

Date	July 30, 2015	Court	Intellectual Property High Court, Second Division
Case number	2014 (Ne) 10126		
– A case in which the court determined whether the payment of consideration is unreasonable as specified in Article 35, paragraph (4) of the Patent Act, which was revised by Act No. 79 of 2004.			

References: Article 35, paragraphs (3), (4), and (5) of the Patent Act

Number of related IP right, etc.: (Not disclosed)

#### Summary of the Judgment

This is a case wherein the appellant, who used to be an employee of the appellee, demanded against the appellee the payment of the initial deposit of 200 million yen out of the reasonable amount of consideration, 28,691,905,621 yen, and the payment of other charges under Article 35, paragraph (3) (paragraph (5) applied) in connection with the assignment of the right to obtain a patent for the employee invention concerning the method, etc., to reduce transmission latency (delay) (the "Invention") that arises when an electronic order is sent to a computer of a stock exchange. The appellee filed a patent application for this invention in the U.S. but obtained a notice of reasons for refusal from a USPTO examiner and consequently abandoned the application. The appellee alleged that it would suffice if it pays the appellant an application bonus of 30,000 yen in accordance with the appellee's Invention Rules. The appellant has not requested the payment of an application bonus of 30,000 yen and demanded the payment of reasonable consideration as a bonus for the working of the invention.

The judgment in prior instance (2013 (Wa) 6158, judgment of the Tokyo District Court on October 30, 2014) stated that [i] the payment of consideration for the invention in question in accordance with the appellee's Invention Rules would be unreasonable and that it is necessary to determine whether the appellant is entitled to request the payment of reasonable consideration under Article 35, paragraphs (3) and (5) of the Patent Act, and that [ii] since no exclusive benefits have arisen from the invention in question, the appellant is not entitled to request the payment of reasonable consideration. In conclusion, the court of prior instance dismissed the plaintiff's claim.

In this judgment, the court found it unreasonable to pay consideration in accordance with the appellee's Invention Rules by holding as follows and examined whether the appellant is entitled to request the payment of reasonable consideration under Article 35, paragraphs (3) and (5) of the Patent Act. In conclusion, the court found that no exclusive benefits have arisen and thereby dismissed this appeal.

There was no sign that the opinions of the appellee's employees - including the appellant - were reflected in the appellee's Invention Rules when they were established.

In the case of the appellee's Invention Rules 2, which contain detailed provisions concerning the amount of consideration, etc., none of the employees including the appellant were informed about those rules in advance. This indicates that there were no opportunities to take the appellant's opinion into account when deciding how to calculate the amount of consideration. If this is the case, calculating the amount of consideration for the assignment of the invention in question in accordance with the appellee's Invention Rules would be equivalent to calculating the amount of consideration without any substantive involvement of the appellant. In general, "discussion," "standards disclosure," and "opinion hearing" are basic elements of an appropriate procedure. However, the appellee's Invention Rules can be considered to be insufficient in all of these elements. Moreover, according to the evidence, there were no special circumstances that should be taken into account when evaluating any other elements of the procedure. In conclusion, the court found it unreasonable for the appellee to have complied with the appellee's Invention Rules and to have determined not to pay reasonable consideration for the invention in question even without considering other factors such as the reasonableness of the result of the calculation.

Judgment rendered on July 30, 2015

2014 (Ne) 10126, Appeal Case of Seeking Payment of Value for Employee Invention

Court of prior instance: Tokyo District Court 2013 (Wa) 6158

Date of conclusion of oral argument: May 12, 2015

#### Judgment

Appellant (plaintiff): X

Appellee (defendant): Nomura Securities Co., Ltd.

#### Main text

1. The appeal shall be dismissed.
2. The cost of the appeal shall be borne by the appellant.

#### Facts and reasons

##### No. 1 Objects of the appeal

1. The judgment in prior instance shall be revoked.
2. The appellee shall pay to the appellant 200 million yen and money accrued thereon at the rate of 5% per annum for the period from August 23, 2010, until the date of completion of the payment.
3. The court costs shall be borne by the appellee for both the first and second instances.

