

0/106/91

PATENTS ACT 1977

IN THE MATTER OF an application
under Section 40 by John Trett
for an award of compensation in
respect of European patent number
0070286

DECISION

John Trett, a qualified electrical engineer, is one of the two inventors named in European patent no. 0070286. He claims that the invention has been of outstanding benefit to his former employers, Memco-Med Limited, and in the application seeks an order for a substantial award by way of compensation under section 40. Memco-Med have opposed the application and accordingly the matter came before me at a hearing on 9 July 1991 at which the applicant was represented by counsel George Hamer and Memco-Med were represented by their patent agent, Mr Hoolahan.

The second inventor named in the patent is Mr R K Payne. Memco-Med was set up in 1971 by Mr Payne, and he has been its Managing Director throughout its history. Mr Trett was employed by the company from 1971 onwards to design and develop electrical products. For much of his period of employment and until he was dismissed in 1983 Mr Trett was a director of Memco-Med. After his dismissal Mr Trett founded his own company, which, at least in some respects, now competes with Memco-Med.

In the late 1970s Memco-Med secured a contract with the Otis Elevator Company Ltd (Otis) to build door detector units for lift doors. These detector units were known as 'B'-model detectors. Their function was to detect the presence of a person in proximity to lift doors while they were closing and control the operation of the doors to prevent the doors closing on the person concerned.

The 'B' model had certain disadvantages, and so, with the approval of Otis, Mr Payne and Mr Trett jointly developed an improved unit

which became known as the 'R' model. The circuitry of the 'R' model forms the subject of the patent which claims priority from a GB application filed in January 1981. The patent designates a number of countries, but it is only the designation of the United Kingdom that is really material to the present application.

The 'R' model was accepted by Otis and was introduced by them worldwide as a replacement for the 'B' model in 1982. The 'R' model is still being made by Memco-Med, but has not been sold to any other customers. Memco-Med later developed in succession two further models, both rather confusingly designated 'L'. It is accepted that the earlier one of the two 'L' models fell within the patent. However, this model was superceded at the end of 1985 or soon after by the later 'L' model which uses different circuitry. The later 'L' model is being sold not only to Otis (alongside the 'R' model) but also to other customers, and sales of this model are said to have now outstripped the sales of the R model.

The patent was actually granted to the two inventors Mr Payne and Mr Trett in person and was later assigned to Memco-Med. The deed of assignment acknowledges that "by virtue of Section 39 of the Patents Act 1977 the beneficial owner of the patent is the assignee". Section 39(1) provides that an invention made by an employee belongs to the employer if

- "(a) it was made in the course of the normal duties of the employee or in the course of duties falling outside his normal duties, but specifically assigned to him, and the circumstances in either case were such that an invention might reasonably be expected to result from the carrying out of his duties; or
- (b) the invention was made in the course of the duties of the employee and, at the time of making the invention, because of the nature of his duties and the particular responsibilities arising from the nature of his duties he had a special obligation to further the interests of the employer's undertaking".

In the present case, the assignment does not specify into which of these two categories the invention falls, but it is common ground that Mr Trett was employed, inter alia, as an electrical engineer to design and develop new products and that he was specifically engaged on the task of developing an improved detector. Thus, although Mr Hoolahan suggested that section 39(1)(b) probably applies, and I do not think there is any doubt that it does in view of Mr Trett's responsibilities as a director of Memco-Med, it seems to me that paragraph (a) of the subsection also applies. Thus, the patent relates to an invention made by an employee but belonging to the employer, and it follows that the present application falls to be considered under section 40(1) rather than section 40(2).

Under Section 40(1), I have to consider whether "the patent is (having regard among other things to the size and nature of the employer's undertaking) of outstanding benefit to the employer" and whether "by reason of those facts it is just that the employee should be awarded compensation to be paid by the employer".

In my view, from the nature of Mr Trett's duties as an electrical engineer employed by Memco-Med and as a director of that company, and from the fact that he received remuneration in the form of salary and other benefits during his employment by Memco-Med, Mr Trett must be regarded as having been rewarded to at least some degree for his activities leading to the patented invention. The Hearing Officer in the first decided case under Section 40, an application by a Mr Ellis for an award in respect of a patent held by Elliott Brothers (London) Limited, came to a similar conclusion with regard to Mr Ellis. In his unreported decision dated 8 February 1989 he expressed the view that

"it is for this reason that the Section (section 40 that is) uses the word "outstanding" to qualify the benefit which would make it just that the employee should receive compensation. Moreover, it is noted that the word "outstanding" is used rather than "significant" or "substantial" or other such term. It must be something out of the ordinary and not such as one would normally expect to

arise from the results of the duties that the employee is paid for. It is, I think, for this reason that reference is made to the size and nature of the employer's undertaking, and that the benefit (to the employer) must be looked at in the total context of the activities of the employer concerned to see whether it is outstanding".

