



19 May 2009

PATENTS ACT 1977

BETWEEN

Ian Shanks

Claimant

and

Unilever plc
Unilever UK Central Resources Limited
Unilever NV

Defendants

PROCEEDINGS

Claim for compensation under section 40 of the Patents Act 1977 in
respect of patent number EP 0170375

HEARING OFFICER

J Elbro

PRELIMINARY DECISION

Introduction

- 1 An application for employees' compensation relating to patent number EP (UK) 0170375 and counterpart foreign patents ("the patents") against Unilever plc, Unilever U.K. Central Resources Limited ("CRL") and Unilever NV (collectively "the defendants") was made by Professor Ian Alexander Shanks ("the claimant") on 9 June 2006. An amended Statement of Case was filed on 29 September 2006 with the consent of the defendants.
- 2 EP0170375 was filed on 12 June 1985, claiming priority of 13 June 1984, and was granted on 16 May 1990. Professor Shanks is named as an inventor. The claims relate to an electrochemical test device and a method of manufacturing an electrochemical test device. The patents were assigned from CRL (a research part of the Unilever group) to 3 different companies within the Unilever Group for nominal sums. The companies were Unilever plc, Unilever NV and Internationale Octrooi Maatschappij "Octropa" B.V. (The later changing its name to Unilever Patent Holdings B.V. in 1987). A further company, Unipath limited, had an

accounting relationship with the patents and was sold in 2001 for £103 million and ceased to be part of the Unilever group. There is a dispute over which company should be considered Dr Shank's employer, which indirectly led to the issues considered in this decision, but is not considered further here.

- 3 Since the initial filing, mediation has been attempted, a voluntary disclosure process has been gone through and the claimant has served his evidence. On 5 December 2008 the claimant filed a Supplementary Statement of Case, requesting leave to add this to his Statement of Claim. The defendants objected and further requested the striking out of other parts of the statement.
- 4 This came before me at a hearing on 27 January 2009 where the claimant was represented by Mr Patrick Green of Counsel instructed by Beresford and Company, and the defendants were represented by Mr Nick Gardner of Herbert Smith LLP.
- 5 On 11 February 2009 Floyd J sitting in the Patents Court handed down judgment in an employee compensation claim: *Kelly and Chiu v GE Healthcare Ltd* [2009] EWHC 181 (Pat) ("*Kelly*"). Both parties were given the opportunity to make written submissions on this case, which they both did. I have taken them into account in this decision.

The issues

- 6 There are three prongs relevant to this decision to the "benefit" the claimant alleges that the defendants have obtained from the patent, and that he therefore claims a share of:
 - The "survival benefit". The claimant alleges that without the patents, Unipath would have been unable to sustain itself in business, and therefore the continued existence of the company was a "benefit" resulting from the patents
 - The "assignment benefit". The claimant alleges that the money from the sale of Unipath (for £103 million) was at least in part down to the patents, and thus claim a share of the up to £103 million due to the patents.
 - The "putative benefit". This is a hypothetical benefit the claimant alleges Unilever could have made from the patents, and to which the claimant claims should be taken into account by virtue of Section 41(2). It contrasts with the "actual benefit" the defendants have received.
- 7 All three (and others) are mentioned in the amended statement of claim of 29 September 2006. However, the putative benefit is only briefly touched on. The supplementary statement of claim largely consists of expanding on this point.
- 8 At issue at the hearing were:
 - The claimant's request to admit the supplementary statement of claim. The defendants contested this and further requested the related evidence be excluded from the proceedings. Secondly to this, the defendants

argued that even if the supplementary statement were allowed, it should be recast as a formal amendment to the statement of claim.

- The defendant's request to strike out the claims to survival and assignment benefit and exclude the related evidence.

The law

Employee Compensation

- 9 The law on employee compensation is intended to provide a means by which employees can obtain a share of an "outstanding benefit" made by one of their inventions. It is governed by Section 40 of the Patents Act 1977:

40(1) Where it appears to the court or the comptroller on an application made by an employee within the prescribed period that the employee has made an invention belonging to the employer for which a patent has been granted, that 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 that by reason of those facts it is just that the employee should be awarded compensation to be paid by the employer, the court or the comptroller may award him such compensation of an amount determined under section 41 below.

