

## Legal Updates & News

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#### Inventor Compensation Arrives in the UK

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A recent judgment of the Patents Court in the High Court of Justice in England broke new ground by clarifying when UK inventors can share in the benefits of a patent obtained by their employers.

Mr. Justice Floyd handed down his judgment in the landmark case *Kelly and Chiu v GE Healthcare*<sup>[1]</sup> on 11 February in which the Patents Court awarded the two inventors £1.5 million as their share of the benefit derived from the two patented families for inventions related to a blockbuster radiopharmaceutical heart imaging agent.

The case is the first UK decision of its kind. Employee inventors in the UK have not previously been awarded compensation by the courts for their patents and inventions with the few disputes between employee inventors and their employers settling before court. To qualify for this compensation UK, employee inventors have to be either wholly or mainly employed in the UK, or if they have no main place of employment be employed by an employer that has a UK business to which they are attached.

The relevant law is relatively old but, crucially, was previously untested in the courts. The UK Patents Act 1977 provides compensation is payable to an employee inventor when the invention/patent is of outstanding benefit to the employer and it is found to be just that the employee should receive an award. The statute sets out the factors to consider in determining the fair share of that benefit due to the UK employee inventor.

As there had been no decided cases, much was not clear. In particular, it was unclear what scale of benefit to an employer would qualify as an outstanding benefit entitling the inventor to compensation. It was also unclear what level of compensation the employee should receive in such circumstances. *GE Healthcare* is both a guide of the scale of the required benefit to the employer and the amount of compensation from that benefit a UK employee inventor may receive.

The claimants, Drs. Kelly and Chui, were the UK employee inventors. They were research scientists employed by Amersham International PLC<sup>[2]</sup> in the 1980s. They investigated and synthesised radiopharmaceutical imaging agents, one of which became the highly successful heart defect diagnostic, Myoview.

Myoview successfully launched in the UK and Japan in 1994 followed by the United States in 1996. Myoview was a great success. It became a blockbuster product for Amersham. Myoview generated sales through to 2007 in excess of £1.3 billion with a very high profit margin, the precise figures for which were provided as confidential information to the court but are not revealed in the public judgment.

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Two patent families resulted from the work<sup>[3]</sup> of Kelly and Chui and other inventors claiming priorities from 1987 and 1988 respectively. Although the two patent families' members began to expire last year and this year, 2009, in the U.S. patent protection continues until February 2010.

The Patents Court judge, Mr. Justice Floyd, having determined that Drs Kelly and Chui were inventors of the patents belonging to their employer, Amersham, then turned to the central and contested question whether the patents were of outstanding benefit to their employer. He held the correct approach to determine "outstanding benefit" is first to ask - was the patent a cause of some benefit? If it was, the next question is how much of the total benefit can be attributed to the patent (which may raise difficult questions of apportioning benefit from multiple causes). Finally, the court has to decide whether that benefit due to the patent was outstanding. He commented that outstanding benefit means more than significant and rather "something special" or "out of the ordinary". It has to be of benefit greater than one would normally expect to arise from the employees' work.

By reason of statute it also had to be just to make the award. Mr Justice Floyd said it was not desirable or sensible for the court to categorise when an award may be unjust, reserving that discretion to the court, which would recognise situations in which it would be unjust to make an award when they arise.

The judge considered the statutory guidance on the amount of compensation. He held that the factors should place the employee inventor somewhere midway between two poles, neither leaving the employee badly off by limiting the compensation available simply to any loss or damage that employee had suffered (he rejected the employer's arguments to confine "compensation" to a narrow definition meaning monetary recompense for someone who has suffered loss or damage), nor placing the employee inventor in too strong a position by holding he should be rewarded as highly as an external patentee licensing his patent back to the employer. However, this was strong guidance to himself to be less generous than in the circumstances of universities licensing the use and exploration of an invention in a patent application for "inventor"-level royalties as their financial return (a very common practice).

Mr Justice Floyd attempted to assess what the benefits of the patents had been to Amersham. The patents to be included in this analysis were all the worldwide patent family members and not just the UK patents. He did this by assuming that Myoview would have gone ahead into production and sale even if it were unprotected by any patents. He compared an estimate of how Myoview would have performed without patents (i.e., without exclusivity in key markets) with the actual profits with the patents. He did this by accepting that regulatory data exclusivity (RDE) prevented generic competition until RDE expired, with a year added on as the time for the processing of a "piggy back" application. RDE protection for Myoview expired early in 2001/2002 in the U.S., and in reality the exclusivity conferred by the patents was notionally worthless until then because of the equivalent exclusivity conferred by RDE.

The judge held, however, that after this the patents were of outstanding benefit to Amersham because they protected Amersham's business against generic competition post-RDE expiry that would have reduced profits after the expiry of RDE. He described the position Amersham would have faced following the expiry of the RDE in 2001/2002, had the patents not existed, as a crisis because the exclusivity helped Amersham maintain its core Myoview business. A second reason the judge felt that the patents were of outstanding benefit to Amersham was because they carried out two major corporate deals, namely a joint venture with Sumitomo and the acquisition of Nycomed, and those would not have been achieved on as favorable terms as they were, or even might not have occurred, if Myoview had been an unpatented product. The Sumitomo and Nycomed deals had significantly contributed to the overall success of Amersham.

