

Court awards compensation to employee inventors for outstanding invention

27 July 2009

Background

Two employee inventors have been awarded a combined £1.5 million for their contribution to an invention which was the subject matter of several patent applications, on the basis that this was of outstanding benefit to their employer, under the employee inventor compensation provisions of the Patents Act 1977. This is the first such award to be made by a court under these provisions, and represents significant guidance as to when an employee inventor might be able to seek such compensation, and at what level.

Employee inventors

Under UK law, employers own most inventions created by employees in the normal course of their duties. For many employees, the only perk for being involved in an invention which subsequently results in a filed patent (or patents) is kudos and possibly being named on the patent application.

In certain circumstances under section 40 Patents Act 1977 (as amended by the Patents Act 2004), a court or the Comptroller of Patents may make an award of compensation to an employee inventor. Under the 1977 Act, the employee may be entitled to compensation if they have invented something that:

- belongs to the employer for which a patent has been granted;
- the patent, or the invention, or both, are of “outstanding benefit” to the employer; and
- it is just, as a result of the foregoing, that the employee should be awarded compensation.

If an award of compensation is to be made, as determined by the factors above, then the level of compensation offered must be a “fair share” of the benefit which the employer has

derived. In determining what constitutes a “fair share” the court or comptroller shall take into account, amongst other things, the following factors:

- the nature of the employee’s duties, their remuneration and other advantages they derive;
- the effort and skill which the employee has devoted to making the invention;
- the effort and skill which any other person has devoted to making the invention; and
- the contribution made by the employer to the making of the invention.

Very little guidance is offered as to what the phrases used in the statute mean. In particular, what constitutes “outstanding benefit” to the employer and what does “fair share” mean? The present case therefore helps to offer some guidance as to when an invention/patent is of “outstanding benefit” and, if so, what constitutes a “fair share” of that outstanding benefit.

The present case

Dr James Duncan Kelly and Dr Kwok Wai Chiu were research scientists at Amersham International Plc (now GE Healthcare Limited) in the mid 1980s. Dr Kelly was appointed as head of a new project investigating compounds for use in healthcare. Dr Kelly subsequently recruited Dr Chiu onto the project and devoted a significant amount of time to it. As a result, the two research scientists synthesised a new compound which formed the basis of a patented radioactive imaging agent. This imaging agent was eventually sold using the trade mark “Myoview” for use in cardiac medicine and was extremely successful, netting approximately £1.3 billion for GE Healthcare (by some estimates).

Dr Chiu used his experience on the project to enhance his future employment prospects. Dr Kelly used the success from the project internally; he advanced in his career with Amersham and later GE Healthcare Limited until his retirement in 2003. Neither inventor received a direct monetary award for the discovery and so, shortly before Dr Kelly’s retirement, they brought a case against GE Healthcare based on the employee inventor compensation provisions referred to above.

The Chancery Division, Patents Court, held that, as a result of the outstanding benefit to the employer’s business affected by this patented invention, it was “just” to compensate the inventors for their contribution to the invention. In the circumstances, Dr Kelly was awarded £1 million and Dr Chiu was awarded £500,000, being the “fair share” (3 per cent) of the

“absolute rock bottom benefit” derived by the employer from the patents, as determined by the court (namely £50 million)¹.

The court’s reasoning

The court decided that section 40 was available to an employee inventor who was the “actual deviser” of the invention, but not to those who merely contributed to the invention. Therefore the employee must be the person (or persons) who provide the active ingredient or impetus which results in a patentable invention occurring.

In the circumstances, it was clear to the court that this compound would not have come about as it did and when it did without the dedication of the two research scientists involved.

Outstanding benefit

The court decided that three factors must be satisfied for an award to be made, namely:

- 1) whether the patent/invention was a cause of some benefit to the employer;
- 2) how much of the benefit was attributable to the patent/invention; and
- 3) whether that benefit is an “outstanding benefit”.

To be an “outstanding benefit” to an employer, having regard to the size and nature of the employer, the court held that the invention in question must be “something special” or “out of the ordinary”. Effectively, the benefit which is derived must be something which the employer would not normally expect to arise as a result of the employee fulfilling their duties.

Following an earlier case (where an inventor did not secure compensation – *Memco-Med Ltd’s Patent* (1992), Floyd J said that one of the key provisions to consider was what position the employer would have been in had the patent(s) subject of the invention not been granted and compare this with the employer’s position with the benefit of the patent/invention.

The patent subject of the invention does not have to be the only cause of the “outstanding benefit” derived by the employer; it could be one of a number of contributing factors.

¹ It is perhaps worth noting that this case was decided under the Patents Act 1977 before this provision was amended by the Patents Act 2004. The original act only applied to patents and not the underlying invention. Employee Inventors involved in patents filed pre-1 July 2005 will therefore only be able to bring proceedings (as Drs Kelly and Chiu did) based on filed patents, not the underlying invention. For patents filed from 1 July 2005, inventors’ will have a broader right to seek an award under this provision based on the benefit derived relating to the invention, the patent or both.

Fair share

In determining the level of compensation which qualified as a “fair share”, consideration was to be given to all the factors in section 41, as determined in accordance with all available evidence (see above). The figure arrived at was intended neither to limit the employee to compensation for loss or damage, nor to place the employee in a stronger position than a commercial licensee or external patentee.

In the circumstances, a percentage of the estimated revenue derived by the employer solely as a result of the invention was appropriate.

Conclusions

This provision had, until recently, been unsuccessful in achieving any direct awards for employee inventors. Naturally some inventors may now be more willing to try and seek an award, especially those who made a particularly distinctive contribution to their employer through the exercise of their inventive skill.

Has much changed in reality however? Floyd J has added some guidance on this provision which was perhaps previously lacking. However, it is reasonably clear that employee inventors will only be in-line for compensation for inventions which really make a significant contribution to the business of their employer. In the present case, the invention in question led to exceptional profit; it was a clear and simple case of exceptional benefit being derived. It is likely that very few inventions will fall within this category.

It is also worth not being led by the high amounts of compensation in this case. The profit from this particular invention was at such a level that the inventors derived a relatively high “fair share”. In this case, the compensation was set at “only” 3 per cent (albeit of £50 million in this case) of the amount which the court determined was the approximate value which the employer’s revenues would have been reduced by had the invention never occurred.

Most inventions are unlikely to allow inventors to secure awards, and indeed if they do secure awards they will not be anywhere approaching this value (although depending on the factors they might be able to secure a higher percentage).

Links

- Summary law report on case [Kelly and Another v GE Healthcare Limited](#) (2009).
- Law report on Butterworths Lexis-Nexis of [Memco-Med Limited's Patent](#) (1992).

The contents of this document are copyright © Mills & Reeve LLP. All rights reserved. This document contains general advice and comments only and therefore specific legal advice should be taken before reliance is placed upon it in any particular circumstances. Where hyperlinks are provided to third party websites, Mills & Reeve LLP is not responsible for the content of such sites.

Mills & Reeve LLP is a limited liability partnership regulated by the Solicitors Regulation Authority and registered in England and Wales with registered number OC326165. Its registered office is at Fountain House, 130 Fenchurch Street, London, EC3M 5DJ, which is the London office of Mills & Reeve LLP. A list of members may be inspected at any of the LLP's offices. The term "partner" is used to refer to a member of Mills & Reeve LLP.