

Compensation for the Invention of Employees
Translation of and Commentary to the
Decision of the Tokyo District Court from 16 April, 1999¹

Klaus Hinkelmann and Gerald Gooding

SUMMARY

The Tokyo District Court awarded Plaintiff compensation of 2,289,000 yen for the employee invention which was made by him while he was working for Defendant from which he meanwhile retired. The Court also ruled that 2% of the cost of litigation was to be borne by Defendant and 98 % by Plaintiff. The Court refused to adopt the position of Defendant who argued that its company regulations should also define the method of determining the compensation for the inventions of its employees and that Plaintiff must abide by the company regulations. In contrast thereto the Court stressed the absolute meaning of the legal provisions holding that the employee cannot be required to abandon in advance a claim for reasonable remuneration. Reasonable remuneration cannot be stipulated unilaterally by the employer either. The Tokyo District Court stressed that a written oath executed upon entering into employment with the company which includes a statement to the effect that the employee agrees to abide by company regulations does not mean that the employee must accept the remuneration calculated by the employer. The Court also refused to apply the statute of limitations. This case illustrates that employees' rights to compensation for their inventions in Japan fall somewhere between those in Germany which also has a specific "Law on Employees' Inventions" and detailed guidelines for the calculation of remuneration for employees' inventions, and the U.S.A. in which employees have virtually no right to claim compensation.

INTRODUCTION

In the present case before the Tokyo District Court, S. Tanaka (Plaintiff), a former employee of Olympus Optical Company (Defendant) requested a much higher compensation for an invention he had made during the time of employment with Defendant than Defendant was willing to grant him. Defendant, who had licensed the present patent to a number of companies, referred to its company regulations, which forbade a higher compensation.

¹ *S. Tanaka vs. Olympus Optical Co., Ltd.*, Tokyo District Court, 29th Civil Division//Case No. 3841 (wa); the decision is under appeal before the Tokyo High Court.

The following points were at issue before the Tokyo District Court:

1. Remuneration Amount
 - a.) Importance and Utility of the Present Invention
 - b.) Working of the Invention by Third Parties
 - c.) Defendant's Level of Contribution
 - d.) Reasonable Remuneration Amount
2. Plaintiff's Right to Demand Remuneration Restricted by Service (Company) Regulations?
3. Plaintiff's Right to Demand Remuneration barred by the Statute of Limitations?

TRANSLATION

Text of the Judgment

1. Defendant shall pay Plaintiff 2,289,000 yen, one fifth of the amount to be paid annually, starting 23 March, 1995 and continuing until the entire amount is paid.
2. The cost of litigation shall be borne in shares of 2 % by Defendant and 98 % by Plaintiff.

Facts and Reasons

I. DEMAND

That Defendant pay Plaintiff a sum of 200,000,000 yen, one fifth of the amount to be paid annually, starting 23 March, 1995 and continuing until the entire amount is paid.

II. OVERVIEW

Plaintiff, having given Defendant the right to obtain patents for 'employee's inventions' by the Plaintiff, demanded reasonable remuneration in accordance with Section 35 (3) of the Japanese Patent Law (hereinafter 'the Law'), for an invention by Plaintiff while employed in the research and development (R&D) division of Defendant.

A. *Undisputed Facts*

1. *The Parties*

Plaintiff entered into employment with Defendant around 1969, and from around 1973 to 1978, was assigned to the R&D division of Defendant, where he was engaged in the research and development of video disk systems. Plaintiff retired from Defendant at the end of November 1994. Defendant is a corporation whose principal business is the manufacture and sales of microscopes, cameras, precision measurement instruments and other optical equipment.

2. *The Present Invention*

In 1977, while assigned to video disk systems research in the R&D division, Plaintiff invented the 'Pickup Apparatus,' (hereinafter 'the present invention' or 'the present patent'). The present invention was an 'employee's invention,' [as defined in Section 35 of the Law,] in that it was within the scope of Defendant's business, and the scope of Plaintiff's duties... In accordance with regulations of Defendant, entitled 'Regulations for the Handling of Inventions and Utility Models' (hereinafter referred to as 'Defendant regulations'), Plaintiff assigned, to Defendant, the right to obtain a patent for the present invention. Defendant accepted this right, filed an application for a patent on the present invention, and obtained a patent for it.

3. *Payment of Compensation Based on Defendant Regulations*

a. In accordance with Defendant regulations, for the present patent, Plaintiff received, from Defendant, compensation and remuneration totaling 211,000 yen, as follows:

<i>Type</i>	<i>Date</i>	<i>Amount (¥)</i>
(1) Application Compensation	(5 January 1978)	3,000
(2) Patent Registration Compensation	(14 March 1988)	8,000
(3) Intellectual Property Income Compensation	(1 October 1992)	200,000

b. Defendant regulations were revised a number of times. The revision dates of the portions of the regulations on which each of the above compensation amounts was based are as follows:

	<i>Regulation Revised</i>
(1) Application Compensation:	October 1975
(2) Patent Registration Compensation:	30 September 1988
(3) Intellectual Property Income Compensation:	9 September 1990

Whereas Plaintiff was to be compensated by a share of any intellectual property income received from third parties, it was determined that compensation for the two years from the date of the initial payment would be paid as a single lump-sum payment, and be limited to a maximum of 1,000,000 yen.