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

In addition to those specified in this judgment, the abbreviations of the terms and the meanings of the abbreviations are as specified in the judgment in prior instance, and the terms "plaintiff" and "defendant" contained in the abbreviations used in the judgment in prior instance shall be replaced as appropriate with "appellant" and "appellee," respectively.

##### 1. Summary of the case

###### (1) Gist of the claims

In this case, the appellant, who used to be an employee of the appellee, seeks against the appellee the payment of part of the reasonable value, namely, 200 million yen out of 28,691,905,621 yen, for having vested the appellee with the right to obtain a patent for an invention that the appellant had made as an employee, which relates to the method, etc. to reduce transmission latency (delay) arising when an electronic order is sent to a computer of a stock exchange (the "Invention"), under Article 35, paragraph (3) (paragraph (5)) applied) of the Patent Act as amended by Act No. 79 of 2004 (the "Patent Act"), as well as the payment of delay damages accrued thereon at the rate of 5% per annum as prescribed in the Civil Code for a

period from August 23, 2010, the date of filing of the patent application claiming the Invention with the USPTO, until the date of completion of the payment.

(2) Decision of the court of prior instance

The court of prior instance held as follows: [i] it is found to be unreasonable to pay the value for the Invention in accordance with the Appellee's Invention Rules, and hence it is necessary to determine whether the appellant is entitled to claim the payment of a reasonable value under Article 35, paragraphs (3) and (5) of the Patent Act; and [ii] since no monopoly profit has arisen from the Invention (for which the appellee was notified by the USPTO examiner of the refusal of the application due to lack of novelty, and therefore waived the application), the appellant is not entitled to claim the payment of a reasonable value. In conclusion, the court of prior instance dismissed the plaintiff's claim.

(omitted)

No. 4 Decision of this court

This court also finds the appellant's claim to be groundless, on the grounds detailed below.

In light of the nature of the case, this court first considers whether the Invention is being worked (the same as Issue (2) A).

1. Whether the Invention is being worked

See the attachment of this judgment.

2. Issue (1) (whether it is unreasonable to pay the value for an employee invention as deemed reasonable in accordance with the Appellee's Invention Rules)

(1) Application of the Appellee's Invention Rules

The appellant was employed by the appellee on May 12, 2008, and had made the Invention independently or jointly with others by August 23, 2010, at the latest (there is a dispute between the parties over whether the appellant made the Invention independently). Thus, the Invention was made on or after May 12, 2008.

According to the findings of the underlying facts mentioned in No. 2-1 of the "Facts and reasons" section of the judgment in prior instance cited herein, the Appellee's Invention Rules 1 provide that the appellee shall pay a bonus with regard to an employee invention [i] when the appellee files an application, [ii] when the appellee obtains a patent right, and [iii] when the appellee receives financial profit from the working of the invention. The Appellee's Invention Rules 2 specify the amount of bonus payable upon [i] filing an application, [ii] obtaining a right, and [iii] receiving financial profit by working the invention for which a patent right has been obtained, while providing for nothing regarding other instances (the Appellee's Invention Rules

1 had been amended twice since the appellant was employed by the appellee, and there is no dispute between the parties with regard to the fact that the provisions of the rules as amended on April 1, 2012, shall apply in this case).

If the provisions of the Appellee's Invention Rules mentioned above are interpreted reasonably, these rules are deemed to also provide that a bonus upon working the invention shall not be paid for an invention for which a patent right has not been obtained, irrespective of whether the invention is being worked or whether the appellee has received any financial profit from it.

In that case, the Invention is regarded as a case to which the provisions of the Appellee's Invention Rules apply. In light of the appellee's allegations in this action, the appellee is deemed to have decided to pay only 30,000 yen of a bonus upon filing an application as a reasonable value for the vesting of the Invention in the appellee, while paying neither a bonus upon obtaining a right nor a bonus upon working the Invention, in accordance with the provisions of the Appellee's Invention Rules.

(2) Whether payment of the value for an employee invention is unreasonable

A. Circumstances of negotiation

As a factor to be taken into consideration when examining whether payment of the value for an employee invention is unreasonable, Article 35, paragraph (4) of the Patent Act first mentions "circumstances where a negotiation between the employer, etc. and the employee, etc. had taken place in order to set standards for the determination of [the] said value."