40(2) Where it appears to the court or the comptroller on an application made by an employee within the prescribed period that -

(a) a patent has been granted for an invention made by and belonging to the employee;

(b) his rights in the invention, or in any patent or application for a patent for the invention, have since the appointed day been assigned to the employer or an exclusive licence under the patent or application has since the appointed day been granted to the employer;

(c) the benefit derived by the employee from the contract of assignment, assignation or grant or any ancillary contract ("the relevant contract") is inadequate in relation to the benefit derived by the employer from the patent; and

(d) by reason of those facts it is just that the employee should be awarded compensation to be paid by the employer in addition to the benefit derived from the relevant contract;

the court or the comptroller may award him such compensation of an amount determined under section 41 below.

- 10 The level of compensation for employees inventions are set out in Section 41 of the Patents Act 1977. This reads in relevant part as follows:

41(1) An award of compensation to an employee under section 40(1) and (2) above in relation to a patent for an invention shall be such as will secure for the employee a fair share (having regard to all the circumstances) of the benefit which the employer has derived, or may reasonably be expected to derive, from the patent or from the assignment, assignation or grant to a person connected with the employer of the property or any right in the invention or the property in, or any right in or under, an application for that patent.

41(2) For the purposes of subsection (1) above the amount of any benefit derived or expected to be derived by an employer from the assignment, assignation or grant of -

(a) the property in, or any right in or under, a patent for the invention or an application for such a patent; or

(b) the property or any right in the invention;

to a person connected with him shall be taken to be the amount which could reasonably be expected to be so derived by the employer if that person had not been connected with him.

- 11 These sections were amended by the Patents Act 2004, but the amended Sections apply only to patents applied for on or after 1 January 2005 and therefore do not apply to the present case.

Striking out

- 12 Striking out is governed by Rule 83 of the Patents Rules 2007 (reflecting rule 3.4 of the Civil Procedure Rules 1998):

83.(1) A party may apply to the comptroller for him to strike out a statement of case or to give summary judgment.

(2) If it appears to the comptroller that—

(a) the statement of case discloses no reasonable grounds for bringing or defending the claim;

(b) the statement of case is an abuse of process or is otherwise likely to obstruct the just disposal of the proceedings; or

(c) there has been a failure to comply with a section, a rule or a previous direction given by the comptroller, he may strike out the statement of case.

- 13 The relevant law is summarised in paragraphs 2.69-2.71 of the Patent Hearings Manual as follows:

“2.69 A party may apply to the comptroller to have another party’s statement of case struck out either in part or in its entirety. Any application for striking out should identify precisely what is to be struck out and the grounds on which this is brought.

2.70 The party concerned and any other parties or potential parties to the proceedings should be informed of the application for striking out and given an adequate period of time (normally one month) in which to respond. Unless the party concerned agrees to the striking out, the hearing officer will need to decide the matter.

2.71 The summary procedure of striking out should be used sparingly. In line with the principles set out in rule 3.4 of the Civil Procedure Rules 1998, it may be used to strike out something which discloses no reasonable grounds for bringing or defending the claim, although often amendment of the pleadings will be more appropriate than striking out. ...

Amendment of Claim

- 14 Rule 81(2)(e) of the Patents Rules provides a general power for the Comptroller to permit amendment of a statement of case. It was not disputed between the parties that the Comptroller has discretion to refuse amendment – in this case, by refusing to admit the supplementary statement.

- 15 In exercising this discretion, I would need to have regard to the overriding

objective set out in Rule 74 – to deal with the case justly.

- 16 It was also not disputed that under Rule 82(2), the Comptroller has discretion to exclude evidence.

Amendment of the statement of claim

- 17 Paragraph 16 of the supplementary statement requests an amendment to the statement of claim relating to details of the inventorship of the patents. This was not opposed by the defendants.