B. Disputed Points

1. Remuneration Amount

Contentions of Plaintiff

a. Importance and Utility of the Present Invention

The present invention, in combination with the inventions covered by the patents listed ..., i.e. 'data detection head for optical data read system,' and 'support mechanism for data detection head for optical data read system,' respectively (the inventions and corresponding patents referred to collectively hereinafter as the 'Morokuma invention,' and 'Morokuma patents,' respectively), constitutes apparatus that forms the core technology for a compact disk player...

Moreover, there are no grounds for invalidation of the present patent.

b. Working of the Invention by Third Parties

The Morokuma invention and the present invention are used in products of Sony, Aiwa, Kenwood, Sharp, Victor, Sanyo, Panasonic, Pioneer, and Hitachi...

Moreover, regardless of actual refusals [by licensees] to pay royalties, the 'amount of financial gain the user may be expected to have received' can be determined by applying a degree of objectivity and a feasible range of assumed financial gain.

c. Defendant's Level of Contribution

Based on facts outlined below, Defendant's level of contribution to the invention does not exceed 60%.

In spite of the fact that the main portions of the technical concept of the present invention are not described in the proposal written by Plaintiff, Plaintiff did in fact provide supplementary description of the invention. In the R&D division of Defendant, to which Plaintiff was assigned, 'invention' was thought to be the process of describing the technical concepts of a proposed apparatus. It was the duty of the Patent Division to acquire an accurate understanding of this technical concept and obtain valid patent rights for it. The inventor was given the responsibility of writing a proposal to describe the technical concepts of the invention. It would generally have been difficult, however, to obtain valid patents solely on the basis of these written proposals, and it was therefore common for the Patent Division to ask for additional detailed explanations. These supplementary explanations were effected by several means including oral descriptions, drawings, and itemized reports. This kind of supplementary description was also used in the case of the present invention. The circuit and layout drawings in the laid open application were also done by Plaintiff.

Around 1974 a development project was established in the R&D division of Defendant for the purpose of developing a video optical player (VOP). The VOP group

was split into an A-Team and a B-Team... Plaintiff is an electronics engineer who was assigned to the B-Team to develop technology related to the electrical signal processing system of the VOP. The development of the actuator for the optical pickup of the present invention was therefore outside of his area of specialization within the group. Plaintiff was neither directed to develop the optical pickup, nor was he expected to do so.

Development of the optical pickup by Plaintiff was not budgeted for, and there was no movement within the Defendant organization to provide for it. Moreover, Plaintiff was a member of the technical staff; not the group leader. Since Plaintiff was not the person in charge of developing the optical pickup, he had no research assistants. Plaintiff devoted only a small amount of time to the present invention.

d. Reasonable Remuneration Amount

(1) Primary Position

In 1990, the domestic market for CD systems totaled 703,800 million yen. The royalty percentage for the present invention is at least 1%. Based on the fact that the present invention and the Morokuma inventions were used in optical pickups incorporated in all of these CD systems, Defendant should have realized financial gain of 7,038 million yen from the present invention and the Morokuma inventions. Considering its contribution to the Morokuma inventions, the financial gain received by Defendant for the present invention should probably be one third of the above total. The level of contribution to the present invention of Defendant (as a user), considering research and development costs, facility costs, and the time required to complete the invention, is no greater than the 60% mentioned above. Thus if we take 40% of the financial gain Defendant should have received, we arrive at a reasonable remuneration of 927,330,000 yen {938,400,000 yen; *G.G.&K.H.*}

Therefore, after subtracting from this amount the 211,000 yen Plaintiff has already received, Plaintiff demands the remaining 927,119,000 yen as reasonable remuneration.

(2) Backup Position

From Sony and others, Defendant has received royalties for the present invention and the Morokuma inventions in the following amounts:

<i>Dates</i>	<i>Amounts (million ¥)</i>
April 1990 through March 1991	1,401
April 1991 through March 1992	1,867
April 1992 through March 1993	2,074
April 1993 through March 1994	2,204
Total	7,546

Accounting for the share of its contribution to the Morokuma inventions, the share due Defendant for the present invention is one third of the above amount. The share of this contribution by Defendant, even when we consider Defendant's expenses in terms of research and development expense, facility expense, and the time required to complete the invention, Defendant's share (as a user of the invention) is no greater than 60%. Thus if we take 40% of the financial gain Defendant should have received, we arrive at a reasonable remuneration of 1,006,120,000 yen. Therefore, by subtracting from this amount the 211,000 yen Plaintiff has already received, Plaintiff demands the remaining 1,005,900,000 yen as reasonable remuneration.