I share that view, and it is therefore against this general background that I shall consider whether the patent is of outstanding benefit to Memco-Med and whether it is just that an award of compensation be made to Mr Trett. There are a few details to fill in first.

Mr Hamer submitted, without much hope of acceptance I suspect, that Parliament cannot have intended "benefit" to mean benefit derived from the patent document itself and not from the invention disclosed in the patent. In many instances the two will be closely related but this need not always be the case. In any event, section 40(1) plainly refers to 'the patent' rather than to the 'patented invention', and, in the absence of any authority to the contrary, it is benefit derived directly or indirectly from the patent which I shall consider when coming to my final conclusion. Whilst I accept that in general the onus of showing that no (or very little) benefit is derived from a patent lies with the proprietor of the patent, I do not consider that the burden of discharging that onus need be placed on the proprietor in cases where it is quite clear that the sum total of benefits, whether from the patent or from the invention or from sales of patented products or from any other related source is not outstanding.

It also has to be noted that, in accordance with section 43(7), "benefit" means benefit in money or money's worth, and that in quantifying the amount of any award of compensation to the inventor, the guiding principles set out in section 41 apply.

In the present case sales of products embodying the patented invention figure significantly in the alleged benefit to the proprietor. For present purposes, I must take these sales to

include sales of the 'R' model and of the earlier one of the two 'L' models. Mr Hamer made it clear at the hearing that the applicant was not pursuing the question of the later 'L' model. I have no evidence from either side with regard to a further model (Schindler) referred to in the applicant's statement of case.

Memco-Med say that 'R' model sales, from 1982 to 1989, have totalled just over £4 million out of total sales of £11.6 million. Mr Hamer accepted that the £4 million figure was at least of the right order of magnitude, but argued that most of these sales would have been in the 1982-1986 period, before the later 'L' model was launched. For this period Mr Hamer suggested that 'R' model sales may have accounted for virtually all or at least 80% of Memco-Med's turnover. If Mr Hamer is right in this, it must of course mean that sales of the earlier 'L' model and the 'Schindler' model are of little significance. Mr Payne for Memco-Med says that sales of the earlier 'L' model were 'tiny' without going into further detail. I shall therefore assume that sales of products embodying the patented invention - which for convenience I will simply call 'R' model sales - have totalled something over £4 million, that during 1982-1986 they accounted for the major part, ie at least 80% of Memco-Med's turnover and that they continue to contribute, albeit on a reduced scale, to Memco-Med's business.

In my view it would be reasonable to regard 'R' model sales as having been of great, if not vital, importance to Memco-Med from 1982 until 1986 when the later 'L' model came onto the market. I also think it is clear from the evidence that, of all the benefits which may have been derived from the invention, the greatest benefit would have been from 'R' model sales.

Assuming, as I have done, that 'R' model sales in excess of £4 million was a major benefit, I shall first address the question of whether or not this was an outstanding benefit given the size and nature of Memco-Med's undertaking, and I shall deal with the extent to which the benefit derived from the patent subsequently.

There is no numerical evidence from which a direct comparison between 'R' model sales and sales of the earlier 'B' model can be made. Memco-Med say that sales of the 'R' model supplanted sales of the 'B' model, and that statement has not been challenged by Mr Trett. If the introduction of the 'R' model had greatly increased the demand for detectors made by Memco-Med before Mr Trett left the company he would surely have known about it and would have referred to it in his evidence. On the other hand, if sales had increased dramatically later than that, Mr Trett's estimate of 'R' model sales would not have been so close to Mr Payne's figure.

With sales of 'B' and 'R' models being at much the same level, and Memco-Med, by and large, producing only one model of door detector at a time up until 1985 or 1986, it must necessarily follow that any replacement for the 'B' model based on the invention to which Mr Trett contributed would feature in a high proportion of the sales of that company. This would be the expected result of Mr Trett carrying out the duties and responsibilities for which he was paid. Also Mr Trett himself admits that electronic products have an average life of five years or less before redesign or new models are produced. That is precisely what happened in the case of the 'R' model. Since the introduction of the replacement (the later 'L' model), sales of the 'R' have dropped, and, according to Mr Payne, no longer form the greater part of the company's sales.