A significant problem with this part of the judgment for all companies in the pharmaceutical and biotech sectors is that often their patent estates will confer exclusivity against generic competition for a number of years post-RDE expiry, and the patent estate, taken together with other product-related data, often enables companies in the sector to do partnering and collaboration deals. So the judge was describing the norm for the benefit from a patent estate in the sector, albeit in this case being the two patent families and not a large number of patents, almost failing the test that "outstanding benefit" had to be something "out of the ordinary".

Mr Justice Floyd went on to hold that in the case it was just to make an award to the UK inventor employees and went on to value the patents' benefit. He decided that in view of Myoview's overall sales, in the absence of patent protection, generic competition would have caused Myoview's price to drop by at

least 10% on half of its sales in the relevant years post-RDE and so this would have reduced Amersham's revenues from Myoview by £50 million. He described this figure as "the absolute rock bottom figure for the benefit from the patents". In the pharmaceutical sector generally prices fall by much more than 10% once there is patent expiry and generic competition status, and there is a massive loss of market share in all key markets. In our view trying to quantify the benefit by reference to price reduction and loss of market share is not an appropriate methodology, but the judge ended up there by reason of his earlier approach.

The judge then considered the factors set out in the statute for assessing the share of that benefit of £50 million due to the claimant employee inventors. To assess the respective contribution of the parties the court considered the research leading to the production and sales of Myoview from the making of the inventions through to the product development (animal and clinical trials, development phase, approvals, manufacturing, and distribution) and set out Amersham's considerable contributions to the development stages. He considered the employees had not yet received recognition for making an invention of outstanding benefit; that these employees' effort and skill was high; and that non-inventors had not contributed significantly. The contributions made by Amersham as the employer to the success of the inventions were explored. Factors favouring the employer were that Amersham gave the inventors the opportunity, provided well-executed and sophisticated downstream work, developed the U.S. market, and accepted the risk for the project overall. The two factors favouring the employee inventors were that they were not carrying out routine operations, as their work involved significant thought and creativity; and that the overall research and development costs for Myoview were extremely small, being only £2.4 million, compared to Myoview's sales and the R&D costs of comparable products.

Having examined the competing views on the employees' fair share of the benefits of patents Mr Justice Floyd decided that the inventors should receive one-off final awards of 3%<sup>[4]</sup> of the £50 million benefit, or £1.5 million. This total was split in accordance with the inventors' respective contributions with two thirds (£1 million) going to Dr Kelly and a third (£0.5 million) going to Dr Chui. The total award represents about 0.1% of Myoview turnover, or only three days' profits.

This judgment has broken new ground but it seems to us wrong as to the test for "outstanding benefit" in the pharmaceutical and biotech sectors and to the quantification of that benefit. If applied, it puts many companies at risk of these sorts of claims. It is not being appealed, as neither side sought leave to appeal.

This landmark decision means that the UK joins other countries such as Germany and Japan in securing benefits for employee inventors. For employers, the judgment should at the very least prompt a review of their standard contractual arrangements with UK inventor employees. In particular, employers may want to consider whether they build into UK inventor employees' terms and conditions provisions regarding their reward in relation to inventions of outstanding benefit to them. For example, employers could include a contractual framework concerning when and how they would determine whether their UK employees' inventions constitute an outstanding benefit and, if so, how their fair share of that benefit would be assessed. However, there is a risk that such contractual arrangements, if entered into on commencement of employment, could be declared unenforceable as being in breach of section 42(2) of the 1977 Act (insofar as they diminish employees' rights in inventions made by employees after the date of the contract or in or under patents for such inventions) or void as being in breach of public policy. One possible way of avoiding the application of section 42(2) is for employers to enter into such contractual arrangements after the inventions have been made.

For more information and advice on UK patent matters and associated employment issues, contact [TBroadhurst@mofa.com](mailto:TBroadhurst@mofa.com) and [ABevitt@mofa.com](mailto:ABevitt@mofa.com).

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<sup>[1]</sup> (1) *James Duncan Kelly and (2) Kwok Wai Chiu v GE Healthcare Limited* [2009] EWHC 181 (Pat) <http://www.bailii.org/ew/cases/EWHC/Patents/2009/181.html>

<sup>[2]</sup> Amersham was later taken over by General Electric Company and renamed GE Healthcare but this

corporate change had no impact on this case; Amersham is the relevant entity and it continued to exist.

[3] One of the two patent families in addition had two other co-inventors who were not employees but were academics from Cardiff University and Keele University. A co-inventor of both patent families, Dr Latham, was another employee of Amersham. Dr Latham took no part in these proceedings.

[4] This level of “inventor royalties” on the total sales is common in university licensing deals but note that 3% is a percentage not of total sales but of the very conservatively estimated benefit of the patents of £50 million. Cardiff and Keele Universities, the employers of the two academic co-inventors of one the patents, were in fact paid royalties of roughly 0.5% of Myoview sales.