Defendant's Rebuttal

a. Importance and Utility of the Present Invention

Miniaturization of the compact disk player was realized by the Morokuma inventions. Through the Morokuma inventions, it was possible to reduce the weight of the pickup apparatus to one tenth that of a conventional pickup. The present invention is a technology that provides additional improvements in the pickup apparatus details, but is not a basic patent such as those covered by the Morokuma inventions, which are critical for this type of miniaturized apparatus. Whereas the Morokuma inventions are pioneer inventions that must absolutely be used to realize a miniature apparatus for driving a lens in two dimensions, the present invention is merely an optional invention that can be selected as desired to contribute to the miniaturization of an optical pickup apparatus by taking the principles [of the Morokuma inventions] and applying additional limiting conditions...

b. Working of the Invention by Third Parties

Companies that manufacture [optical disk] pickups acknowledged the requirement to obtain licenses for the Morokuma patents and entered into licensing agreements with Defendant. In the actual agreements, however, Defendant gave the licensees the right to work all of its patents on the pickup apparatus. The effective term of the Morokuma patents, however, expired on 31 October 1995, and Defendant is proceeding with negotiations on patents other than the Morokuma patents (including the present patent) with the licensees, and also with companies with whom Defendant has no license agreements. Defendant is also negotiating with these other companies on the issue of settlement for past use, including past use of the Morokuma patents. These firms also acknowledge working the Morokuma patents, but deny working the present invention. Moreover, these companies hold that the present invention is invalid on grounds of 'publicly known matter' and 'change of gist,' and is therefore not a valid patent. They also basically contend that even if the present patent were valid, they are not, in fact, working the present invention. Thus because there are disputes as to whether there

actually is any infringement, royalties that Defendant has in fact not been able to collect should not be considered part of the probable financial gain of the user.

Specific contracts with various companies are as follows:

On 1 October 1995, Defendant entered into a licensing agreement with Sony. Aiwa and Kenwood also use the Sony products. The majority of the negotiations with Sony dealt with the percentage to be paid as royalty, and did not touch on related patent rights for other than the Morokuma patents (including corresponding foreign patents). When it came to the actual wording of the contract, in order to avoid having the related patents impede the process, permission to work all related patents was included. It is Sony's contention that the royalties agreed to are for working the Morokuma patents only. Sony has paid no royalties subsequent to the expiration of the Morokuma patents. However, it is Defendant's position that Sony is in fact working the present invention.

Defendant is currently engaged in license negotiations with Sharp, Victor, and Panasonic, but as yet, has not concluded an agreement. In negotiations subsequent to expiration of the Morokuma patent, Sharp and Victor have contended that the present patent is not valid, and have refused to include it in their royalty payments. It is Defendant's position that Sharp and Victor are in fact working the present invention, but that Panasonic is not.

On 6 December 1995, Defendant entered into a cross-licensing agreement with Pioneer. It is Defendant's position that Pioneer is not working the present invention.

On 19 March 1992, Defendant entered into a licensing agreement with Sanyo on an opto-magnetic playback apparatus, and an opto-magnetic recording and playback apparatus... During these licensing negotiations, however, the central discussion and the main ground covered dealt with the Morokuma patents. Sanyo is paying a 1% royalty on all of their pickups only because of the existence of the Morokuma patents. Because the term of the licensing agreement was extended automatically after expiration of the Morokuma patents, there has been no particular need for an exchange of opinions on the present patent. Sanyo currently manufactures 23 different pickups, some of which are used only in the products of other companies. This makes it difficult to determine whether they include implementations of the present invention. Of seven different units purchased by Defendant, it was our opinion that the present invention was being worked in two of them...

c. Defendant's Level of Contribution

(1) Plaintiff submitted an invention proposal entitled 'Optical Video Disk Pickup,' which included a proposal for a 'relay lens drive.' It was the opinion of the Patent Division that it would be difficult to obtain a patent based on Plaintiff's original proposal. Plaintiff was given advice with respect to coils that were not included in his proposal, and a patent application was subsequently filed on 5 January 1978. In his proposal, Plaintiff proposed a lens drive technique that differed from that of prior

optical pickups in that it used a stationary objective lens, and added a relay lens that was driven. The proposal did not show how the relay lens was to be driven. It was thought that if the disclosure were made enabling by describing the drive technique, and an application filed, a patent could possibly be obtained. At the suggestion of the responsible individual in the Patent Division, an additional drawing corresponding to the one that appears in the Patent Gazette was made, and the application filed.

Plaintiff's proposal raised questions as to utility... For this reason, the Business Division passed down a decision to the Patent Division to the effect that examination was not to be requested and that the application was to be abandoned. The responsible individual in the Patent Division, however, responded that if we were to take the drive technique added at the time the application was filed, and focus on this as a lens drive technique rather than limiting ourselves to the relay lens, we could obtain a patent that had utility value. The specification was changed (to reflect the configuration as disclosed in the registered patent), and we were able to obtain the patent.