Even viewing the benefit derived from the patented invention therefore, there are strong pointers to the benefits not being outstanding having regard to the size and nature of Memco-Med's undertaking.

It is, as I stated earlier, the benefit from the patent which matters, not benefit from sales of the patented product per se. In general, and in the absence of evidence to the contrary, it would be reasonable to assume that benefit from sales of a patented product must be at least partly due to the patent. However, in my opinion the evidence before me points to the patent not being an important factor in securing or maintaining 'R' model sales.

Firstly, Otis already had a strong commitment to Memco-Med, so much so that it would appear that they continued to buy the 'B' model for at least two years after defects in those detectors had been identified and while waiting for Memco-Med to design and develop a replacement - the 'R' model. Thus I do not feel that I can place much weight on Mr Trett's assertion that if the 'R' model had not been made Otis would have taken their business elsewhere. Secondly, it is clear that the patented circuitry was not the only improvement that led to the success of the 'R' model. Exhibit RKP1 shows that very early on, in 1979, the 'R' model showed sufficient promise for Otis to be interested in it even though at that stage the invention had not been incorporated into the circuitry. Thirdly, Otis committed themselves to buying a first batch of 1000 'R' model detectors 8 months before the priority date of the patent. All this suggests to me that Otis would have continued to buy detectors from Memco-Med even if the patent had not been applied for and granted. The fact that there were outstanding orders from Otis for 'B' detectors which were converted into an order for 'R' model detectors when the latter became available tends to reinforce this conclusion.

Mr Hamer advanced a number of reasons why the patent should be regarded as being (to use his own words) "very useful" to Memco-Med. He argued that there were competitors and the existence of the patent kept them out of the market, in particular the patent ensured Memco-Med had a monopoly for capacitive door detectors. This does not stand up to scrutiny. The invention which forms the subject of the patent is not concerned with the type of sensor at all. The patent specification expressly mentions photoelectric and ultrasonic arrangements as possible alternatives to capacitive sensors. Moreover, Memco-Med were supplying Otis with detectors which used capacitive sensors but did not use the invention both before 1981 (the 'B' model) and from 1986 onwards (the later 'L' model), so I cannot see how this patent can possibly have prevented competitors, Mr Trett's company included, from entering the capacitive detector market.

The patent is in no sense a 'master patent' as regards capacitive door detectors; at most it can only have inhibited competitors from copying this particular form of detector circuitry and under-cutting Memco-Med's price, but that is no more than would be expected from any reasonably well-drafted patent.

Next Mr Hamer argued that the existence of the patent enabled Memco-Med to give Otis the exclusivity the latter required, in other words that the 'R' model would not be available to anyone else. There may be something in this, but there is also evidence of a long-standing relationship between the two companies and also evidence that Otis were slow to accept change. There is no evidence that suggests to me that Otis would not have bought the 'R' model if exclusivity had not been given, on the contrary, they remain customers of Memco-Med and buy the later 'L' model even though it is being made available to others. It was also claimed by Mr Hamer that the patent locked Otis into Memco-Med as a supplier, and as Otis is a very big fish in the lift manufacturing world, this has been of immense benefit to Memco-Med. Of course, Otis was "locked in" in the sense that the patent stopped it buying 'R' model detectors from anyone else, but that sort of situation arises with any patented product. Otis were not forced by the patent to buy 'R' model detectors, as is manifest from the fact that they later bought 'L' model detectors.

Finally Mr Hamer pointed out that the evidence indicates that Memco-Med relied on the patent in trade literature, but I do not see how that advances Mr Trett's case that the patent, which is not referred to specifically in the literature exhibited, is of outstanding benefit.

The applicant has also referred to possible licence income under the patent and to an attempt in 1981 to sell the patent rights for £250,000. According to the evidence, no licences under the patent have ever been granted and the attempt to sell the patent rights did not succeed, so neither of these has resulted in any actual benefit. They are, or were, at best potential benefits which have not materialised and I think it is most unlikely that

they will do so now.

