

# CREDIT CONTROL

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# True or False? “By Statute, the Ownership of Work Created in the Course of Employment Automatically Vests in the Employer”

Rachel Harrap

 <p><b>Rachel Harrap</b> Head of Employment Edwin Coe</p>	<p><b>Biography</b></p> <p><i>Rachel Harrap is head of the Employment Team. She qualified as a Solicitor in 1980 and spent seven years as an Assistant Solicitor with Wilde Sapte and Simmons &amp; Simmons before joining Fox &amp; Gibbons where she was made a Partner in 1989. At Fox &amp; Gibbons, Rachel was head of Employment and Insolvency services. Rachel joined Edwin Coe as a Partner in 1998 to bring together Edwin Coe's Employment expertise within a dedicated Employment Team dealing with all aspects of employment law.</i></p> <p><i>Rachel's clients include international public and private companies, charitable organizations, senior executives and insolvency practitioners. Working in close connection with the firm's Corporate and Commercial Team, Rachel advises on employee issues arising from mergers and acquisitions and corporate re-organizations. She also works with insolvency practitioners providing advice on dealing with employees of insolvent companies, and represents clients in Employment Tribunals in respect of statutory and breach of contract claims and in the High Court dealing particularly with the enforcement of post-termination and confidentiality obligations.</i></p> <p><i>Rachel advises a diverse group of employers, large and small, on restructuring, outsourcing and supports the Corporate Team on mergers, acquisitions and disposals, to acting for both employers and senior executives in all types of Tribunal Claims (particularly whistleblowing claims) to High Court actions, dealing with breaches of fiduciary duties, shareholder disputes, enforcement of restrictive covenants and bonus claims. She also advises on partnership disputes.</i></p>
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## Abstract

*In general, an employer is taken to own any intellectual property that is created by an employee in the course of their employment, but what is meant by work created “in the course of employment” and is it the same meaning for patents, copyrights, database rights and designs?*

## “in the Course of Employment”

The Patents Act 1977 s.39 provides that an invention belongs to the Employer where an invention is made either in the course of the Employee's normal duties or where, although the duties which fall outside normal duties, they have been specifically assigned to the Employee and in either case where an invention might be expected to result.

In all other circumstances, the invention belongs to the Employee. Whilst at first blush this may seem straightforward, this is not always so.

In a leading case of *Harris v Patent* (1985)(RPC19), this law was dissected into its constituent parts by the Court, holding that it must have been reasonably expected that the performance of the duties, that is, either normal duties or those specifically assigned to the Employee, in both cases might result in “an invention” such as the one in fact made although not necessarily that precise invention.

This means that each case turns on what were the Employees “normal” or “specifically assigned” duties. Where there is a detailed written job description and job title, these can become key components in determining the outcome. Mr. Harris was employed as a Sales Manager at a valve manufacturing business. He was told he was being made redundant. During his notice period he devised an improved version of the Company’s valve and applied for a patent. He did not have a written contract of employment to clarify his normal duties and there was no evidence of any specifically assigned duties that might have involved inventing. The Judge found that whilst employed as a Sales Manager, he had not been employed to design and invent as part of his normal duties. Accordingly, the Judge found that s.39(1) did not apply.

The Judge then went on to consider whether s.39(1)(b) applied, which he broke down into two parts:

1. Was the invention made in the course of the Employee’s duties, whether or not these were normal duties; and
2. At the time of making the invention, was the Employee under a special obligation to further the interests of the Employer’s business.

Whether a special obligation arises will depend upon the status of the Employee. For example, a distinction can be drawn between a Managing Director or Director who owes fiduciary duties to the company and is under a special obligation to further the interest of his Employer’s business, and a Sales Manager like Mr. Harris who is more likely to owe the lesser duty of fidelity on not under the special obligation.

By way of contrast, in the case of *Alexander F Ritchie v Envireneer (Marine Cranes) Limited*, the Employee was employed as an Engineering Projects Manager. His invention related to lifting equipment. It was found his skills were such that it might reasonably be expected that an invention could result from carrying out his duties in the course of a special assignment.

## **Patents**

Patents give their owner the exclusive right to use and exploit the invention. The Employer will be the owner of inventions made by their Employees made “in the course of employment” as set out above.

If more protection is required by the Employer, it should look to import express contractual terms into the employment contract.

An agreement to assign statutory rights in inventions not yet created by Employees is unenforceable. It is therefore important to incorporate a contractual term into the employment contract, with a specific provision for the Employee to enter into a written assignment soon after an invention has been made.

### **Copyright**

Generally, the author or creator of the work is the owner of copyright, but not where the author is an Employee and the work is literary, dramatic, musical, artistic or film and unless otherwise agreed, the copyright vests in the Employer where the work is created “in the course of employment”.