The specification of the issued patent differs substantially, however, not only from Plaintiff's original proposal, but also from the specification as initially filed. This has resulted in charges of 'change of gist' by other companies.

Also, in his proposal, Plaintiff stated (as a disadvantage of the prior art) that moving the objective lens caused problems in terms of power consumption and size. In the optical pickups of the licensees, however, focusing and tracking is performed by moving the objective lens. Therefore, if these licensees are indeed working the present invention, what they are working is the added configuration proposed by the responsible individual in the Patent Division.

(2) In 1976, in the VOP Group of Defendant, the research topic was narrowed from overall video moving pictures to a concentration on optical pickups. Research was limited to work on items such as optical systems (including lasers, etc.) lens/pickup drive apparatus, and control signals for tracking and focus. Because these research items covered a number of technical areas, and were closely interrelated, researchers often reported on each others' research results. Subsequent to 1976, Plaintiff was responsible for the focus and tracking area. This research was not limited to control methods and signal processing methods for focus and tracking, but also extended to the lenses and associated drive apparatus that are intimately and inextricably linked to focus and tracking. Work on the optical pickup was not outside of the range of expertise of Plaintiff. The present invention was directly related to Plaintiff's assigned area of research.

2. *Plaintiff's Right to Demand Remuneration Restricted by Service Regulations?*

Contentions of Defendant

It is recognized that the rights to employees' inventions are assigned to the company by advance agreement in accordance with predetermined service and other regulations. It should also be understood, then, that compensation may be settled in accordance with predetermined service regulations and other regulations of the company, and that once thus settled, new demands made on an individual basis may not be entertained.

In many Japanese enterprises today, the assignment of employees' inventions to the company, and the payment of compensation for those inventions, are predetermined, and are settled in accordance with internal company regulations. This is an extremely rational approach that is in concert with the spirit of Section 35 of the Law. Because the company must deal with its employees in an impartial manner, it must be governed by a set of uniform rules for dealing with contracts with employees. In companies that handle a large number of inventions, because it is not feasible to derive a specific amount of compensation for each and every invention, inventions must be handled somewhat by type. Because the value to the company of an employee's invention is also heavily dependent on company policy and cooperation with other divisions, determining specific applicability on a case by case basis could actually result in more inequitable treatment between employees. Furthermore, since the assignment of employees' inventions to the company is provided for in advance by company regulations and other regulations, it is only natural that these regulations should also go on to define the method of determining the compensation for these inventions. There is nothing in Section 35 of the Law to support an interpretation to the effect that this is not allowed.

Compensation for employees' inventions is different from compensation in transactions between independent parties. For employees working in research and development, their basic compensation is their salary. Employees' inventions benefit from company facilities, research goals, materials, experimental samples, guidance and assistance from other technical personnel, assistance from other departments, and if a patent is applied for, the assistance from company patent practitioners. These things all account for substantial expenditures by Defendant. In determining reasonable remuneration, one must also take into account the high risk of failure, which is borne entirely by Defendant.

The regulations of Defendant provide for a level of compensation that is equal to or better than the corresponding regulations of major Japanese corporations at the time, and payment of compensation based on these regulations should therefore be recognized as reasonable remuneration.

Defendant made payment based on Defendant regulations, and Plaintiff accepted this payment without argument. This therefore constitutes payment in full of reasonable remuneration. The contents of Defendant regulations are well-known to Plaintiff, and the written oath executed upon entering into employment with the company includes a

statement to the effect that the employee agrees to abide by company regulations. Therefore, the acceptance by Plaintiff of the amount prescribed by Defendant regulations constitutes acceptance of this amount as reasonable remuneration. Defendant regulations should be treated the same as an assignment contract. Furthermore, with respect to the payment of compensation to be paid when intellectual property rights income is received, Defendant regulations establish a maximum limit of one million yen for the total amount to be paid. To give more weight to the Morokuma patents (the only inventions Sony ever acknowledged working), the payments from Sony were distributed over the two Morokuma inventions and the present invention on a 4:4:2 basis, and Plaintiff was therefore paid 200,000 yen.

Plaintiff's Rebuttal

Plaintiff is making a demand in accordance with Section 35 of the Law, and since this is an enforceable mandatory provision, even if payment has been made in accordance with Defendant regulations, Plaintiff is clearly within his rights in demanding the differential amount. The fact that Plaintiff accepted payment in accordance with Defendant regulations should not be interpreted as an indication of intent, on the part of the Plaintiff, to forfeit his right to the remaining difference. Whether Defendant regulations are on a par with those of other companies has no bearing on this conclusion.

It is implicit in the spirit of Section 35 of the Law, which is based on inventor-centered principles, that the salary and benefits provided to Plaintiff by Defendant have no direct bearing on the reasonableness of the compensation. It is acknowledged that Defendant supported the research and development in many ways, both tangible and intangible, but it suffices to consider this to be part of the 'level of contribution of the user.' Compensation for employees' inventions is completely different from compensation for labor.

