

# Patent Ownership in Germany: Employers v Employees

July 2013

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## Introduction

The requirements of Germany's Act on Employees' Inventions (ArbEG), which governs how employees' inventions are assigned to their employers, may be unknown by international companies with employees in Germany. An inventor who is acting for a German affiliate, or spends the majority of their working time on German territory, may be covered by German law. It is crucial for international entities active in the German market, in particular through affiliates, to know and apply these rules.

### 1. Inventorship

Because an invention comes from a human being, an inventor cannot be a legal entity. When the invention is developed jointly by several people, they are co-inventors. Inventorship starts from the principle that each inventor has made an independent and creative contribution to the inventive teaching. This contribution does not necessarily need to be inventive in its own.<sup>1</sup> Conversely, however, the simple provision of tools for research activities, such as providing an employee with a laboratory, is not a sufficient contribution. It is also not a sufficient contribution if another individual simply follows the inventor's instructions.<sup>2</sup>

#### PRACTICE NOTE

The motivation for inventors in Germany may be different to those for US-based inventors. Because the ArbEG and its compensation schemes are mandatory, there may be financial benefits for a German inventor being named on a patent, particularly for those inventions that become commercially successful for the company.

### 2. Right to the Invention

The proprietary rights connected with the invention follow from the inventorship. Article 60(1) of the European Patent Convention (EPC) and Section 6 of the Patent Act state "The right to a...patent shall belong to the inventor or his successor in title." The right to the invention comprises "the right to the patent, the right to the grant of a patent and the rights deriving from a patent."<sup>3</sup> As long the invention does not fall under the special rules of the ArbEG,<sup>4</sup> a company can freely assign the rights to any third party.

An inventor who assigns his right to the invention still remains the inventor; this is a personal right that is not transferable. The assignment does, however, trigger a transfer of the proprietary rights connected with the invention to the assignee, who can be a natural person or a legal entity. The assignment of a patent or patent application does not require a written form,<sup>5</sup> and could even be based on an implied agreement.<sup>6</sup>

An exception arises in the assignment of European patent applications. These assignments require a written and signed agreement, according to Article 72 EPC, without which the assignment would be invalid.<sup>7</sup> Article 72 EPC supersedes the more flexible German law. These more restrictive provisions concern patent applications, not granted European patents. For granted European patents, the less restrictive German national provisions are applicable.

#### PRACTICE NOTE

Even though it is not required by law, it is nevertheless recommended that all agreements are in writing to protect against any later dispute.

<sup>1</sup> Federal Supreme Court, X ZR 142/01, GRUR 2004, 50, *Verkranzungsverfahren*

<sup>2</sup> Federal Supreme Court, X ZR 142/01, GRUR 2004, 50, *Verkranzungsverfahren*

<sup>3</sup> Unofficial translation. Section 15(1) Patent Act

<sup>4</sup> See Chapter 13, Section 5

<sup>5</sup> Section 15 Patent Act

<sup>6</sup> Federal Supreme Court, X ZR 42/67, decision of 28 April 1970

<sup>7</sup> Federal Supreme Court, X ZR 98/90, GRUR 92, 692, *Magazinbildwerfer*

### 3. Co-Ownership

Where the invention is developed jointly by several people, they are deemed co-owners of the invention.<sup>8</sup> The legal relationship between co-owners may be governed by a joint agreement. In the absence of a written agreement, Section 741 of the German Civil Code, which deals with co-ownership,<sup>9</sup> applies.

