will receive from the patents with emphasized importance which served as the ground for the licensing fee during the agreement negotiation, and the amount of profit from the other patents, thus, it is reasonable to account into the basis of the calculation, the fact that more importance was given to the *Morokuma* patents in the licensing agreement. Therefore, there is a reasonable ground to account the difference between the *Morokuma* patents and the subject patent.

Based on the facts and evidence that are not contested by the both parties, since the subject patent is found to include the constitution not described in the original specification due to the amendment of the subject invention, it is almost certain that there has been the change of gist, and it is highly possible that the subject patent includes a reason for invalidation. However, based on the facts that a request for an invalidation trial filed by Company G had been withdrawn, it is worked in the products of Companies A, B, C and D, and Company B still continues to pay the licensing fee after the expiration of the *Morokuma* patents, the subject patent cannot be said to have no value.

As stated in the above, none of the arguments of the both parties can be adopted. In summary of the above-explained issues, it is deemed that there is a rationality in the original decision which determined that an amount of profits which the Defendant in the first instance court should make from the subject invention is assessed at 50 million yen. There also is a rationality in the assessment of the original decision which determined that a degree of contribution to the making of the invention by the Defendant in the first instance court as the employer is assessed at 95%.

3) Contestation iii)

An amount of profit from the industrial property right to be used as a basis for assessment was not necessarily clear until the date in 1992 when a compensation at the time of obtaining the profit from the industrial property right was paid to the Plaintiff in the first instance court, and it was uncertain what is an amount of a compensation which the Plaintiff in the first instance court could have received from the Defendant in the first instance court, so that it is appropriate to construe that there is no progress of the extinctive prescription until the same date.

4. Conclusion

This High Court decision held that it is reasonable to construe that the employer, etc. is not permitted to unilaterally prescribe the amount of the reasonable compensation. Ultimately, it is a substantial denial of the whole compensation system that had been made, and long-time-operated by majority of the major industries of Japan. The decision is the one that gives a crucial damage to the industries as it will shake the foundation of the patent management systems in the major industries.

It also forces companies to take negative patent management policies, and depraves the international competitiveness of the domestic industries.

It is needless to say much about, but each of firms is attempting to encourage in-house inventions to enhance its competitiveness, and making efforts to tailor a comprehensive systems including a commendation system that regulates a calculation method of incentives given to inventors. The author does not intended to deny the importance of objectiveness and reasonability in such a compensation regulations, etc., however, it seems not justified to neglect the fact that many individual companies, who seek the preservation and enhancement of their competitiveness, are making efforts to provide ideal environments for their researchers so that they can concentrate on their inventive activities, in terms of employment terms, research facilities and working environment in combination with other schemes for encouraging inventions. In addition, in many cases, an inventor generally makes use of basic technologies of his company or other research resources that are available in his company to arrive at an idea of an invention, refines that idea through discussion with his colleagues or staffs of the patent department, and finally completes the invention. The gist of the decision is the one that demands to carve out only the aspect of the reasonable compensation to be paid to a researcher for an invention resulted from the above process of the invention, and to precisely calculate that amount individually. Also, what the decision states is same as saying, "it is illegal in the light of the law unless a consent of an inventor is obtained in each individual case". And if, in the realty, the final assessment on such can only be made by courts (since firms are said to be incapable of indicating any reasonable solution), patent practices will be off the rails. Researchers will also be confused as if they have no remedy but to sue their companies whenever they come up with questions on their compensation. It should be noted that research activities are only possible with the support of companies, and if this common sense is despised, vigorous research activities can never be expected. A wise decision is awaited from the Supreme Court.

