

# Software Patents

## Employee IT Inventors: Sharing in the profits?

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In the IT industry in the UK alone thousands of employees are employed to develop computer programs as part of their normal duties. Employers can obtain patents for the protection of certain computer programs, but it is an uphill struggle for employee-inventors to receive compensation from patents that are lucrative.

The Government [1] is proposing to make major changes to the [Patents Act 1977](#) and the [Patent Office](#) has issued a consultation paper [2] on the proposed changes, inviting interested parties to submit responses to its consultation document.[3] One aspect of the Act under review is the right of employees to receive compensation for patents that are of 'outstanding benefit' to their employers. To date there have been only three cases [4] decided by the court and Comptroller of the Patent Office ('comptroller'); in all three cases, the employees were unsuccessful in obtaining compensation. Some employees have, however, recovered compensation from their employers by way of out-of-court settlements.

It is anticipated that the proposed changes to the Patent Act would make it far easier for employees to prove their entitlement to compensation and to succeed in their claims. This article reviews the current law regarding compensation for employee-inventors in light of the proposed changes in the consultation document.

### What is a patent?

The key factors to be considered when registration of a patent is being sought are whether (i) the invention is a novel but not an obvious invention (ii) whether it falls within a category excluded from patent protection such as a business method; and (iii) whether it is capable of industrial application. An invention will not be patentable if it falls within the excluded categories from patentability. Computer programs per se are excluded from patentability.

### Patentability of Computer Programs

Under UK law, it is possible to patent computer programs that produce a "technical effect" when run on a computer. A technical effect means that when a program is run on a computer, it produces a technical advance, which is more than the mere interaction between software and hardware. The claims to the computer program must fall within the tests for patentability. A technical effect is generally an improvement in technology, and needs to be in an area of technology which is patentable. However, if a program does not produce a technical effect when run on a computer, it is unlikely to be patentable.

For instance, an improved program for translating between Spanish and English is not patentable because linguistics is a mental process, not a technical field. On the other hand a program which speeds up image enhancement may be patentable because it produces a technical improvement in a technical area. [The European Patent Office](#) (EPO) takes a similar approach to the UK Patent Office on patenting software. Some other countries, such as the USA, which may be a large potential market for software, have a more liberal approach to software patenting, and often grant patents for software, which would be excluded in the UK or EPO.

### When is an employee entitled to compensation?

An employee is entitled to compensation from his employer when a patent resulting from his invention, say a computer program, has been of 'outstanding benefit' to that employer. The

employer will own any invention created during the normal duties of the employee or any duties specifically assigned to him as part of his job.

## **In what circumstances would an employee own an invention?**

In order for an employee to own his invention, the invention would have to be created outside his normal duties or in circumstances where there is no obligation whatsoever on the employee to further the interests of his employer. For example, if [Telco](#) employs EP as an application/end-user support staff, his normal duties would be provide support to Telco's customers:

If EP were to develop on his home computer, during his own time, a Script that can perform remote diagnostics thereby saving the company substantial sums of money, the invention will belong to EP. However, if EP used Telco's facilities in creating the invention, Telco might argue that it has a stake in the invention because EP used its facilities.

- If EP created the invention before joining Telco, then the invention belongs to him.
- If EP is an independent contractor, then the invention will belong to him. Telco can only obtain the rights to the invention by an assignment or transfer of the intellectual property to them.

## **What is the test for 'Outstanding Benefit'?**

It is the court or [comptroller](#) that has to decide whether a patent has been of benefit to an employer and, if so, whether it has been of 'outstanding benefit' having regard to the size and nature of the employer's undertaking. If an employee is successful in proving that a patent is of 'outstanding benefit', the court still has to determine whether it is 'just' for the employee to receive compensation.

## **Has the patent been of benefit to the employer?**

The benefit from the patent is ascertained by comparing the actual position of the employer with the position he would have been in had the patent not been granted. Benefit is calculated in terms of money or money's worth. It may be benefit which the company may 'reasonably be expected to derive' in the future.

## **Procedure**

An application for compensation must be made in a prescribed form to the court or [comptroller](#) and it must include all facts on which the employee is relying. The application for compensation is usually made as soon as the patent is granted. It can take anything up to four years before a patent is granted. The onus is on the employee to prove to the court that the benefit is outstanding. Employees experience difficulty in proving that the benefit was attributable to the patent and not the invention.

## **Is the benefit outstanding?**

The test for 'outstanding' is something out of the ordinary and not such as would be expected to arise from the results of the duties for which the employee receives a salary. The benefit must be looked at in the total context of the employer's activities to see whether it is outstanding. In making this assessment the court or comptroller considers:

- Whether the invention would sell on its own merit?
- Whether the company made substantial investment to back this patent?
- Whether the company obtained contracts of a similar size?
- Development costs, or any marketing or promotional costs incurred by the employer and what the employer's position would have been had the patent never been granted.