The co-owners each have a share in the invention that corresponds to their individual creative contribution.<sup>10</sup> In cases where the creative contribution is in doubt, it is assumed that the co-owners are entitled to equal shares.<sup>11</sup> Each co-owner is also entitled, without the consent of the other co-owners, to transfer his or her share in the invention to a third party.<sup>12</sup>

Co-owners can use the invention for their own purposes as long as the joint use by other co-owners is not impaired.<sup>13</sup> The administration of the invention is organised jointly by the co-owners.<sup>14</sup> This includes the filing of patents or utility models and the granting of licenses. It is usually sufficient if the co-owners agree actions by a majority vote.<sup>15</sup> In cases where there are only two co-owners, however, both co-owners must agree. The only way to overcome a conflict is to compel the other owner's consent through a court action. This would, however, only be successful if the other owner's refusal to give consent is considered abusive or clearly unreasonable.<sup>16</sup> Necessary acts of administration<sup>17</sup> aimed at safeguarding the right to the invention can individually be carried out by each owner without the consent of the other co-owners.

#### PRACTICE NOTE

Despite these provisions, it is recommended that co-owners have a written agreement in place, in particular to avoid disputes about the administration of the co-owned invention. As soon as a group of researchers intends to undertake a joint research and development project, they should discuss these issues and agree them in writing.

### 4. Entitlement To The Invention

#### 4.1. LEGAL FICTION IN FAVOUR OF THE APPLICANT

In proceedings before patent offices, the applicant is deemed to be entitled to exercise the rights to the patent.<sup>18</sup> This legal fiction is intended to avoid the examination being delayed. An investigation into who is the legitimate inventor or owner of the rights does not take place at the patent office; what counts in the patent office is the person or entity named in the documents filed and in the register.

#### PRACTICE NOTE

If someone contends that they have been wrongly omitted from the right to the invention, it is up to them to file a civil court action seeking assignment of the application application.<sup>19</sup> If a court decision determines that someone other than the applicant is entitled to the patent, the applicant can be replaced by the entitled person and, if the patent is already granted, the rights can be assigned to the legitimate owner.

#### 4.2. LEGAL FUNCTION OF THE REGISTER

Entries in the patent register have no "constitutive effect" *i.e.*, the acquisition of the patent right is not dependent on any entry on a national patent register. The substantive ownership of the patent may therefore differ from what appears in the register.

<sup>8</sup> Section 6 Patent Act: "If two or more persons have jointly made an invention, the right to a patent shall belong to them jointly."

<sup>9</sup> A translation of the German Civil Code can be found on the German Ministry of Justice webpage: <[www.gesetze-im-internet.de/englisch\\_bgb/](http://www.gesetze-im-internet.de/englisch_bgb/)>.

<sup>10</sup> Federal Supreme Court, X ZR 152/03, GRUR 2005, 663, *Gummielastische Masse II*

<sup>11</sup> Section 742 Civil Code, Federal Supreme Court, X ZR 63/77, GRUR 1979, 540, *Biedermeiermanschette*

<sup>12</sup> Federal Supreme Court, X ZR 223/98, GRUR 2001, 226, 227, *Rollenantriebseinheit*

<sup>13</sup> Section 743(2) Civil Code

<sup>14</sup> Section 744(1) Civil Code

<sup>15</sup> Section 745(1) Civil Code

<sup>16</sup> Section 745(2) Civil Code

<sup>17</sup> Section 744(2) Civil Code

<sup>18</sup> Article 60(3) EPC or Section 7(1) German Patent Act: "the applicant...shall be deemed to be entitled to request the grant of the patent."

<sup>19</sup> Section 8 Patent Act, Article 60 EPC, Article II Section 5 IntPatÜG

This divergence between the entries in the register and the actual legal situation may occur if the patent has been assigned by means of an agreement and the new owner has not yet been registered.

#### PRACTICE NOTE

When filing a lawsuit, such as a nullity suit with the Federal Patent Court or an infringement action at one of the competent infringement courts, the person or entity that is mentioned in the register is the party to the proceedings.<sup>20</sup> In infringement actions, the plaintiff is the entity or person explicitly named in the register, even if this party is no longer the owner of the asserted patent due to a re-assignment. If the legitimate owner is not named in the register, the registered party must explicitly authorise the new, legitimate owner to take action. A reassignment agreement should therefore contain provisions covering the period until the new owner is finally named in the register.<sup>21</sup>

