

Employee Inventions

by Sloane Plumb Wood LLP



Background

In February 2009 the High Court awarded two research scientists employed by Amersham Biosciences (a company later acquired by G E Healthcare) £1.5m as a share of the benefit derived by their employer from its patents in respect of a radioactive imaging agent in whose development the two men had been instrumental.

The case marks the first reported court award of compensation to an employee based on the “outstanding benefit” of a patent to their employer, and has potential repercussions for all employers involved in research and development.

The Law

The Patents Act 1977 (“the Act”) provides that where by reason of the relevant facts, it is “just” to do so, the court may award employees with a sum in recognition of the “outstanding benefit” to their employer of either a patent, or (after changes made to the Act in 2005) an invention, devised by the employee.

The timing of this case meant that it fell to be decided under the law as it was before 2005. The fact that inventions, and not just patents, can now be the subject of awards means that the scope for claims for compensation is wider than the facts of the case at hand would suggest, and potentially may make a claim by an employee easier.

The criteria established in the case for a successful claim, and for determining the amount of an employee’s compensation, are of application in relation to claims for both patented products and in respect of inventions generally (both of which are catered for in the same section of the Act).

The Criteria for a Successful Claim

In considering the case, Mr Justice Floyd outlined the key criteria which an employee would need to demonstrate if a claim for compensation was to succeed. The following were key elements:

The employee must be the ‘actual devisor’ of the invention, rather than merely a contributor to its development. Although in some circumstances, where a collaborative research effort had been involved, this might seem unfair, it was the correct reading of the legislation.

The “outstanding benefit” set out in the legislation required something special or extraordinary, and not just “substantial, significant or good”. The benefit to the employer would need to be beyond what would normally be expected from an employee carrying out the duties for which he/she was paid.

It was not a prerequisite for obtaining compensation that the employee showed skill and effort beyond the call of duty, but that should be taken into account in determining the amount of compensation payable. Equally it was "outstanding" benefit to the employer that was crucial rather than the need for the invention itself to be outstanding.

The fact that an employee did not make their claim during the period of protection offered by a patent did not prevent a claim in respect of a patent from succeeding. It was legitimate, as the claimants in this instance had done, to wait until the point that the patent had expired before making a claim, in order to ascertain the full value of that claim, based on the income generated from the patent over its lifetime.

The fact that employees were well paid relative to their role and in their industry did not preclude them from making a successful claim. This would however be a legitimate consideration in determining the amount of compensation payable.

Although in the case of a patent claim, the patent must have been of benefit to the employer, it did not have to be the sole cause of a product's success. In the case at hand, the synthetic chemical developed by the claimants was just one of the reasons for the imaging agent's success. It would however be necessary to apportion the profits derived from the product between the multiple causes in order to isolate the benefit arising from the patent when it came to determining a compensation sum.

The Amount of Compensation Payable

The following additional points were made in relation to the determination of the sum which an employee should be awarded in the event of a successful claim:

The amount of the compensation should be the amount required to provide the employee with a "just and fair reward". This was neither limited to the notional loss or damage that the employee suffered from not having a share in the benefit derived by the employer from the patent, nor did it need to be the amount which he/she would expect to receive if they were in as strong a position as an external patentee or a licensor of the relevant invention.

The valuation of the patent need not take place while the employee was still employed by the employer. It could be performed after the employee had left their post and this might well be necessary in order for there to be a body of evidence on the benefit of the patent to the employer.

The level of effort and skill demonstrated by the employee would be a legitimate consideration in determining the amount of compensation payable. Exceptional skill and effort could result in an increased compensation amount.

In the case of a claim for compensation based on a patent, a comparison should be made between the actual profits generated by the product and the profits which

would have been likely had the product gone ahead unprotected by the patent. As a starting point the level of the price cut that would have resulted from generic competition should be considered (with the resulting decrease in revenue forming the basis for a valuation of the patent).

The degree of recognition that the employee had already received in respect of the patented invention should be taken into account, as should the nature of their duties and the level of any existing remuneration and other benefits.

It was necessary to consider the degree to which others had contributed to the patented invention. In the case at hand the inventors had been assisted by the ability to interact with others in a research environment, and this resulted in a reduction in the compensation amount.

The contribution of the employer was a relevant consideration. In this context it was noted that most research and development in the medical field involved many unsuccessful attempts, funded by the employer, before a single blockbuster drug was found. The compensation amount should reflect the fact that an employer would have spent a considerable amount on those unsuccessful attempts which were nevertheless necessary in order to pave the way for the successful invention. It is worth noting that based on the above factors, the awards made to the claimants in the case were comparatively low, i.e. 1% and 2% respectively of the overall income which the product generated for the employer.

Conclusion

The case heralds an important landmark for all investors in research and development, and much like the moral rights of authors in the context of literary works, sees potentially significant rights for employees which may not spell good news for their employers. Employers should consider the terms of their contracts with staff in research roles carefully to ensure that they are best placed in respect of any potential claims.

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