The Appellee's Invention Rules 1 and the Appellee's Invention Rules 2 were formulated on October 1, 2001, and April 1, 2006, respectively (Exhibits Ko 4 and 5), which were both prior to the appellant becoming the appellee's employee. Thus, no negotiation was held between the appellant and the appellee with regard to the formulation of the Appellee's Invention Rules (including the amendment to the Appellee's Invention Rules 1 made until April 1, 2008).

In relation to a person who is employed by the employer, etc. after the provisions concerning a reasonable value were established, if the employer, etc. holds a negotiation individually with such person based on the existing provisions concerning a reasonable value, such situation could be a factor to be taken into consideration in the same terms as "circumstances of a negotiation." However, it is not found that when the appellant became the appellee's employee or thereafter, the appellee held a negotiation individually with the appellant with regard to the Appellee's Invention Rules or explained the existence and details of these rules to the appellant and obtained the appellant's consent. Nor is it found that when amendments were made to the Appellee's Invention Rules 1 on April 1, 2008, and thereafter, the appellee held any negotiation with its employees including the appellant.

The appellee alleges that it held a negotiation with the appellant, because the document

prepared when converting the appellant to a specified employee (Exhibit Ko 2) stated that the appellee would request the appellant to confirm the appellee's rules and systems, etc., and the appellant became a specified employee by signing it.

However, the appellee cannot be deemed to have held a "negotiation" only by requesting the appellant to confirm the Appellee's Invention Rules.

The appellee's allegation mentioned above cannot be accepted.

#### B. Circumstances of disclosure

According to the provisions of Article 35, paragraph (4) of the Patent Act, the second factor to be taken into consideration when examining whether payment of the value for an employee invention is unreasonable is "circumstances where the set standards had been disclosed."

The Appellee's Invention Rules 1 were disclosed to the appellee's employees via the appellee's intranet and the appellant was also able to see the details of the rules (Exhibits Ko 2 and 4, Exhibits Otsu 8 and 9). On the other hand, it is not found that the Appellee's Invention Rules 2 were disclosed to the appellee's employees, nor is it found that said rules had been disclosed individually to the appellant before the appellant vested the right to obtain a patent for the Invention in the appellee.

The appellee alleges that Article 5, paragraph (3) of the Appellee's Invention Rules 1 discloses the cases where a bonus is to be paid and provides that the amount of bonus is specified separately, and hence the appellant could have known the existence of the Appellee's Invention Rules 2.

However, Article 5, paragraph (3) of the Appellee's Invention Rules 1 reads, "the amount, payment method, and other matters concerning a bonus for an employee invention are to be determined through the procedure specified separately" (Exhibit Ko 4), and thus it is impossible just by referring to this provision to presume that the Appellee's Invention Rules 2 exist separately. Furthermore, although it is found that the appellee disclosed a document titled "Regarding Patent Applications" (Exhibit Otsu 6) (Exhibit Otsu 8), this document does not specifically set out the amount, payment method or other matters concerning a bonus for an employee invention, nor does it imply the existence of any other rules.

The appellee's allegation mentioned above cannot be accepted.

#### C. Circumstances of hearing of opinions

Article 35, paragraph (4) of the Patent Act includes "circumstances where opinions are heard from employees, etc. with regard to the calculation of the amount of value" as the third factor to be taken into consideration when examining whether payment of the value for an employee invention is unreasonable.

The appellee cannot be deemed to have heard opinions from the appellant with regard to the calculation of the amount of value for the Invention.

The appellee alleges that it could not find a way to hear opinions from the appellant because the appellant refused to transfer the right to obtain a right for the Invention to the appellee.

The appellant admits to have initially refused to transfer the right to obtain a patent for the Invention to the appellee (see the complaint, page 7, and the appellant's third brief dated May 29, 2013, page 2). While it is sufficient to provide employees, etc. with the opportunity to state their opinions in order to "hear opinions" from them, the Appellee's Invention Rules provide nothing about procedures for hearing opinions, handling appeals, etc., nor can the appellee be found to have provided the appellant with any opportunity to state opinions.

The appellee's allegation mentioned above cannot be accepted.