3. Plaintiff's Right to Demand Compensation Barred by Statute of Limitations?

Contention of Defendant

Plaintiff's right to the present patent was assigned to Defendant on 8 February 1977, and the right of Plaintiff to demand compensation for that patent was therefore established on that date. Ten years have already passed. Defendant therefore invokes the statute of limitations.

Plaintiff's Rebuttal

Defendant regulations state that payment of remuneration for assignment of employee invention patent rights to Defendant shall be broken down into three types: patent application compensation, patent registration compensation, and compensation for intellectual property income. They also state that such partial payment method is valid.

For each of these partial compensations, then, the points at which the clock would start running on the statute of limitations would be the points at which it became possible to demand that particular type of compensation. Less than ten years elapsed between the date on which it became possible to demand compensation for intellectual property income, and the filing of this suit. Accordingly, the term prescribed by the statute of limitations did not expire.

Held

III. ADJUDICATION OF DISPUTED POINTS

A. *Disputed Point 1 (Amount of Reasonable Remuneration)*

1....

a. *Importance and Utility of the Present Invention*

(1) ... Both the present patent and the Morokuma patents involve detection heads for optically reading data that has been optically recorded on recording media. A precondition for using the present invention is that it be used in combination with the Morokuma inventions. The present invention relates to improvements to pickups for use with disks on which data has been optically recorded, primarily those used in video disk players... The present invention enabled the use of a small, lightweight pickup to solve this problem. The patent application for the present invention was published as an examined application (*Kôkoku*) on 12 May 1986, and resulted in a patent that expired on 5 January 1998.

(2) The inventor of the Morokuma patents received a commendation as a Person of Scientific and Technological Merits from the Director-General of the Science and Technology Agency based on those patents. In the same year, inventions of Tadashi Morokuma (including the Morokuma inventions referred to herein) were selected for a Director's Award from the Japan Institute of Invention and Innovation (*Hatsumei Kyôkai*). The applications for the two Morokuma patents were published as examined applications (*Kôkoku*) on 18 November 1987. The patents based on those applications expired on 31 October 1995. In the original specification, the present invention was claimed as follows:

“In a playback apparatus for disks on which data has been optically recorded, a pickup apparatus characterized in that it comprises:

a lightweight relay lens placed in front of an objective lens for converging a data-reading light beam on a disk;

a means for moving said relay lens in the optical axis direction for performing focusing of said data-read light beam; and

a means for moving said relay lens in directions perpendicular to the optical axis for performing tracking of said data-read light beam.”

... This claim was amended ..., with most of the work on the amendment performed by the responsible individual in the Patent Division of Defendant. In this amendment, the 'relay lens' of the original claim was changed to 'lens,' and in the drawing, the portion relating to a fixed objective lens was removed.

The specification of the application as initially filed disclosed a technical concept wherein the objective lens was held stationary and the relay lens moved. In the amendment process, however, the wording was changed to possibly include a structure in which the objective lens is moved. There is an undeniable possibility, then, that such amendment constitutes a change in gist.

(3) On 4 August 1995, Pioneer demanded a trial for invalidation of the present patent. The substance of the grounds for invalidation was that because the amendment resulted in a change in gist from that of the specification as originally filed, the filing date was pushed back, and the disclosure made identical to, or easily derivable from, the original specification, as reflected in the *Kôkai* document (publication of unexamined application). This demand was subsequently withdrawn.

b. Working of the Invention by Third Parties

(1) Various manufacturers of pickup apparatus entered into licensing agreements with Defendant. The status of the specific individual agreements is as described below. Moreover, in negotiations with manufacturers, among the patents held by Defendant, the discussions dealt primarily with the Morokuma patents. Attached is a list of products of various manufacturers. The Morokuma inventions are used in all of these products. (There are no disputes between the parties.)

(a) On 1 October 1990, Defendant concluded a licensing agreement with Sony. Aiwa and Kenwood also use the Sony product. The licensing agreement with Sony includes an attached listing of 15 patents ... The license also applies to

“in addition to the above, all Japanese and foreign patents and utility models applied for by 'A' prior to 31 December 1989, for pickups that are playback-only type optical pickups in which the objective lens is driven in one dimension or two dimensions”.

Specifically, the license covers 528 Japanese patents and 93 foreign patents, for a total of 621 patents. In the Sony negotiations, however, the two Morokuma patents were the only ones on which any real importance was placed. The royalty percentage was discussed with respect to these patents only. When it came to the contract drafting stage, in order to avoid having problems with other patents interfering with the working of the Morokuma patents, it was decided to state that pursuant to payment of fees, all of the related patents would be covered. The agreement expired on 30 September 1995. Once the Morokuma patents expired, Sony took the position they had been paying royalties for the Morokuma patents only, and they refused to make further payments to Defendant.