## 5. Act on Employees' Inventions

The ArbEG is based on the concept that inventions made by employees belong to them. Mandatory proceedings have to be followed for the invention to become the property of the employer. The employer and employee cannot agree to an automatic transfer of rights over inventions or technical improvements made by the employee during his or her employment. Such an agreement would be invalid under Section 22 ArbEG, which states “the provisions of the Act cannot be modified by contract to the detriment of the employee.”<sup>22</sup>

### 5.1. SCOPE OF APPLICATION OF THE ARBEG

#### 5.1.1. MATERIAL SCOPE OF APPLICATION

The ArbEG covers technical inventions and makes a distinction between these and mere “technical improvements”. Technical inventions can be subject to a patent or a utility model, whereas technical improvements are not eligible for protection under an industrial property right.<sup>23</sup> The Act does not cover other types of employee invention, such as rights to artistic creations and designs, which the employer and employee are usually free to agree in advance.

#### 5.1.2. APPLICATION TO INDIVIDUALS

The ArbEG defines “employee” as a person employed by the employer according to the German Labour Act.<sup>24</sup> An employee (who can also be an executive or junior manager<sup>25</sup>) undertakes contractually-obligated tasks or provides contractually-obligated services within an organisation. An employee is under the direction of the employer with respect to content, way, time and location of implementing the tasks or providing the services.<sup>26</sup>

The Act does not apply to the employer or to people holding positions in the company that are similar to the position of an employer, nor to legal representatives of the company, such as the executive director of a private limited company.<sup>27</sup> Commercial agents and independent freelancers are also not covered by the Act. Agreements concluded with such people can (and should), therefore, include provisions whereby inventions made in the course of the contractual relationship are automatically assigned to the employer. Without such an agreement in place, a separate assignment of rights over inventions would be necessary and additional compensation would be owed to the executive employee, agent or freelancer.

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<sup>20</sup> Section 30(3) Patent Act

<sup>21</sup> Section 30 (3) Patent Act

<sup>22</sup> Unofficial translation

<sup>23</sup> Section 3, 20 ArbEG. Technical improvements, which are in practice of lower importance, are only eligible for compensation if they confer to the employer an advantage that is similar to a patent or utility model. This requires that the technical improvement be a useful improvement on the existing situation, with a commercial advantage, and not something obvious to the person skilled in the art or detectable without difficulty by any competitor: District Court Munich decision of 17 January 2007, 21 O 1788/05, BeckRS 2008, 18310, *Keramikschnidwerkzeug*.

<sup>24</sup> Federal Supreme Court, X ZR 58/88, GRUR 1990, 193, *Autokindersitz*

<sup>25</sup> In German *Leitende Angestellte*: Appeal Court Hamburg, 3 U 89/58, GRUR 1960, 488, *Geruchsbeseitigungsverfahren*

<sup>26</sup> Federal Constitutional Court, decision of 18 February 2000, 1 BvR 491, 562/93, NZA 2000, 653

<sup>27</sup> CEO of German Limited (GmbH): Federal Supreme Court, X ZR 165/04, GRUR 2006, 401, *Zylinderrohr*

### 5.1.3. TERRITORIAL APPLICATION

If the employment relationship falls under German law, the ArbEG is applicable.<sup>28</sup> The employment contract is usually governed by the law of the country in which the employee habitually carries out his or her work in the performance of his or her contract. Temporary re-assignment of, *e.g.*, a US-based employee of a US company to work with a German subsidiary does not trigger the ArbEG. Temporary re-assignment of a Germany-based employee of a German entity sent to work in a US subsidiary does, however, trigger the ArbEG. The ArbEG would apply to inventions in this case even the invention was not made in Germany.

#### PRACTICE NOTE

A choice-of-law clause in an employment contract will basically not negate the mandatory provisions of the ArbEG if the employee's<sup>29</sup> usual place of employment is Germany. There may be some exceptions if the employing entity or the employee does not reside in Germany, or where the main tasks under the contract will be fulfilled partly inside and partly outside German territory, but these should be addressed on a case-by-case basis.