#### D. Other factors

As found in 1. above, the Invention has not been worked, and it has become certain that a patent will not be granted for the Invention. These circumstances can at least be regarded as factors to be taken into consideration when examining whether payment of the value for an employee invention is unreasonable.

The appellee alleges that the appellant has been sufficiently rewarded from the salary paid thereto. However, since the appellant was employed by the appellee primarily for the sales-related purpose of increasing the number of customers (Exhibits Ko 25 and 57), said salary is nothing other than compensation for the appellant's labor intended for this purpose. Furthermore, it is not found that after the Invention was made, the appellant has received any special treatment from the appellee for the appellant's success in having made the Invention. Therefore, the amount of salary paid to the appellant cannot be regarded as a factor to be taken into consideration.

According to the questionnaire survey conducted by the Japan Institute for Labour Policy and Training as of July 7, 2006 (Exhibit Otsu 7), 76.8% of the respondent companies answered that they pay compensation for performance in the case of in-house practice or in the case of licensing-out. However, this survey does not clearly show the details of these companies' invention rules, including the requirements for receiving such compensation, and hence the results of this survey cannot immediately be regarded as a factor to be taken into consideration.

#### E. Examination

In light of all the circumstances mentioned in B. to D. that can be regarded as factors to be taken into consideration, this court examines whether it is unreasonable for the appellee to have decided not to pay the appellant a reasonable value for the Invention in accordance with the Appellee's Invention Rules.

The amendment to Article 35 of the Patent Act by Act No. 79 of 2004 was made based on the recognition of various problems with the process of calculation of the amount of a reasonable value under the former provisions of Article 35, paragraph (4), such as that it was

difficult to have the circumstances involving the relationship between individual employees, etc. and their employer, etc. reflected in the calculation, the amount of a reasonable value was less predictable, and employees, etc. were barred from taking part in the process of formulating the employee invention rules or calculating a reasonable value. Accordingly, the point of said amendment was that when calculating a reasonable value, emphasis should be placed on the procedures to be followed until the value is paid, and the agreement voluntarily reached in advance between the employees, etc. and the employer, etc. should be respected as long as said procedures have been carried out properly.

In view of the findings mentioned in B. to D. above, there is no evidence showing that the Appellee's Invention Rules were formulated with any opinions from the appellee's employees including the appellant having been reflected therein. The Appellee's Invention Rules 2, which provide for specific matters such as the amount of value, had not even been made known to the employees including the appellant, nor had there been any chance for the appellant's opinion to be heard in the course of calculating a reasonable value for the Invention. In that case, if the value for having vested the Invention in the appellee were calculated in accordance with the Appellee's Invention Rules, the calculation of a reasonable value would eventually be made without any substantial involvement of the appellant. This is a gross deviation from what is intended by Article 35, paragraph (4) of the Patent Act. Accordingly, without needing to question the appropriateness of the result of the calculation, the appellee's decision not to pay to the appellant a reasonable value for the Invention in accordance with the Appellee's Invention Rules is found to be unreasonable.

#### F. Appellee's allegations

The appellee alleges that the "circumstances of negotiation," "circumstances of disclosure of the standards," and "circumstances of hearing of opinions," all of which are provided for in Article 35, paragraph (4) of the Patent Act, are not indispensable factors for determining whether nonpayment of a reasonable value is unreasonable, and that other factors are as important as these three factors mentioned above.

It is true that the abovementioned three specific factors, namely, "circumstances of negotiation," "circumstances of disclosure of the standards," and "circumstances of hearing of opinions," are nothing more than factors to be taken into consideration when making a finding as to unreasonableness and "negotiation," "disclosure of the standards," and "hearing of opinions" are not the requirements for making such finding, and hence the existence of these three per se should not be brought into question. The appellee's allegation is justifiable to the extent that it argues this point.

However, "negotiation," "disclosure of the standards," and "hearing of opinions" are in general basic factors of due process. The Appellee's Invention Rules seem to be inadequate in

terms of all of these factors, and nothing in the evidence of this case suggests any other circumstances regarding procedural matters that should be taken into consideration. In that case, without needing to consider other factors, it is found to be unreasonable to calculate the value for the Invention in accordance with the Appellee's Invention Rules.

The appellee's allegation mentioned above cannot be accepted.