(b) Defendant is currently involved in license negotiations with Sharp, Victor, and Panasonic, and has not yet reached agreement. In negotiations subsequent to the expiration of the Morokuma patents, Sharp and Victor have contended that there are grounds for invalidation of the present patent, and they have refused to include it in royalty payments.

(c) On 19 March 1992, Defendant concluded a cross-licensing agreement with Sanyo for opto-magnetic playback apparatus and opto-magnetic record/playback apparatus. This license was later amended by attachment of a memorandum dated 31 May 1993. Defendant has licensed its rights to a total of 718 patents and utility models to Sanyo, for which Sanyo pays a royalty of one percent of the amount of its optical pickup sales. The above agreement was automatically extended after expiration of the Morokuma patents.

(d) On 1 April 1994, Defendant concluded a cross-licensing agreement with Hitachi. The present patent is included in that agreement.

(e) On 6 December 1995, Defendant entered into a cross-licensing agreement with Pioneer. The present patent is included in that agreement.

(2) The status with regard to the working of the present patent in the products in the attached product list is as follows:

(a) Sanyo is working the present invention (no dispute between parties).

(b) Sony (including Aiwa and Kenwood), Sharp, and Victor: There is a good possibility that the present invention is being worked in the products of these companies because in each of them, the focus and tracking coils form an intersection, and magnetic flux based on a magnet and yoke passes through the intersection.

Plaintiff and Defendant both agree that the present patent is being worked, but the above companies dispute this, stressing non-infringement and non-validity...

(3) The amounts of patent royalty income received by Defendant as licensing compensation were not computed for the years 1988 and 1989 (here, and hereinafter, fiscal years). For subsequent years, the amounts were as follows:

<i>Year</i>	<i>Amount (million ¥)</i>
1990	1,401
1991	1,867
1992	2,074
1993	2,204
1994	2,731
1995	2,895
1996	987

Included in the income shown for 1995 are the royalties that were paid in the second half of 1994. It is assumed that the reason for the sharp decline in income in 1996 was that Sony stopped paying royalties after the Morokuma patent terms expired on 31 March of 1995. If these figures are viewed in terms of the time periods of the license contracts discussed above, it becomes apparent that most of the above income is probably from royalty payments made by Sony and Sanyo.

c. Defendant's Level of Contribution

(1) The invention proposal submitted by Plaintiff was for an 'Optical Video Disk Pickup.' In his proposal, Plaintiff stated that in the past, focusing had been performed by moving an objective lens in the optical axis direction, and tracking was performed by moving a Galvano-mirror at relatively high speed. This required a large amount of force and a bulky support mechanism for the apparatus, which consumed a large amount of power. In his invention, however, the objective lens was made stationary, and focusing and tracking were performed by a movable mirror lens. The proposal did not show how the relay lens was to be moved. Therefore, based on an opinion of the responsible individual in the Patent Division, a drawing equivalent to the one shown in the attached *Kôkoku* document was added, and a patent was applied for for the invention as described above.

Later, a development manager in the Business Division handed down a decision to the Patent Division to the effect that examination of this application should not be requested. This decision was based partially on the fact that the mechanism would be made more complex by adding a relay lens in addition to the objective lens. However, others (lead by the responsible individual in the Patent Division) thought that a patent having useful value could be obtained by removing the relay lens limitation and concentrating instead on the lens drive method. The specification was amended accordingly (to reflect the content of the registered patent) and a patent was granted.

A precondition of Plaintiff's original proposal was that the objective lens be made stationary. However, in the pickup apparatus of the various manufacturers, focusing and tracking are performed by driving the objective lens. Therefore, the pickup apparatus of these manufacturers do not satisfy the requirements of the configuration of Plaintiff's original proposal, and could be seen as possibly infringing the present patent only as claimed following major changes, primarily on the basis of a Patent Division proposal.

(2) Around 1974 the R&D division of Defendant undertook research and development with the development of a video optical player (VOP) as one of its objectives. Initially, the VOP group was split into an A-Team and a B-Team. The objective defined for the A-Team was to develop the optical pickup apparatus and the mechanism design technology required for the VOP design. The B-Team was to develop any technology required for the VOP system design that did not fall within the scope of the A-Team's objective.

Plaintiff, assigned to the B-Team, was engaged in the development of technology related to the electrical signal processing circuits of the VOP. By 1976 the Morokuma inventions had been completed, and the focus of the group's research objectives was narrowed to allow them to concentrate on optical pickups rather than overall motion picture video, after which research was restricted to optics, including lasers, etc. lenses, pickup drive systems, and focus/tracking control signals. From 1976 until the present invention was made in 1977, Plaintiff was responsible for focus and tracking development. In light of the above, it is apparent that the present invention is closely related to Plaintiff's areas of responsibility.