### 5.2. SERVICE INVENTIONS AND FREE INVENTIONS

The ArbEG applies to all inventions, irrespective of where, when, in which technological area and why the invention has been made by the employee during the course of his or her employment. It is irrelevant, for example, whether the invention was made during working hours, at home in the evening or during holidays.

There is, however a distinction between two main categories of inventions under the ArbEG: “service inventions” and “free inventions”.<sup>30</sup> Service inventions generally result from the employee’s duties under the employment contract, or the company’s know-how or research and development, *i.e.*, information, knowledge, practices, *etc.*

“Duties under the employment contract” refers to the concrete set of duties and obligations assigned to the employee. A main characteristic of service inventions is that they are essentially based on the employer’s initiative and the employer’s resources.

“Free inventions” are those inventions made by the employee that result neither from duties under the employment contract, nor are they based on the company’s know-how or resources.<sup>31</sup>

Employers are entitled to claim ownership over a service invention (see below). Free inventions belong to the employee but they have a duty to offer the employer a non-exclusive license under reasonable conditions if the invention falls within the range of the employer’s actual or planned activities.

**Example:** An employee who is employed for improving software applications for aircrafts invents a sport shoe. Because this achievement is neither a result of undertaking regular contractual duties, nor based on the know-how of the company, it is a free invention. Because the invention does not fall within the range of the employer’s actual or planned activities, the employee is under no obligation to offer the invention to the employer.

In making the distinction between service inventions and free inventions, it does not matter when, for which reason and where the inventor developed and completed the invention. It is also irrelevant that third parties contributed to the invention.<sup>32</sup>

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<sup>28</sup> Federal Supreme Court, decision of 27 November 1975, X ZB 24/73, GRUR 1976, 385, *Rosenmuatung*

<sup>29</sup> Article 8 of the Regulation EC No 593/2008

<sup>30</sup> Section 4 ArbEG

<sup>31</sup> Federal Supreme Court, X ZR 155/03, GRUR 2006, 756, *Hafteticket*

<sup>32</sup> Federal Supreme Court, X ZR 165/04, GRUR 2006, 401, *Zylinderrohr*

**FIGURE 1: DISTINCTION BETWEEN SERVICE AND FREE INVENTIONS**

Service Inventions	Free Inventions
Result from either <ul style="list-style-type: none"> <li>▪ Obligatory duties of the employee or</li> <li>▪ Are decisively based on know-how or resources of the employer.</li> </ul>	All other inventions that are not service inventions
Employer is <b>entitled to acquire</b> a service invention	Free inventions are <b>basically at the free disposal of the employee</b> , but there is a duty to offer to the employer a non-exclusive license under reasonable conditions if the invention falls within the range of the employer's actual or planned activities.

## 5.2.1. REPORTING OBLIGATIONS

### 5.2.1.1. SERVICE INVENTIONS

The employee has a duty to report all service inventions, including creative improvements to a previously completed invention, as soon as they are created.<sup>33</sup> The aim of the report is to inform the employer about the invention so he or she can make a decision on whether to claim ownership or release the invention. Section 5 (2) ArbEG states

In the report, the employee shall describe the technical problem, its solution and how the service invention was achieved. Existing notes shall be attached provided if they are necessary for an understanding of the invention. The report must indicate the service instructions and directions received by the employee, use made of the expertise and activities of the enterprise, the employee's collaborators and the nature and extent of their contribution and the report should indicate the contribution the reporting employee considers to have made personally.

A report that does not meet [these requirements] will be deemed to be in order unless the employer states within a two month period that it is not sufficient and requests supplemental information. To the extent necessary, the employer must assist the employee in supplementing the report.

### 5.2.1.2. FREE INVENTIONS

If the employee believes the invention is free, he or she nevertheless has to inform the employer about it to give the employer the opportunity to object to the inventor's characterisation of the invention as free.

The employee must also offer the employer a non-exclusive license under reasonable terms if the invention falls within the range of the employer's actual or planned activities.