(3) Section summary

For the reasons stated above, it is unreasonable to calculate the value for the Invention in accordance with the Appellee's Invention Rules.

3. Issue (2) B (whether any monopoly profit has arisen from the Invention)

As mentioned in 1. above, it is found to be unreasonable to calculate the value for the Invention in accordance with the Appellee's Invention Rules. Next, this court calculates a reasonable value under Article 35, paragraph (5) of the Patent Act (this court's decision regarding Issue (2) A [whether the System has the constituent features of the Invention] is the same as that mentioned in 1. above).

(1) The object for which the appellee would have received profit

In light of the underlying facts mentioned in No. 2-1 of the "Facts and reasons" section of the judgment in prior instance cited herein, evidence (Exhibits Ko 8, 11 and 14, and Exhibit Otsu 12), and the entire import of the oral argument, the following facts can be found. [i] Securities companies, etc. that intend to trade as brokers on a securities exchange in the United States need to become members of the exchange. While the appellee is not a member of a U.S. securities exchange, Nomura Securities and Instinet are members, which suggests that the System was operated by these companies. [ii] Nomura Holdings, which is the parent company of the appellee's corporate group, manages the rights relating to the Invention together with other rights. [iii] The persons who are named as co-inventors of the Invention other than the appellant transferred to Nomura Holdings the right to obtain a patent for the Invention claimed in the U.S. Patent Application, and the appellee also transferred to Nomura Holdings the right to obtain a right for the Invention that the appellant had vested therein.

There is no evidence to find that Nomura Holdings paid any value to the appellee when it acquired the right to obtain a patent for the invention claimed in the U.S. Patent Application. Hence, in light of the facts found as above, Nomura Holdings seems to manage intellectual property rights that it owns in a centralized manner, has its subsidiaries practice these rights, and adjusts profit arising therefrom within the appellee's corporate group through the accounting relationships among the member companies of the group. In that case, profit received through the operation of the System can be deemed to belong to the appellee's corporate group as a whole. Consequently, not only such profit earned by the appellee but also profit generated for

the appellee's corporate group as a whole can be taken into consideration as profit to be received by the employer, etc. that is to be taken into consideration when calculating a reasonable value.

Meanwhile, the appellant alleges that a reasonable value should be calculated based on the value for the transfer that the appellee would have received from Nomura Holdings. How to calculate a reasonable value is a matter that the court has discretion to decide, and as mentioned above, this court adopts the method of calculating a reasonable value on the assumption of in-house practice.

Even if a reasonable value were to be calculated based on the value for the transfer payable to the appellee by Nomura Holdings, as alleged by the appellant, there is no evidence to find that Nomura Holdings actually paid any value to the appellee. In such case, there is no other option but to calculate a reasonable value for the transfer based on the royalty income that the appellee is expected to receive if it licensed the Invention to Nomura Holdings, and such expected royalty income would be calculated on the basis of the profit generated for the appellee's corporate group as a whole when Nomura Holdings caused the member companies of the group to work the Invention. Assuming so, despite the difference in procedural steps, the calculation method adopted by this court as mentioned above is the same as the calculation method argued by the appellant. Consequently, if the calculation method adopted by this court is employed, there would be no need to separately calculate the value for the transfer to be received by the appellee (if Nomura Holdings actually paid any value to the appellee, the amount of such payment would be deducted from the amount of profit to be received by the appellee as calculated by the method adopted by the court, making no change to the total amount of profit to be received by the appellee).

Consequently, the appellant's allegation mentioned above cannot be accepted.

(2) Whether any monopoly profit has arisen from the Invention

Since the employer, etc. acquires a statutory non-exclusive license for an employee invention without compensation (Article 35, paragraph (1) of the Patent Act), the amount of profit to be received by the employer, etc., which is the basis for the calculation of a reasonable value, is the amount of profit enjoyed in the meaning that the employer, etc., with whom the employee, etc. has vested the right to obtain a patent, alone is entitled to work the invention covered by the patent right, while excluding others, that is, monopoly profit. Monopoly profit is not limited to profit in legal terms but also includes profit in practical terms, and it could arise even if an invention is not protected by a patent right but is kept as a trade secret or know-how.