There is one other matter related to benefits derived from the patent which I must consider and that is an unsuccessful attempt, by a company in Brazil affiliated with Otis, to manufacture detectors which would have been an infringement of a Brazilian patent based on a PCT application claiming priority from the same GB application as the present patent. This matter is dealt with in the pleadings and evidence, but as the present application on Patents Form 26/77 stands, it cannot, as a formal matter, be taken into account because the application refers only to the European patent, not to the equivalent Brazilian patent as well. Mr Hamer sought leave to amend the application in this respect and argued that such leave had been granted in the Ellis case.

The position in the Ellis case was rather different in that the parties there had agreed that Form 26/77 should be amended. The position in the present case appears to me to be much closer to that in another section 40 case, the application by a Mr Monks against British Steel Corporation where the Hearing Officer, in his decision dated 13 June 1991 (unreported), refused to allow Form 26/77 to be amended. It is, however, sufficient to say that even if Form 26/77 were to be amended in the manner sought, it would not alter my conclusion that the patent is not of outstanding benefit to Memco-Med. If Memco-Med did secure any benefit in money or money's worth under their patents from the abortive activities of the Brazilian company - and I am not convinced they did - it must, I think, have been very small. I certainly do not accept, as Mr Hamer suggested, that Otis was prepared to take exclusivity in exchange for the effective grant of a licence in Brazil. There is therefore no real point in me allowing the application form to be amended so as to refer specifically to the Brazilian patent.

Mr Hoolahan raised a further question about the extent of the benefit from 'R' model sales. He argued that since the patent was not granted until the end of 1985, sales of the patented product before that date were irrelevant because any benefit from them could not be due to the patent. This would reduce the £4 million

figure to something much smaller. In view of the conclusion I have reached above, I do not need to decide this point. I would observe in passing, however, that whilst I would not go so far as to say that alleged benefit arising pre-grant could never be relevant in Section 40(1) proceedings, one would certainly need to look at such benefit very carefully to be sure it really was attributable to the patent. In the present case, the fact that a high proportion of the alleged benefit arose pre-grant and the fact that, according to Mr Hoolahan, the main claim of the patent was only amended to include the "characterising features" at a late stage in the prosecution of the application to grant may be further pointers to the relatively small role played by the patent in securing that benefit.

Having concluded that the patent is not of outstanding benefit to Memco-Med, there is no need for me to pass on to the question of whether or not it is just that Mr Trett should be awarded compensation. Nevertheless I think it is worth stating here that the invention forming the subject of the patent does not strike me as being such as would not be expected to be produced by a person in Mr Trett's position at Memco-Med. It was, I feel, the expected and reasonable result of Mr Trett carrying out the duties and responsibilities for which he was paid. In these circumstances, it would need some quite exceptional benefits to flow from the patent for it to be just that an award should be made. I would not merely have to be wrong in my assessment of the benefit from the patent, but badly wrong.

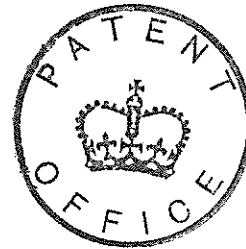
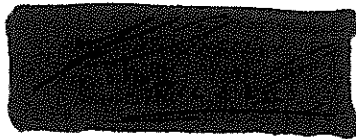
There remains the outstanding request for discovery by the applicant. This request was received by the Office only a week before the hearing, eight months after the proprietors had filed their evidence, and was in very imprecise terms. Clearly, discovery will often be of considerable value to the applicant in section 40 proceedings, particularly when he or she is no longer employed by the proprietors. It is up to an applicant to decide what is needed to support the application, and if at any stage it becomes apparent that discovery is needed, it should be requested promptly, not at the last minute, and in terms which are as

specific as possible. It was agreed that the substantive hearing would proceed but that if, when I came to consider my decision, I concluded that discovery was necessary I would come back to the parties. I am in fact convinced that discovery would not be useful because I do not believe it would reveal anything which would alter the conclusions I have reached above. It might sharpen up some of the figures, but that would not change the position reached.

Accordingly, in view of my findings above, I refuse the application and make no order for payment of compensation to Mr Trett.

Memco-Med have asked for a contribution towards their costs. As they have been wholly successful in defending this application, it is right that their request should be granted. I therefore direct that the applicant pays them a contribution of £700.

Dated this *10TH* day of *SEPTEMBER* 1991



K E PANCHEN

Superintending Examiner, acting for the Comptroller