## 5.2.2. ACQUIRING SERVICE INVENTIONS

The rights to a service invention originate with the inventive activity and therefore first belong to the employee. The employer has the right, however, to acquire any service inventions. Once the employer receives the report, it has four months in which to decide if it would like to claim ownership of the invention.<sup>34</sup> This period may be extended in certain circumstances, such as if the report is incomplete.<sup>35</sup> As long as the employer does not release the invention, at the end of the

<sup>33</sup> Section 5 ArbEG

<sup>34</sup> Section 6(1) ArbEG

<sup>35</sup> Section 5(3) ArbEG

four month period it belongs to the employer by default.<sup>36</sup> Accordingly, even if the employer does not react after it receives the report, it automatically acquires the rights to the service invention.

The employer may want to explicitly claim ownership before the end of the four month period in order to fulfill obligations to its partners or to start exploitation as soon as possible. An explicit claim may also be useful to create legal certainty between the parties. Whether the claim is explicitly made within the four month period, or implicitly acquired after the four months have passed, the employer becomes the full owner of the invention and is free to dispose of it, grant licenses or assign it to third parties.

### PRACTICE NOTE

The default ownership of the invention by the employer at the end of the four month period was introduced into law in October 2009.<sup>37</sup> Up until this point, the employer had to explicitly claim the invention. Employers often failed to properly claim the invention, sometimes because of lack of knowledge of the law or simply because they were disorganised. In many cases, failures to transfer the ownership went undetected for years and it is widely believed that many failures have yet to be discovered.<sup>38</sup>

These oversights have caused and will continue to cause problems for companies trying to enforce or assign patents that suffer from improper compliance with the prior ArbEG. This is particularly critical for employers if the employee left the company in the intervening period.

The situation under the old law applies to inventions reported prior to October 1, 2009. Under the new law, the absence of an explicit claim no longer hinders the employer from acquiring the rights to the invention.

FIGURE 2

Employer's Options with Respect to Service Inventions		
Release	Explicit Claim	Implicit Claim
Communicated in writing to the employee.	Communicated in writing to the employee before the end of the four month period.	No reaction from the employer within four month period.
Employee remains owner of the invention and is entitled to apply for an industrial property right.	Employer becomes owner of the invention as of the date of the employee's receipt of the claim.	Employer becomes default owner of the invention.

## 5.2.3 PROTECTING SERVICE INVENTIONS

### 5.2.3.1 NATIONAL FILING<sup>39</sup>

If the employer acquires the service invention, it is obliged to file a national patent application as early as possible after the acquisition.<sup>40</sup> This could be a German patent application; or a European patent application designating Germany; or an application under the Patent Cooperation Treaty, designating Germany; or, if more appropriate, a German Utility Model "domestic application".<sup>41</sup> The employer must keep the inventor informed about the progress of the prosecution of the patent.

<sup>36</sup> Section 6 (2) ArbEG

<sup>37</sup> Federal Gazette, BGBI. I S. 2521

<sup>38</sup> Landmark decisions: Federal Supreme Court, X ZR 155/03, GRUR 2006, 756, *Haftetikett*; Federal Supreme Court, X ZR 72/10, GRUR 2011, 733, *Initialidee*

<sup>39</sup> Section 13 ArbEG

<sup>40</sup> A filing without delay is aimed at ensuring early priority rights

<sup>41</sup> Section 13(1) ArbEG



If the employer fails to file the application on time, the employee may start the application or registration proceedings on his or her own initiative in the name of the employer.<sup>42</sup>

#### 5.2.3.2 INTERNATIONAL FILING<sup>43</sup>

The employer must inform the employee which countries it does not intend to file a foreign application for, and must inform the employee in good time so that terms under international treaties can be respected.<sup>44</sup> The employee should be given enough time to file applications in these countries if he or she chooses to do so and must bear the cost of these applications. The employer may reserve a non-exclusive right to use the invention in these countries.<sup>45</sup>

If the employer intends to abandon a patent application or granted patent in certain countries, the employee may take over the application or the patent, but will then have to handle the prosecution in his or her name. The employer may retain a non-exclusive right of use as long as the employee does not show that this represents an undue burden on him or her. If the employer fails to protect the invention, the employee could be entitled to claim damages.