However, as mentioned in 1. above, the Invention has not been worked as part of the System, and moreover, the System itself can be deemed to be an alternative technology of the Invention. What is more, according to the evidence (Exhibits Otsu 26, 28, 30, and 32) and the entire import of the oral argument, since around the time of filing of the U.S. Patent Application in August

2010, relevant scientific and technical papers had been published one after another, including: [i] a paper explaining that the implementation of FPGA can enable low-latency market data feed processing at an accelerated speed that no existing pure software could achieve (published in October 2009; Exhibit Otsu 32); [ii] a publication of a U.S. patent application disclosing a structure in which a risk analyzer, etc. is implemented as reconfigurable hardware such as FPGA (published in April 2010; Exhibit Otsu 26); and [iii] the research result of the success in reducing the latency by nearly two digits by constructing an efficient event processing platform for algorithmic trading with high frequency and low latency on FPGA, which is reconfigurable hardware (published in September 2010; Exhibit Otsu 28). [iv] Also during the Examination Period, implementing FPGA was discussed in the industry as a method for providing performance of custom hardware without undermining flexibility or low latency in high-frequency trading, and the research result regarding this approach that would make it possible to speed up performance as much as 1000 times through risk management, etc. was published (August 2012; Exhibit Otsu 30). Thus, it is found that since around the time of filing of the U.S. Patent Application throughout the Examination Period, research results suggesting or disclosing the possibility of achieving dramatically accelerated low-latency trading through the implementation of FPGA were published in succession, which means that a number of alternative technologies of the Invention other than the System exist (although whether any of these alternative technologies is applied in actual trading activities is not clear from the evidence of this case, the Invention is no different from these in that it has not been put into practice to date). Assuming so, it is hard to imagine that any monopoly profit has arisen from the state of the Invention being kept as a trade secret.

According to the above, there is no choice but to conclude that no monopoly profit has ever arisen or is likely to arise from the Invention.

### (3) Appellant's allegations

[i] The appellant alleges that the service provided with the use of the System holds a dominant position in the market and that the appellee has earned monopoly profit in practical terms by keeping the Invention undisclosed as know-how.

However, since the Invention has not been put into practice as part of the method related to the System, the fact that the service provided through the use of the System holds a dominant position in the market has nothing to do with the calculation of a reasonable value for the vesting of the Invention in the appellee. Furthermore, as found and determined in (2) above, no monopoly profit in practical terms would be generated by keeping the Invention as a trade secret. Even though the appellee made an announcement that might be taken as stating that the invention claimed in the U.S. Patent Application had been integrated in the System, said invention claimed in the U.S. Patent Application also includes any invention other than the

Invention. Therefore, such fact is not contradictory to the fact that the Invention has not been used for the method related to the System.

The appellant's allegation mentioned above cannot be accepted.

[ii] The appellant alleges that the appellee did not adequately respond to the office action issued by the USPTO (which is equivalent to a notice of reasons for refusal issued by the JPO), and thus, this is as if the appellee voluntarily gave up the chance for the Invention to be patented.

However, in light of the underlying facts mentioned in No. 2-1(4) of the "Facts and reasons" section of the judgment in prior instance cited herein and the facts found in (2) above, as well as the fact that the appellee had sought opinions from experts regarding the patentability of the invention claimed in the U.S. Patent Application and received negative feedback on this issue (Exhibit Ko 48), the appellee's attitude towards the result of the examination by the USPTO examiner who refused the U.S. Patent Application cannot be deemed to have been insincere.

The appellant's allegation mentioned above cannot be accepted.

(4) Section summary

For the reasons stated above, without needing to make a determination on other points, the appellant shall not be awarded a reasonable value for having vested the appellee with the right to obtain a patent for the Invention.

No. 5 Conclusion

For the reasons stated above, the appellant's claim is groundless.

Therefore, the judgment in prior instance is appropriate, and hence, the appeal shall be dismissed due to lack of grounds, and the judgment shall be rendered in the form of the main text.

Intellectual Property High Court 2nd Division,

Presiding Judge: SHIMIZU Takashi

Judge: NAKAMURA Kyo

Judge: NAKATAKE Yuki

(Attachment to the judgment on Case No. 2014 (Ne) 10126)

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