- 18 The rest of the supplementary statement is concerned with an argument for determining and using the “putative benefit” mentioned above. The claimants argument in the supplementary statement essentially goes as follows:

- The Putative Benefit should be taken to be that which could reasonably be expected for the employer to obtain if the employer had granted or assigned the relevant rights to a person unconnected with him
- This would have been by mix of royalty and fixed sum.
- In view of the actual sales these royalties would have been in excess of US\$1bn, and hence so would the putative benefit.
- This is outstanding.
- The actual benefits are also relevant as a minimum value. The defendants failed to take reasonable steps to market or exploit the invention and yet still received the actual benefits.

- 19 It is this statement which the defendants argued should not be admitted, essentially because (they argue) it does not make out a case even if all the facts alleged are accepted as true. They therefore argue that were it part of the statement, it would be liable to striking out. Thus, they argue, the just approach is not to allow the amendment in the first place.

- 20 The defendants further argued that by increasing the claim to an unspecified fraction of \$1bn or so, compared with a fraction of \$23 million that they thought they were facing, it would force them to invest significant extra resources, require months of preparation of evidence, and extend the length of the hearing dramatically. They argued that they would be unfairly prejudiced by this by having to expend large sums in costs which would not be recoverable.

Interpretation of Section 41

- 21 In the end, the division between the parties boils down to what is meant by “that person” in Section 41(2). The claimants say that this requires consideration of a hypothetical person, one not connected with the employer, operating in the marketplace at that time. The defendants say it refers back to “a person connected with him”, and thus refers to that specific person, modified only by considering what that specific person would have done if they were not

connected with the employer.

- 22 The plain meaning of the words seems clearly to favour the defendant's interpretation. If a hypothetical person had been intended, the legislator could have said "a person" instead of "that person". As a matter of English, the use of the word "that" would seem to clearly indicate that the specific person previously identified is the one referred to.
- 23 Mr Green argued strenuously, however, that this would lead to a ridiculous result which would undermine the purpose of the clause. He argued (and the defendant's did not appear to dispute) that section 41(2) is an anti-avoidance provision: it is to prevent a company splitting itself into smaller companies and using that to avoid having to pay compensation.
- 24 An example discussed at the hearing illustrates the principle. Consider a holding company "Megacorp". It has two subsidiaries, "Research Inc." and "Suppression Inc.". Research Inc. is wholly dedicated to research – it is funded by Megacorp, employs researchers, and obtains patents on their inventions. It then sells on all its patents for a nominal sum (say £100) to Suppression Inc. Suppression Inc has as its charter that it only ever pays £100 for patents and does nothing with them. Mr Green argued this would enable Megacorp to ensure that employee compensation would never be paid on the defendant's interpretation of Section 41(2): Suppression Inc has it written into its articles not to pay more than £100 and so that is all that could "reasonably be expected" even if Suppression Inc. was not connected with Research Inc.
- 25 When I queried how Megacorp could make any money in such circumstances, Mr Green explained that there could be a further subsidiary ("Exploitation Inc.") which bought patents from Suppression for a nominal sum and went about exploiting them. Section 41(2) would not operate to "reach through" in such circumstances.
- 26 Against this, Mr Gardner argued that the claimant's interpretation itself would lead to ridiculous results. In particular, the putative benefit thus calculated (of the order of \$1 billion) far outweighed the actual benefit obtained by anyone in the Unilever group (which he put at approximately \$23 million). This could furthermore create problems if the same value for "benefit" was used to determine whether under section 40 the benefit is "outstanding" or compensation "inadequate" (although this latter point appears in doubt in light of *Fellerman's* Application BL O/75/98 and was not pressed). It would be ridiculous, he argued, for a company to be required to pay a share of a huge hypothetical benefit having only made modest returns itself.
- 27 Mr Green countered this by pointing out that section 41(2) required that the employee get only a "fair share" and that concerns over a putative benefit being far in excess of the actual benefit received by Unilever could be addressed through operation of that clause. Similarly, sections 40(1)(c) and 40(2)(d) require that making an award be "just" which could be used to iron out any apparent issues with determining "outstanding" or "inadequate". He declined, however, to put a figure on what a fair share might be – he accepted that it should be less than \$800 million, but was not willing to be more specific before seeing the

defendants' evidence.

