

IP/IT

March 2009

The Not So Nutty Professors

Introduction

In 1977 the UK legislator provided a mechanism in the Patents Act for rewarding an employee whose patented invention was of "outstanding" benefit to his employer. However, instead of resulting in a continuous stream of litigation on behalf of employees claiming compensation for their hard work, there had been, until recently, no successful claims made using this provision.

With the recent decision in *Kelly and another v GE Healthcare Ltd* (the Kelly Case), that position has now changed and the court has been able to clarify a number of the ambiguous terms set out in the legislation.

Facts of the Case

The claimants in the Kelly Case, Dr Kelly and Dr Chiu, were two research scientists at the defendant company. They had been involved in the first synthesis of a chemical compound known as P53, which was later developed into a patented radioactive imaging agent that was marketed and sold under the name Myoview. Myoview became an exceptionally successful product for the defendants with first year sales in 1994/5 of £4,473,000 up to an annual peak in 2005/6 of sales of around £175,000,000. In total, sales of Myoview had exceeded £1.3 billion by 2007.

Sections 39 to 41 of the Patents Act 1977 (the Patents Act) allows inventors, in the sense that they are the "actual deviser" of the patented invention and not merely contributors, to claim compensation following the success of their invention.

The provisions of sections 39 to 41 have long been recognised as being ambiguous. Lord Nelson of Stafford commented in the House of Lords when the Bill was being passed. "I have never seen such a collection of vague terms in my life. What compensation, who is responsible, what is outstanding benefit, what value is to be put on this and what on that?"

Outcome

As this was the first occasion that a court had been faced with these questions, Mr Justice Floyd seized the opportunity to clarify a number of these terms and set out the circumstances that should allow for an award for compensation to be granted. His conclusions were as follows:

1. Section 40 is only available to an employee who invents something in the ordinary course of his employment or in the course of duties specifically assigned to him;
2. The patent must be of outstanding benefit to the employer, having regard to the size and nature of the employer's undertaking;
3. "Outstanding" means "something special" or "out of the ordinary" and more than "substantial", "significant" or "good". It does not, however, need to be shown that the benefit from the patent could not have been exceeded;
4. It may be useful to consider what the position of the company would have been if a patent had not been granted to contrast with the company's position with the benefit of the patent;
5. The patent needs to be a cause of the benefit to the company; however, it does not need to be the only cause;
6. The court must also assess whether any compensation to the employee is "just"; and

7. The employee does not need to prove any loss, such as inadequate remuneration for his employment in order to claim compensation, nor does he need to prove the expenditure of effort or skill beyond the call of duty. These are factors, however, that will be taken into account when deciding the level of compensation.

Having concluded that the claimants in the Kelly Case were entitled to claim compensation under the Patents Act, the court moved on to deciding the level of compensation.

In deciding the level of compensation, one of the main considerations was to place a monetary value on the benefit that the company had derived from the patent. This was a complex issue as there are various other factors that can influence the sales of a product in addition to any monopoly rights that a company may have. Having taken into consideration factors such as the employer providing the means to create the inventions at its own cost, all the associated risks of development being taken on by the employer and various factors surrounding the market conditions that led to the success of Myoview, the court held that the "rock bottom" value of the patent was £50 million.

Mr Justice Floyd also highlighted a number of other factors that will affect the level of compensation that is available to each employee. Included among these factors were:

1. the nature of the employee's duties and the remuneration and advantages that he had already derived from his work in creating the invention;
2. the effort and skill that the employee had devoted to making the invention;
3. the effort and skill of any other inventors that had contributed to the development of the invention; and
4. the contribution made by the employer to the invention including managerial and commercial skills and activities.

In making his decision, Mr Justice Floyd said that he had taken a very conservative approach when valuing the patent and was taking an equally conservative approach when apportioning 2% of that value to Dr Kelly and 1% to Dr Chiu. This amounted to £1 million for Dr Kelly and £500,000 for Dr Chiu.

Conclusion

Following on from this decision and the clarification in the law that it has brought about, it is possible we will see an increase in the volume of claims made under section 40 of the Patents Act.

Even if the number of claims doesn't increase, this case will serve as a warning to companies of all sizes that are involved with inventing and patenting products that they may be liable in the future to claims from their employees. It has also highlighted the importance and potential benefit of dealing with these issues up front. For example, if a company in a similar situation were to put in place a properly documented profit sharing agreement in advance of releasing the product, it will give them a better idea of how much money they will need to pay to the inventors over a period of time and will make a claim under section 40 much less likely.

This Article is correct to the best of our knowledge and belief at the time of going to press. It is however written as a general guide, so it is recommended that specific professional advice is sought before any action is taken. We are required by law to protect personal data.

© March 2009, Dundas & Wilson CS LLP and Dundas & Wilson LLP. All rights reserved.

If you would like any further information on this Article or any other IP/IT issues, please call the person at D&W with whom you normally liaise, or one of the following specialists:

Alistair Wilson	alistair.wilson@dundas-wilson.com	0131 200 7383
Carina Healy	carina.healy@dundas-wilson.com	0141 304 6032
Cynthia Johnson	cynthia.johnson@dundas-wilson.com	0131 200 7343

www.dundas-wilson.com