This does not apply to sound recordings or broadcasts. If the Employer wants to own the copyright in these, an express assignment should be drafted into the employment contract. The provision can include copyrights and future copyrights in work not yet created.

### **Database rights**

Databases are defined as a “collection of independent works, data or other materials which are arranged in a systematic way and are individually accessible by electronic or other means”.

The maker of a database is the owner of the database rights in it and the Employer is regarded as the maker of a database made by an Employee “in the course of employment”, subject to any agreement to the contrary.

In the case of *PennWell Publishing UK Limited v Ornstein* (2007) (EWHC1570(QB)) the Judge considered the ownership of contact databases held on an Employer’s system where there is no express agreement regulating ownership. He said:

“I am satisfied that where an address list is contained on Outlook or similar programme which is part of the Employer’s email system and backed up by the Employer or by arrangement made with the Employer, the database or list of information will belong to the Employer. I do not consider that position will change where the database is accessed not from the Employer’s computer but from the Employee’s home computer by “dialling up” or otherwise “logging on” to the Employer’s email system by some form of remote access.”

A modern problem can arise with Employees and databases where an Employee is dismissed and then seeks to use a database of contacts he or she has built up for the purpose of their work using social media e.g. LinkedIn.

### **Designs**

Where an Employee creates a design that qualifies for registration in the course of employment, the Employer is entitled to apply for and subsequently own the UK registered design.

The Employer is also the owner of any UK unregistered design right in designs created by its Employees “in the course of employment”.

The statutory test of the meaning “in the course of employment” is the same as for copyright.

### **Trademarks**

The Trademarks Act 1994 does not deal expressly with ownership of trademarks as between an Employer and Employee. If an Employer can satisfactorily demonstrate to the Trademarks Registry that a pending application has been wrongfully applied for by an Employee trying to appropriate the Employer’s brand, then the application would be rejected. In the UK, this is done either on the basis that the application was made in bad faith, or where the Employer has already built up a reputation in the market on the basis of the Employee’s prior passing off of rights.

If an application has been granted the Employer or Registrar can apply to have it invalidated, relying on the same grounds.

### **Contract**

Although the Employer has statutory rights, generally speaking it is far more straightforward to enforce contractual rights, so ideally employment contracts will contain specific terms relating to intellectual property rights.

Breaches of the statutory rights or contractual rights normally entitle the owner to bring a claim seeking an injunction to prevent future use and to recover compensation and costs.

### **Know-How and Confidential Information**

There is no statutory protection of Know-How and Confidential Information, so Employers will have to look to contractual rights. These can be implied or express. Employees owe their Employer’s implied duties of confidence and fidelity. Employees who are also Directors owe an additional fiduciary duty; that is to act in the Company’s best interests. These implied duties are breached where for example:

1. An Employee sets up in competition with their Employer having copied and taken with him the Company’s database of customers for use after termination;
2. A former Director seeks to exploit what was a maturing business opportunity for the Employer.

An Employee is bound not to use or disclose confidential information gained in the course of his employment and during his employment, but after the termination of employment, the implied duty only extends to trade secrets; that is information by its nature highly confidential, such as chemical formulae, designs, secret recipes or special methods of construction.

An Employee is entitled to retain and use information that is part of his own skill and knowledge required and applied during employment and after the employment has ended.

It is therefore advisable to have express contractual terms protecting confidential information supported by post termination restrictive covenants. Post termination restrictive covenants are susceptible to being held unenforceable where they seek to restrict the Employee's activities that go beyond protecting the business's legitimate business interests.

It is also advisable for the contract to include a payment in lieu of notice clause, where the Employer wants to terminate the contract immediately but without causing a breach of the contract. With regard to enforcement of post termination restrictive covenants, if an injunction is required two of the requirements are that there has been no delay by the Employer and that there has been no material breach of the contract by the Employer. This means where there is an immediate termination of the contract by the Employer (save for gross misconduct), and where there is no pay in lieu clause in the contract, there will be a material breach of the employment rendering the post termination restrictive covenants unenforceable.

An Employer can often effectively protect its interests by self-help, by putting an Employee on Garden Leave with no right to contact customers giving it the opportunity to secure customer relationships by replacing them with loyal employees. There needs to be an express clause to cover the right to place an Employee on Garden Leave.

### **Summary**

When preparing employment contracts, consider the following drafting points:

- Focus on Job Title and Job Description as useful tools in seeking to establish that inventions or works created by an Employee have been created "in the course of employment".
- Provide for the assignment and a Power of Attorney in respect of various rights and a provision to disclose any inventions made during the course of employment.
- Include post termination restrictive covenants that should be carefully drafted to be tailored to the legitimate business interests to be protected so that they are not too widely drawn to maintain enforceability.
- Include an express Garden Leave clause.
- Include a Payment in Lieu of Notice clause.