- 28 In his submissions after *Kelly*, the claimant argued that *Kelly* showed it was necessary to consider all the evidence in determining what benefit was obtained (although *Kelly* was a case of “actual” rather than putative benefit). He also argued that *Kelly* showed that the court would often have to speculate on the precise value of a patent, so characterizing the claimant’s case as “hypothetical” was a mistaken criticism.
- 29 The defendant submits that these arguments are based on a misreading of *Kelly*. Although the court may need to speculate, this is not because the situation is hypothetical (except insofar as a lack of connection is assumed), but because it is often impossible to determine on the evidence precisely what the true contribution of a patent to a company’s profits is – so some speculation is needed to fill the gaps. That is completely different from considering a totally different hypothetical company and what returns it could have made.
- 30 In my view, the claimant’s argument is not sufficient to convince me to read the words of the statute in any way other than their apparent meaning.
- 31 I agree that the scenario discussed at the hearing with Research Inc and Suppression Inc is a scenario in which the law should be able to “cut through” to where the profits have really been made, but it appears to me that this can be done without doing violence to the language of the Act. The Section requires the amount to be taken to be that which could reasonably be expected if there was no connection between the employer and the other person. This inevitable involves consideration of a hypothetical scenario, given that in reality, *ex hypothesi*, there is such a connection.
- 32 In the scenario given, Research Inc is only willing to sell at a nominal price because of the connection. Having hypothetically broken that connection, the question becomes what would be agreed between an independent Research Inc. willing to sell and a Suppression Inc. willing to buy. Feeding into what Suppression would be willing to pay in this hypothetical scenario would be the eventual profit possible to its parent, Megacorp.
- 33 This would of necessity mean disregarding aspects of Suppression Inc. which only make sense in the context of a connection - such as only paying £100. By contrast, aspects such as whether Megacorp’s marketing of these sorts of inventions is effective is not affected by the existence of a connection or not, and therefore cannot be disregarded when calculating how valuable the patent might be to Megacorp and therefore what a reasonable price to pay would be.
- 34 Thus, the Section would operate as it would appear to be intended to avoid artificial partitioning of a company to avoid having to make compensation payments. The claimant’s arguments that it would be ineffective do not seem to me to be made out. I further agree with the defendants that *Kelly* (which does not directly address Section 41(2)) does not cast doubt on this.
- 35 Furthermore, the defendant’s points on the difficulties created by the claimant’s construction appear to be valid. It was not contended that the intention of the

legislature was to put a party which was split into subcompanies in a worse position than a unitary company, and yet this would be the case if a notional benefit could be derived greater than the benefit actually derived by anyone.

36 The counter point that this could be dealt with by use of the “fair share” and “just” provisions in 41(2) seems unnecessarily circuitous and uncertain compared to simply allowing the words of the statute to bear their natural meaning.

37 I therefore find that the defendant is correct to consider that the appropriate value in section 41(2) is the amount which could be reasonably expected to be derived by the employer if the person to which the employer passed the rights to had not been connected with the employer, but in all other respects was the same as the person to whom the rights were actually passed.

38 I should note that the claimant’s argued further that it would not be right for me to decide this point now; it should wait until the substantive hearing. They stated that they might have argued their case differently if they had thought they would have this point of law decided against them. I can see no basis for this argument – the point of dispute on the law was clearly in issue and both sides had ample opportunity to address me on it. The defendants cited Moore-Bick LJ¹ on this point: “if the applicant’s case is bad in law, the sooner that is determined the better”. I respectfully agree.

39 I also note that I have not needed to consider the defendant’s argument on prejudice.

Application to the present case

40 The claimant’s argument in its supplementary statement (seen clearly in paragraph 13 of the supplementary statement) is essentially premised on the idea that Unilever group could have made a lot more out of the patents if it had exploited them differently (for example by going out seeking licenses).

41 It seems to me that the Unilever companies’ exploitation strategies for this sort of invention had nothing to do with the connections between the different companies in the groups. As such, these will remain a feature of the relevant hypothetical person(s) not connected with CRL². This means that consideration of what could have been earned (up to \$800million according to the claimant) is not relevant to determining the putative benefit.