#### 5.2.3.3 KEEPING THE SERVICE INVENTION AS A TRADE SECRET<sup>46</sup>

To keep the invention as a trade secret, the employer must acknowledge that it would not question the patentability of the subject matter of the invention. This results in compensation having to be paid to the employee as if it were a patented invention.

If the employer intends to keep the service invention secret, but believes that the employee's asserted invention is not patentable, it may ask for an opinion from the Arbitration Board of the German Patent Office. If the Arbitration Boards concludes that the invention is not patentable, and the employee does not object, the employer is entitled to keep the invention as a company secret with possibly very little, or even no compensation for the employee.

#### 5.2.4. EMPLOYEE'S COMPENSATION

If the employer acquires the invention, the employee is entitled to compensation. The employer is obliged to compensate the employee even if the invention is later assigned to a third party.<sup>47</sup> The compensation claim can be assigned by the employee and is inheritable.<sup>48</sup>

##### 5.2.4.1. INDIVIDUAL AGREEMENTS ON THE EMPLOYEE'S COMPENSATION

Individual agreements on the type and amount of compensation are permissible and codified in Section 12(1) ArbEG but can only be concluded after the service invention has been reported to the employer.<sup>49</sup> Such agreements can be subject to later review, for example, in cases of significant inequity, which can be asserted by both parties until six months after the termination of the employment agreement.<sup>50</sup> Furthermore, both parties may claim from the other party an adaptation of the compensation if substantial changes are essential and require a new assessment.<sup>51</sup>

#### PRACTICE NOTE

Individual compensation agreements should be carefully reviewed with a view to later disputes. Agreements should clarify and describe in detail the factors that resulted in that particular compensation

Compensation can take the form of an ongoing payment, or it can be paid as a lump sum.<sup>52</sup> Lump sum payments are usually agreed within incentive programs with the purpose of motivating employees to better performance. The agreement of a lump

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<sup>42</sup> Section 13(3) ArbEG

<sup>43</sup> Section 14 ArbEG

<sup>44</sup> In particular the Paris Convention

<sup>45</sup> Section 14(3) ArbEG

<sup>46</sup> Section 17 ArbEG

<sup>47</sup> Federal Supreme Court, decision of 2 June 1987, X ZR 97/86, GRUR 1987,900, 901, *Entwässerungsanlage*

<sup>48</sup> District Court Düsseldorf, decision of 17 September 1991, *Reißverschluss*

<sup>49</sup> Section 22 ArbEG

<sup>50</sup> Section 23(1) ArbEG

<sup>51</sup> Section 12(6) ArbEG

<sup>52</sup> Federal Supreme Court, decision of 20 November 1962, I ZR 40/61, GRUR 1963, 315, 317, *Pauschalabfindung*

sum payment may have the advantage of removing insecurity relating to future changes with respect to the scope of use of the invention and, more importantly, it can eliminate the administrative burden on the employer. The employer may additionally use the compensation agreement to obtain a release from formal obligations, such as the duty to protect the invention or to release it for foreign countries.

#### 5.2.4.2. CALCULATION METHODS

The amount of the compensation is governed by a Directive issued by the Federal Minister of Labour.<sup>53</sup> It provides three methods for calculating the compensation paid to an employee for an invention:

- License analogy (Directive N° 6-11)
- Benefits to the employer (Directive N° 12)
- Estimation of the value of the invention (Directive N° 13).