(3) Plaintiff was assigned to the R&D Division of Defendant from 1973 to 1978. During this time, Defendant paid out, on behalf of Plaintiff, compensation totaling approximately 5,000,000 yen per year in salary, bonuses and benefits. During the same time, Defendant paid research and development expenses in excess of 4,000,000 yen per researcher on its staff.

2. *Reasonable remuneration is derived as follows on the basis of the above acknowledged facts.*

a. When we consider:

(1) The present invention is an invention that uses the Morokuma inventions...

(2) In license agreements between Defendant and various manufacturers of pickup apparatus, the present invention is included, but in negotiations with these manufacturers, of all of the patent rights owned by Defendant, it was discussion related to the Morokuma patents that dominated the negotiations, and the present patent was given no importance.

(3) Some manufacturers deny working the present invention, and in fact Sony, which has paid most of the royalties for the applicable period, is not paying royalties to Plaintiff, arguing that its royalty payments were for the Morokuma patents only.

(4) Of the products in the attached list of products of various manufacturers, the Morokuma inventions are used in all of them. The present invention is [definitely] not worked in the Panasonic, Pioneer, and Hitachi products, and it is not at all certain that the present invention is incorporated in most of the CD systems.

(5) If the invention had been left unchanged in the form described in the application as initially filed, it is highly unlikely that it could have been ruled that the invention was being worked in the pickup apparatus of the various manufacturers.

A reasonable amount of financial gain that should have been received by Defendant for the present invention is held to be 50,000,000 yen. Moreover, Plaintiff contends that the financial gain that should have been received by Defendant should be calculated based on the total monetary value of CD systems produced in Japan. There is insufficient evidence, however, to support this contention.

b. In addition, because the content described in Plaintiff's original proposal was not used in the pickups of the various manufacturers, but as a result of major changes made primarily by the staff of Defendant's Patent Division, it is probable that it is being infringed in the pickup apparatus of some manufacturers; and because at the time of the present invention, Plaintiff was in charge of areas closely related to the present patent; and in consideration of other pertinent factors, Defendant's contribution to the present invention is held to be 95 per cent.

c. Therefore, if an amount of 47,500,000 yen, which corresponds to Defendant's contribution to the invention, as a user thereof (95 per cent of the total), is subtracted from the amount of financial gain Defendant should have received from the present invention, the reasonable remuneration for employees' inventions that should be received by Plaintiff is 2,500,000 yen. Subtracting from this amount the 211,000 yen already paid by Defendant, the remaining amount is 2,289,000 yen.

B. Disputed Point 2 (The Nature of Defendant Regulations)

Defendant argues that in regard to employees' inventions, when an inventor assigns the rights to his invention to the company, as a user of the invention, the compensation to be paid therefor is predetermined by service regulations, etc., and for cases processed in accordance with these regulations, separate individual demands for additional compensation may not be made.

However, Defendant regulations (and any changes thereto) are determined unilaterally by Defendant, and there is no reason Plaintiff should be bound by these regulations when it comes to the amount of compensation to accept for a specific instance of assignment of rights. On this point, Defendant argues that since Plaintiff signed an oath agreeing to abide by Defendant regulations, this should be viewed as forfeiture of his right to claim reasonable compensation. The signing of such a general oath upon entering employment, however, cannot be interpreted as agreement by Plaintiff to compensation for specific instances of assignment of patent rights, or as forfeiture of his right to demand reasonable remuneration. Also, since Defendant has not presented a clear basis for finding that Plaintiff is bound by Defendant regulations, the above argument of Defendant is improper.

Thus, in that Section 35 of the Law directs that the amount of remuneration for assignment of patent rights for employee's inventions is to be decided based on (1) the profits that users, etc., are likely to make from the invention, and (2) the level of contribution of the employer to the making of the invention, it follows that regardless of the existence of service regulations setting the amount of compensation for inventions, if the amounts provided for therein do not satisfy the Law in terms of reasonable remuneration, the inventor may demand from the user the amount of the deficiency in compensation.

Defendant also argues that its regulations are rational, necessary, etc., but none of this has any bearing on the above interpretation.

C. Disputed Point 3 (Applicability of Statute Of Limitations)

According to the undisputed facts and evidence, the following are acknowledged facts:

- that from the time Plaintiff made the present invention, in 1977, Defendant regulations have stated that payment of remuneration for assignment of employee invention patent rights to Defendant are to be broken down into three types: compensation when a patent is applied for, compensation when the resulting patent is registered, and compensation when intellectual property royalty income is received;
- that Defendant regulations have been changed a number of times;
- that between 1990 and 1995, Defendant concluded licensing agreements with Sony and several other companies;
- that from 1990, Defendant received income from royalty for the present invention and others; and
- that based on Defendant regulations subsequent to a 29 September 1990 revision, compensation for receipt of intellectual property income for the present invention was paid on 1 October 1992.