42 Thus the claimant’s argument is built on a faulty premise. Even if the claimant were able to prove all the facts that he asserts in his statement, that would not entitle him to use the hypothetical earnings as the basis for determining whether the benefit was “outstanding” for purposes of Section 40(1)b (as in paragraph 11 of the supplementary statement) or to entitle him to a fair share of such putative benefit (as in paragraph 2 of the supplementary statement).

¹ *ICI Chemicals & Polymers Limited v TTE Training Limited* [2007] EWCA Civ 725 Unreported, Court of appeal, 13 June 2007

² For avoidance of doubt, I make no finding on what strategy for exploitation the various Unilever companies employed, in particular whether that was the so-called “Patent Procedure” or not.

- 43 The alternative argument in the supplementary statement (paragraph 14) is that the putative benefit should be at least as much as the actual benefit obtained by Unilever group. No reasoning is provided to back this up, and it seems to suggest that all profits made by the group would have passed on to CRL. In other words, that CRL would expect to make from assignment as much profit as is finally generated by the patent – with nothing going to the assignee who had actually licensed the product. This seems to inherently lack credibility.
- 44 I therefore conclude that the supplementary statement of claim does not make out an argument with any prospect of success. I therefore refuse permission to amend the statement of claim, except for the unopposed amendment to paragraph 86, set out in paragraph 16 of the supplementary statement.

Exclusion of Evidence

- 45 Little was made of the exclusion of evidence point in argument, it being secondary to the amendment question. The defendants wished to exclude the claimant's evidence as far as it goes to the case put forward in the supplementary statement. However, it is not clear to me that the identified evidence only goes to the putative benefit argument in the supplementary statement; it may (I do not decide) have relevance to determining putative benefit under what I have determined is the correct reading of section 41(2). I therefore do not think it appropriate to exclude any evidence at this time.

Striking out

- 46 At the hearing, the claimants conceded that they would not be pursuing the survival benefit. However, in their submissions following *Kelly* they resiled from this, arguing that *Kelly* indicated that all the background evidence was relevant. The defendants objected to this on procedural grounds and on the substance.
- 47 For their part, the defendants did not seek to strike out the whole of the assignment benefit, conceding that at least £3 million was in issue. However, they sought striking out of any claim exceeding £3 million, in particular the claim to a share of the whole £103 million obtained in the sale of Unipath.
- 48 The defendant's argument boils down to a lack of evidence on the part of the claimants as to how much of the sale price could be attributed to the patents (for the assignment benefit) and the contribution made to the continuance of the company which enabled the sale (for the survival benefit). The claimants essentially responded that they wished to see how the defendant's evidence developed and hinted at a later application for disclosure.
- 49 The defendants have a strong point – there appears to be little in evidence from the claimant to back up their contention. However, as Mr Green contended, more may emerge from cross-examination of the defendant's witnesses which may place a different complexion on matters. Given this, I do not consider that I can say the claimants have disclosed no reasonable grounds, and although a claim to the whole £103 million would seem extremely unlikely on its face, it is not clear precisely what lower figure the claim could be limited to at this stage. Further, although the claimant's reasons for resiling from his concession on the survival

benefit are not fully clear, given that the proceeds of the sale of Unipath is the factual basis of both survival and assignment benefits, I do not think much would be gained by striking out the survival benefit whilst keeping the assignment benefit claim.

- 50 I therefore decline to strike out the claims to the “survival benefit” and “assignment benefit” at this stage.

Conclusion

- 51 I refuse to admit the supplementary statement of case, except for paragraph 16. I give the claimant’s two weeks from the date of this decision to submit an amended statement of claim reflecting the amendment to paragraph 86.

- 52 I also decline to strike out the claims to the “survival benefit” and “assignment benefit”.

Costs

- 53 Neither party has made a request for costs at this stage. I therefore defer consideration of costs to the full hearing.

Appeal

- 54 Under the Practice Direction to Part 52 of the Civil Procedure Rules, any appeal must be lodged within 28 days.

J ELBRO

Deputy Director acting for the Comptroller