

English Court Analyses Test Applicable in UK Patent Ownership Disputes Between Employers and Employees—in a Dispute about US Patents

In a recent case, which arguably spells better news for employers than employees, the English Court of Appeal has undertaken a detailed examination of the law relating to the ownership of inventions developed by employees in the UK. Interestingly, the patent applications in issue in *LIFFE Administration and Management v Pavel Pinkava and others*¹ were United States patent applications, the inventions themselves being non-patentable “business methods” within the UK.

Background

It is perhaps unfortunate that the test for determining whether it is an employer or an employee who owns an intellectual property right depends on the right itself.

The test for ownership of copyright is fairly straightforward to state (although disputes are still not uncommon): an employer will own all copyright in works created by an employee in the “course of his employment”². This can, and often is, extendable (within reasonable limits) by the employment contract³.

The test for ownership of patentable inventions, however, is more complex. Under section 39(1) of the Patents Act 1977, paragraph (a) of which was the provision under issue in this case, an employer will own the invention if:

- the invention arises from an employee’s “normal duties” or duties “specifically assigned” to the employee and (in either case) an invention might reasonably be expected; or
- 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.⁴

Otherwise, the employee would own it even if made at work! Unlike with copyright, it is not possible to contract for the employer to have greater rights in the employment contract itself.

The case provides a helpful clarification of patent law in this area and a discussion of some of the factors relevant to the question of whether the circumstances are such that an invention can reasonably be expected to result from the normal or specifically assigned duties of an employee.

¹ *LIFFE Administration and Management v (1) Pavel Pinkava and (2) De Novo Markets Limited* [2007] 4 All ER 981.

² Section 11(2) of the Copyright, Designs and Patents Act 1988.

³ For example, employers may put into their employment contracts provisions which provide that they would own any work made during the term of employment but related to the business (even if not strictly “in the course of employment”).

⁴ This section was not discussed in the *LIFFE* case and at first read, it is difficult to see how it differs from section 39(1)(a). It is likely that the “special obligation” will come with seniority but it will probably be a question of fact in each case whether a particular employee is in the position of being under a “special obligation”. Interestingly, those most likely to owe a special obligation (company directors) will not necessarily be employees and will not therefore be covered by section 39.

It also clarifies that even when the patent is outside the UK (indeed, not patentable in the UK and probably the remainder of Europe), who owns the patent is determined by the Patents Act 1977 if the employee was mainly employed in the UK.

Facts

The case centred on a series of inventions developed by Dr Pinkava in July 2004 whilst he was employed by LIFFE, the operator of the London Futures Exchange. The inventions permitted the trading on electronic exchanges of various financial instruments that had not previously been so traded by, in essence, making various types of swaps and other derivative products mimic the structure of futures.

Dr Pinkava was employed by LIFFE as a manager in its Interest Rate Product Management Team in July 2001. Dr Pinkava's job description (drafted approximately a year after his employment with LIFFE commenced) included "support the Director – Interest Rate Products and Marketing Executives – Interest Rate Products, in promoting and recommending enhancements as well as new products/services where appropriate to maximise sales volumes and revenues".

In December 2003 Dr Pinkava was asked to research the activities of competitors of LIFFE in relation to the creation of an exchange tradable credit derivative contract. This request was made in the context of a desire by JP Morgan to launch an exchange tradable credit derivative contract based on the TRAC-X index⁵. Due to a shift in internal priorities at LIFFE, the project was subsequently put on hold.

On 1 July 2004 Dr Pinkava attended a conference relating to future and options. It was a presentation given by one of the speakers at the conference that triggered the idea behind Dr Pinkava's inventions. In September 2004 Dr Pinkava was promoted to Senior Manager, and in December of the same year he received a performance review that acknowledged his role in the development of an exchange tradable credit derivatives contract.

LIFFE asked Dr Pinkava's to consent to applications for US patents⁶ being filed in his name and then

⁵ A credit derivatives index created by JP Morgan and Morgan Stanley with Dow Jones

⁶ The inventions which Dr Pinkava had developed were, under section 1(2) of the Patents Act 1977, not to be regarded as inventions and were consequently not capable of achieving patent protection in the UK

assigned to LIFFE⁷. In January 2005 Dr Pinkava was advised that the inventions properly belonged to him, and in April 2005 Dr Pinkava submitted the four US patent applications that were the subject of the proceedings.

LIFFE commenced proceedings against Dr Pinkava claiming that they were the proper owners of the inventions and the patent applications filed by Dr Pinkava. Dr Pinkava subsequently made an application⁸ for a declaration that it was he who was the proper owner of the inventions and patent applications.

The proceedings were heard in the High Court in early 2006. The judge, declared LIFFE to be the owner of the inventions and the resulting US patent applications.