From the above, it is evident that prior to 1 October 1992 (the date on which Plaintiff received intellectual property income compensation from Defendant), the amount of intellectual property income on which the computation of that compensation was to be based was not necessarily known, and at that time the amount of compensation Plaintiff would be able to obtain from Defendant was uncertain. It must therefore be acknowledged that until the above date, conditions were not such that Plaintiff could reasonably be expected to exercise his right to demand reasonable remuneration in accordance with the Law. (Moreover, although Defendant regulations are not legally binding on Plaintiff, this fact did not influence the above finding with respect to the time at which conditions would be such that Plaintiff could reasonably be expected to exercise his right to demand reasonable remuneration) The present suit was filed in 1995, and ten years did not elapse between the above date and the filing of the suit. Therefore, the maximum period allowed by law for exercise of the right to demand reasonable remuneration was not exceeded.

COMMENTS

In Japan, the rights of inventors and employed inventors in particular are much less pronounced than compared to Germany. Employees' inventions in Japan are governed by Section 35 of the Japanese Patent Law which reads as follows:

(1) An employer, a legal entity or a state or local public entity (hereinafter referred to as the "employer, etc.") shall have a non-exclusive license on the patent right concerned, where an employee, an executive officer of a legal entity or a national or local public official (hereinafter referred to as the "employee, etc.") has obtained a patent for an invention which by reason of its nature falls within the scope of the business of the employer, etc. and an act or acts resulting in the invention were part of the present or past duties of the employee, etc. performed on behalf of the employer, etc. (hereinafter referred to as an "employee's invention") or where a successor in title to the right to obtain a patent for an employee's invention has obtained a patent therefor.

(2) ...

(3) The employee, etc. shall have the right to a reasonable remuneration when he has enabled the right to obtain a patent or the patent right with respect to an employee's invention to pass to the employer, etc. or has given the employer, etc. an exclusive right to such invention in accordance with the contract, service regulations or other stipulations.

(4) The amount of such remuneration shall be decided by reference to the profits that the employer, etc. will make from the invention and to the amount of contribution the employer, etc. made to the making of the invention.

No further regulations for employee's inventions and their remuneration exist in Japan. Moreover, there are only a few pertinent court decisions. In general, the right to an invention is assigned by the employee to the employer by means of an individual contract or, more often, company regulations which form part of the employment contract. The employed inventor who has assigned his rights to the invention to the employer is essentially left with the right to a reasonable remuneration. The present decision of the Tokyo District Court stresses the importance of the legal concept to provide reasonable remuneration over company regulations which might stipulate otherwise. In the absence of detailed guidelines it is difficult to calculate reasonable remuneration for employee's inventions. The Tokyo District Court was faced in the present case with an even more complicated situation as additional issues arose. The extent to which the present invention was used by licensees was disputed. Moreover, an amendment of the patent application during patent prosecution which allegedly changed the gist of the invention raised doubts about the legal validity of the present patent. In addition, the contribution to the invention by Defendant's patent division was to be considered.

The Tokyo District Court decision is in line with a recent tendency among Japanese companies to award upon their own initiative gradually a higher remuneration for

employee's inventions². There is however no tendency in Japan to grant the employees' inventors greater rights in their inventions. The employer is not obliged to file a patent or utility model application for the assigned invention or to allow the employee inventor to file corresponding patent applications in foreign countries where there is no interest of the employer. Moreover, the employee inventor is neither entitled to information about nor participation in the prosecution of the patent application before patent authorities. The present case seems to recognize however the right of the employed inventor to detailed information regarding the utilization of the patent right.

The practice in Germany where the employee inventor can enjoy these rights is in sharp contrast thereto. The handling of employees' inventions is governed by the German Law on Employee's Inventions of July 25, 1957. The calculation of remuneration is dealt with in great detail in the *Guidelines for the Remuneration of Employee's Inventions in Private Enterprises* of July 20, 1959. Moreover, said Law provides for a special Arbitration Board which is located at the German Patent & Trademark Office³.

The Court discussed the applicability of the Statute of Limitations referring to Defendant regulations. Defendant regulations state that the remuneration for assignment of employee invention patent rights to Defendant shall be broken down into three types: patent application compensation, patent registration compensation and compensation for intellectual property income. For each of these partial compensations, the points at which the clock would start running on the statute of limitations would be the points at which it became possible to demand that particular type of compensation. As less than ten years elapsed between the date on which it became possible to demand compensation for intellectual property income, and the filing of this suit, the term prescribed by the statute of limitations (§ 167 of the Civil Code) did not expire.

The present decision, in addition to discussing reasonable remuneration, provides interesting insights into the licensing activities of the companies concerned as well as into the collaboration between employee inventors and the patent division in the defendant company. It might well be that the disclosure of some of these details is not in the interest of the parties concerned.

2 J. TESSENHORN / S. YAMAMOTO, Patent World, November 1999, pages 10-13.

3 For details see the three-part series of articles on the occasion of „40 Years of Employed Inventors Law in Germany“ in PATENT & LICENSING, February 1998 ff., by Dr. Bernd Hansen and Dr. Peter Klusmann).