- The size of the contract in relation to the turnover of the company.
- For future benefits, the courts may consider whether the company is continuing development work with regard to that invention and whether there are any other competitors working on alternative projects.
- The courts will consider future benefits that may reasonably be expected to come about. If a case is not made out for future benefits then it is open to the employee-inventor to make a fresh application in the future.

### **What benefits would be attributable to the exploitation of the patent?**

Where the patent is licensed, the benefit of the patent may be readily recognisable by the court, as royalties would be paid to the employer as a measure of the benefit. It is far more difficult to ascertain the benefits attributable directly to the patent where the employer exploits the patent by manufacturing articles in accordance with the invention.

- How can the employee-inventor show that the benefits that the company derives from the sales can in anyway be attributed to the existence of the patent?
- The court must then be able to differentiate between the benefit from the patent and using the invention.
- The courts will usually assume that the benefits from sales of a patented product must be at least due to the patent.
- The court will look closely at the value of the sales against the profits of the company.
- The employee will have to provide evidence to show that it was the patent that was the important factor in securing or maintaining the sales of the patented products and not the price or quality or the company's brand, goodwill, customer relationships or the invention.

### **Determining the amount of the award of compensation**

What amounts to a fair share of the benefit would depend on who owns the invention. If the employer owns the invention, certain factors will have to be taken into account by the court or comptroller:

- the nature of the employee's duties, the remuneration and other advantages derived from their employment
- the effort and skill which was devoted by the employee in developing the invention; and
- the effort and skill of any other contributors to the invention and any contribution made by the employer to the invention.

### **Proposed Changes to the Patents Act 1977, ss 40(1) and 41(1) to (5)**

The rationale behind the requirement for outstanding benefit was that the employee had already received compensation for the invention through remuneration for his employment.

### **The proposal is whether the benefit should be determined in relation to the relevant division or sector of the employer's business?**

The size of the benefit is determined in relation to the size and nature of the employer. The Patent Office is questioning whether this test is too restrictive especially in the light of an employee working for a large company? It is arguable that no matter how successful or lucrative a single patent might be, it may never be of 'outstanding benefit' when compared to the turnover or profits of a multi-national company.

The proposal is to determine the benefit in relation to the relevant division or sector of the employer's business. However, there is still the risk that the benefit would again be small in relation to the turnover of that sector resulting in an unsuccessful claim for compensation by an employee. There is the further risk that the sector in question might be the most profitable division of the

employer's business.

### **Should the outstanding benefit be derived from the invention and not the patent?**

To date employees have found it an obstacle to prove that benefits were derived from the patents. It is particularly difficult for employees to determine how much of a product's success is due to the invention itself and how much is due to the existence of the patent protecting that invention. The Patent Office is proposing that the test for compensation should be based on whether the invention itself or a patented invention has provided outstanding benefit? It is arguable that the benefit from the invention must include the value of the patent in determining compensation.

### **What if the employer assigns the patent to a third party before any outstanding benefit has accrued?**

In order for an employee to make a successful claim under the current system, the benefit must have accrued to the employer. If the employer assigns the patent before any outstanding benefit has accrued to the employer, the employee-inventor cannot claim compensation. This has led to problems for employee-inventors claiming compensation. Some of the issues under review are:

- Should an employee-inventor be compensated whenever his invention is of outstanding benefit to a proprietor, even when an employer has assigned it?
- Should liability for compensation be transferred to the new owner of the patent?
- Would this be fair to a new proprietor?
- Would this extend the rights of the employee-inventor beyond the original employee-employer relationship?

### **What amounts to a fair share of the benefit?**

The factors that the court would take into account in determining a fair share are set out above. The consultation paper is seeking views on how these factors would work in practice. Are they too restrictive? Do they provide helpful guidance? This aspect of the law has not been tested in the courts. In my view it becomes complicated when there has been a number of individuals working on the invention resulting in a patent. How would the courts measure the individual skills and effort expended in the creation of the invention?

### **Conclusion**

Clearly, there has to be a major overhaul of this area. Why have no employees succeeded in bringing a claim for compensation? Is the prospect of taking on the employer too daunting? Unless the law takes into account the fact that multi-nationals make huge profits and the tests is moved away from benefit in light of the turnover or profits of a company, employee-inventors are unlikely to succeed in the future. Assuming that an employee makes out a case for outstanding benefit of a patent, the court or comptroller is still left to decide whether it is 'just' to award compensation to that employee. The proposed changes to this section of the Patent Act are most welcome. Would the proposed changes redress the imbalance? It is hoped that the changes would encourage more claims from employee-inventors within the IT industry.

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