The Court of Appeal's Decision

Having lost in the High Court, Dr Pinkava appealed. The leading judgment was given by The Chancellor of the High Court (Sir Andrew Morritt CVO) and considers the three limbs of section 39(1)(a) separately.

Normal Duties

Dr Pinkava argued that "normal duties" equated to the day-to-day or primary duties of an employee. LIFFE submitted that "normal duties" were those stipulated in the employee's employment contract as well as those duties not stated in the initial employment contract but which develop overtime to become part of the employee's "normal duties".

The Chancellor was of the view that, when determining what an employee's normal duties were, it was necessary to appreciate the evolutionary nature of those duties. It was not right to say that any duties that differed to those set out in the initial contract of employment were necessarily "specifically assigned" as opposed to "normal" duties – the scope of duties undertaken by the employee could expand or contract.

On the facts, it was held that during his employment with LIFFE, Dr Pinkava's normal duties had evolved such that by the beginning of 2004 the development of a credit derivatives product formed part of such duties.

⁷ Unlike in the UK, in the US the inventor (even if an employee) must be the first applicant for a patent.

⁸ Under section 12 of the Patents Act 1977

Specifically Assigned Duties

As the Court had found that the inventions were created in the course of Dr Pinkava's normal duties, the issue of whether the inventions were created in the course of duties specifically assigned to him became irrelevant. However, taking the assumption that the Court had concluded wrongly on the issue of normal duties, the Chancellor considered that the creation of an exchange tradable credit derivative would have been a duty specifically assigned to Dr Pinkava.

Reasonable Expectations

As set out above, even if the inventions were developed by the employee during the course of his normal or specifically assigned duties, they will only be owned by the employer if the circumstances are such that an invention might reasonably be expected to result.

Dr Pinkava argued that this limb of section 39(1)(a) meant that there must have been a reasonable expectation that the *actual* invention developed by the employee would result. This argument was rejected by the Court, stating that if the actual invention could reasonably have been expected to result, it was very unlikely to have been inventive or novel and would therefore be unlikely even to qualify for patent protection. In addition, adopting this interpretation would involve re-writing the statute in a way which would deprive it of sensible meaning.

Dr Pinkava also sought to rely on the decision of the court in *Harris' Patent*⁹, in which it was said that the relevant wording in section 39(1)(a) must be referring to an invention which achieves or contributes to achieving whatever the aim or object to which the employee's efforts in carrying out his duties were directed. Again the Court rejected this submission and disapproved *Harris' Patent*. The Chancellor said that the Act laid down the test to be applied and he saw no reason to add further conditions or qualifications to the statutory test.

One of the other judges, Jacob LJ, thought that that the third limb of section 39(1)(a) was "particularly incompetent wording" – use of the phrase "reasonably expect" was not appropriate and what the section must be getting at is the hope of an invention. Jacob LJ's view was that the requirement would be satisfied if the employee was employed to innovate (it must be remembered that this limb only falls to be considered if the invention was made during the course of normal/specifically assigned

duties of the employee, and if these duties don't involve innovation or development, it is arguable that there can be no "reasonable expectation").

In the circumstances, the appeal Court upheld the findings of Kitchin J.

Application of the Patents Act 1977 to US Patents the subject matter of which is not patentable in England

Although the parties did not take any point on this issue, in his judgment Jacob LJ raised the point that none of the inventions developed by Dr Pinkava were to be regarded as inventions under the Patents Act 1977, as they were simply methods for doing business which are not generally patentable in the UK¹⁰. Jacob LJ thought that there was an argument that section 39 did not apply at all to the case; section 39 dealing with ownership of "inventions" and section 1(2) saying that these innovations were not "inventions". He concluded that the parties were probably right to agree that these rules did apply as the exclusion only relates to what are *patentable* inventions rather than what are inventions. The ownership of the underlying inventions, whether patentable under the Patents Act 1977 or not, could still be determined under section 39.

Conclusion

The case is interesting not only because it clarifies the position on when an employee might own an invention but also because it dealt with the ownership of US patent applications, indeed when the inventions could not have been patented in England.

The case also makes it clear that section 39 alone determines the ownership of employee inventions and that contractual provisions are irrelevant to ownership. Nonetheless, it is common to include ancillary provisions in employment contracts – such as contractual obligations to disclose an invention (whether or not it would be owned by the employer or the employee) and to assist the employer with obtaining protection for the invention or to vest the legal ownership of the invention in the employer, including obligations to join in patent applications as necessary. It may also be sensible to include in the employment contract a list of duties which the employee is expected to undertake during the course of his employment. Although it is clear from the decision in *LIFFE* that such a list will by no

⁹ *Harris' Patent* [1985] RPC 19

¹⁰ Section 1(2)(c)

means be determinative of what the employee's duties were at the time an invention was created, it may be a useful starting point.

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