All three methods depend on the benefits that the employer receives from the service invention.<sup>54</sup> The compensation therefore requires that the invention has a financial effect, with objectively determinable advantages for the employer,<sup>55</sup> and a share of these benefits allocated to the employee.<sup>56</sup> Benefits relating to third parties, however, such as benefits for licensees or the assignee of the service invention, are irrelevant for the assessment.<sup>57</sup>

##### 5.2.4.2.1 CONTRIBUTION FACTOR (DIRECTIVE N° 30)

When assessing the amount of compensation, the “contribution factor” must be determined. The purpose of the contribution factor is to determine how much the employee as an individual contributed to the invention. For example, a scientist whose duties of employment are characterised mainly by research and development, receives less compensation than someone who is not principally employed to perform research and development.

The contribution factor is based on three elements: the extent of the respective contributions of the employer and employee in defining the problem that resulted in the invention, their respective contribution in finding the inventive solution and the position and duties of the employee within the company.

The contribution factor accordingly influences the sum to be paid to the employee as compensation. For example, in the case of an employee focused primarily on solving needs predetermined by the employer, the employee’s compensation might be a low percentage of a reasonable royalty under the assumption that the license analogy is used as calculation method.

The average contribution factor ranges from 15 to 25 per cent.

##### 5.2.4.2.2 LICENSE ANALOGY

Typically, the license analogy is the appropriate method if the invention can be allocated to products manufactured by the employer. A number of factors are usually taken into account in the calculation of the employee’s compensation:

- **Reference base** (Directive N° 8): A reference base needs to be identified as the relevant basis for applying a reasonable royalty (Directive N° 19). For example, if the product (as protected by the patent) is composed of a plurality of components, German courts usually refer to those components of that product that are decisively influenced by the invention. The reference base for a patent that claims a car is not necessarily the value of the whole car. It rather depends on the influence of the invention on the car and which part or parts of the car are decisively characterised by the invention. On the other hand, if the decisive character of the invention influences the whole product (this could be the case with respect to pharmaceutical substances, where the inventive aspect is tied to an active agent) it is reasonable to refer to its whole value. If the invention influences only parts of the product, it is acceptable to take only a percentage of its value. To determine the reference value, German courts are weighing the problem solved by the patented invention and its relevance for the product concerned.

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<sup>53</sup> Directive dated 20 July 1959, modified by Directive of 1 September 1983 (Federal Labor Gazette, N° 169, BArbBl. 11/1983, 27)

<sup>54</sup> Federal Supreme Court, X ZR 137/07, GRUR 2010, 223, 225, *Türrinnenverstärkung*

<sup>55</sup> Federal Supreme Court, X ZR 137/07, GRUR 2010, 223, 225, *Türrinnenverstärkung*

<sup>56</sup> Federal Supreme Court, X ZR 137/07, GRUR 2010, 223, 225, *Türrinnenverstärkung*

<sup>57</sup> Arbitration Board, Decision 58/07

- **Net sales revenues:** The reasonable royalty is applied to the net sales revenues. These revenues do not contain costs for packaging, discounts, value added taxes and agents' commissions.
- **Reasonable royalty rate:** Reference can be made to license agreements that have already been concluded by the employer with third parties. In the absence of such agreement(s), industry practices must be considered.
- **Scaling:** If the product is manufactured and sold in very high numbers, employers like to apply a sliding scale, which has a reducing effect on the compensation starting from a certain quantity. This must, however, be common practice in the relevant industry sector<sup>58</sup> or require that high numbers of sold products can be attributed to the efforts and achievements of the employer. The success of a product is not necessarily triggered by the patent which the product makes use of. Other factors such as the branding, advertising, reputation of the company, *etc.*, might also be decisive for the purchaser's decision. The royalty rate is accordingly reduced progressively, depending on the turnover achieved with the product. For instance, the Appeal Court Düsseldorf<sup>59</sup> applied in matter a scaling starting from a turnover that exceeded €13 million. For the turnover below €13 million: the full royalty had to be paid, from €13 million to €25 million only ¾ of the royalty rate, from €25 million to €50 million only ½ of the royalty rate and above €50 million only ¼ of the royalty rate. This is only one example. The case law includes examples where a scaling was applicable starting from even significantly lower turnovers (€1.5 million).
- **Plurality of Patents:** A further element that has a decreasing effect on the royalty rate is the question whether or not other patents are used by the concerned product. If several patented inventions apply to a particular product, the German courts consequently decrease the royalty applicable to the different, individual inventions.

5.2.4.2.3 OTHER METHODS: BENEFIT TO THE EMPLOYER AND ESTIMATION OF THE INVENTION'S VALUE

Another (rarely used) method that can be used to calculate the employee's compensation is based on the benefit to the employer relating to the internal cost savings that the employer can achieve as a result of the invention. This method is most useful in cases where the invention consists of technical improvements that can only be realised within the company and the license analogy method would therefore not furnish a meaningful value.

The third (also rarely used) method is based on a free estimation of the value of the invention. This calculation method may be used where the value of the patent cannot be measured by a real royalty income.

FIGURE 3

The Calculation Methods		
License analogy	Benefit to the employer	Estimation of the invention's value
Appropriate if the invention can be allocated to the manufacture and sale of products. This is the most commonly used calculation method.	Appropriate method for innovations and improvements that can only be realised within the company and have no direct effect on turnover or sales.	Useful in cases of cross-licensing where the value of the patent cannot be measured by a royalty income.

5.2.4.3. EXAMPLE

The following simple formula can help with calculating the compensation on the basis of the commonly used Licences Analogy method.

**E x A = C**

**C = Compensation of the employee:** If there is more than one employee-inventor, C has to be shared according to their respective contributions.

<sup>58</sup> Federal Supreme Court, X ZR 71/86, GRUR 1994, 271, *Vinylchlorid*

<sup>59</sup> InstGE 4, 165, 181

**E = Value of the invention:** E makes reference to the quotient of the reference base (see above) and the reasonable royalty. If the reference base refers to the value of the whole product, *e.g.*, pharmaceutical substances, where the inventive aspect is tied to an active agent, the revenues of the net sales price have to be multiplied with the reasonable royalty price usually paid for the invention on the market (net sales revenues x reasonable royalty). The right royalty rate depends on many factors (see above). If the product is sold in high numbers, the employer may apply a slide scaling to the royalty rate, with decreasing effect.

**A = Contribution factor:** The contribution factor depends on the circumstances surrounding the tasks that led to the invention, how the problem was solved and the employee's role and position in the company. This factor is inherently open to dispute. Average factors range between 10 to 20 per cent. Reference is typically made to a point scale:

$a+b+c =$	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	(20)	(p)
A =	2	4	7	10	13	15	18	21	25	32	39	47	55	63	72	81	90	(100)	[%]

The following sub-factors of A (a+b+c) are used to assess the quantity of points (p). Each quantity of points corresponds to a percentage (such as 6 p = 10 per cent).

- (a) **Contribution of the employee (1-6 points):** The employer sets the problem, but also gives the employee specific instructions as to the method he or she needs to employ to solve the problem = low number of points, *e.g.*, 1p. The invention lies outside or is far removed from the employee's usual area of responsibilities and he or she solved the problem independently = high number of points, *e.g.*, 6p.
- (b) **Contribution of the company (1 to 6 points):** To what extent does the employee rely on company resources to solve the problem? The less the company contributes, the higher the number of points.
- (c) **Position of the employee within the company (1 to 8 points):** The more the employee is involved in research and development, the lower the number of points.

Example:

Inventor discovered the problem to be solved on his or her own. However, he knew of shortcomings in the company which led him to the problem: a = 2

Inventor found solution using a combination of individual knowledge and company resources: b = 2

Inventor holds a university degree and is a research assistant in the company: c = 4

**a + b + c = 8 = Contribution Factor corresponds to 15 per cent. In total this would lead to a compensation of 15 per cent of the reasonable royalty rate.**

**PRACTICE NOTE**

Of course, compensation needs to be assessed on a case-by-case basis. The formula above is only to be used as a guide when calculating a payment.

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