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The Ownership of Intellectual Property, Key Risks, and Common Pitfalls

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On 13 August 1813, Thomas Jefferson wrote a letter to Isaac McPherson which stated.

If nature has made any one thing less susceptible than all others of exclusive property, it is the action of the thinking power called an idea, which an individual may exclusively possess as long as he keeps it to himself; but the moment it is divulged, it forces itself into the possession of every one, and the receiver cannot dispossess himself of it. Its peculiar character, too, is that no one possesses the less, because every other possesses the whole of it. He who receives an idea from me, receives instruction himself without lessening mine; as he who lights his taper at mine, receives light without darkening me.

That ideas should freely spread from one to another over the globe, for the moral and mutual instruction of man, and improvement of his condition, seems to have been peculiarly and benevolently designed by nature, when she made them, like fire, expansible over all space, without lessening their density in any point, and like the air in which we breathe, move, and have our physical being, incapable of confinement or exclusive appropriation. Inventions then cannot, in nature, be a subject of property.

Society may give an exclusive right to the profits arising from them, as an encouragement to men to pursue ideas which may produce utility, but this may or may not be done, according to the will

and convenience of the society, without claim or complaint from anybody. Accordingly, it is a fact, as far as I am informed, that England was, until we copied her, the only country on earth which ever, by a general law, gave a legal right to the exclusive use of an idea. In some other countries it is sometimes done, in a great case, and by a special and personal act, but, generally speaking, other nations have thought that these monopolies produce more embarrassment than advantage to society; and it may be observed that the nations which refuse monopolies of invention, are as fruitful as England in new and useful devices.

As referred to in the extract, as ideas and the intellectual property which is derived from them are, by their very nature, intangible, the legal ownership of such rights is often more complex than physical property. As Thomas Jefferson wrote, the exclusive rights which the law attaches to intellectual property are very beneficial. As a result, the law of intellectual property and by virtue of its nature, its ownership as property, has existed in many jurisdictions, particularly England, for centuries. Consequently, the current law on the ownership of intellectual property in England is well established. As Thomas Jefferson identified, once intellectual property is made public, it is known to all. As a result, claiming ownership of intellectual property and enjoying the benefits of ownership of such rights is a key issue.

The purpose of this article is not to explore whether intellectual property should be capable of ownership, but rather exploring the key risks and common pitfalls which IP rights holders and legal advisors should be aware of so as to ensure a rights holder is able to enjoy the full benefit of their IP.

The Ownership of Intellectual Property

Although the various different types of intellectual property rights are often treated collectively under the umbrella of "intellectual property", under English law, the ownership of each of the different types of

intellectual property law is governed by separate statute or common law rules. As a general starting point, intellectual property rights are personal property and this is reflected in the statutes governing each of the different forms of intellectual property. By way of an example, section 30(1) of the Patents Act 1977 states that "*any patent or application for a patent is personal property*" and section 22 of the Trade Marks Act states that "*a registered trade mark is personal property*".

When considering the ownership of intellectual property, the first point to consider for each of the intellectual property rights is who is the first owner of the intellectual property right in question. Again, the law for each of the intellectual property rights needs to be considered separately.

With regard to patents, the rules setting out eligibility for first ownership are set out in section 7(2) of the Patents Act 1977. In short, the inventor, being the actual deviser of the invention, is eligible to be the owner of a granted patent. This is, however, subject to any agreement to the contrary, for example, the contractual relationship between an employee and an employer.

The law governing registered designs is similar pursuant to section 2 of the Registered Designs Act 1949; the author, that being the person who creates the design, is the original proprietor of the design. Pursuant to section 3(3) of the Registered Designs Act 1949, an application for a registered design is to be made by the person claiming to be the design owner.

In relation to trade marks, the owner of a trade mark is the applicant for the trade mark registration. This is a procedural question regarding the trade mark application itself. Although ownership of a trade mark is governed by the application process, an applicant for a registered trade mark needs to ensure that it is not filed in bad faith. For example, an employee who applies for a trade mark based upon a new brand which they have been working on for their employer is liable to have their trade mark invalidated for being in breach of the absolute grounds as set out in section 3 of the Trade Marks Act 1994.

Finally, in respect of copyright, in accordance with section 11(1) of the Copyright, Designs and Patents Act 1988, the author of a work is the first owner of the arising copyright. As with designs, the author is the person who creates the work. The Copyright, Designs and Patents Act 1988 contains similar rules for UK unregistered designs which are set out at section 215 and state that the designer is the first owner.

The legal position in respect of first ownership is important to bear in mind when considering the ownership of intellectual property. First ownership is relevant in a number of scenarios, for example the

enforcement of intellectual property and the acquisition of intellectual property. Therefore, establishing a clear chain of title is important.

Altering the Default Statutory Position

Once the first ownership of intellectual property rights has been established, consideration must be given as to whether the statutory position of first ownership has been altered and a new owner established. There are a number of scenarios when the statutory position is altered which rights holders and advisors need to be mindful of.

Employees

Under English law, as a general rule, intellectual property which is generated by employees is owned by their employer. This presumption favors the employer and is in my view, beneficial to the functioning of business generally. There are, however, a number of exemptions and rules which advisors need to be mindful of. As with the rules on first ownership, the various statutes governing the rules for the intellectual property rights are set out in each of the intellectual property statutes.

Firstly, in respect of patents, section 39 of the Patents Act 1977 sets out the rules governing the ownership of employee-generated inventions. It is a common pitfall to assume that all patentable inventions which are derived from employees are automatically owned by the employers. However, compared to the other intellectual property statutes, the law in relation to employee-owned inventions includes a number of nuances. The starting point is section 39(1) of the Patents Act 1977 which states that an invention made by an employee shall belong to the employer provided that "*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*" or the invention was made in the employee's course of duties and at the time of making the invention the employee had a "*special obligation to further the interests of the employer's undertaking*". Although the statutory position favors the employer, it is readily foreseeable that an invention may be created by an employee outside of the above requirements. The typical example when considering the application of this statutory provision is an invention created by an employee outside of working hours, at home and applicable to a different sector. In this scenario, an

employee could quite rightly claim that the invention and therefore right to apply for a patent would vest with them alone. Therefore, advisors should be mindful of these exceptions.

In addition to section 39, section 40 of the Patents Act 1977 must also be considered. Under section 40, the Court or the comptroller of patents may award compensation to an employee who devises an invention which, taking into account the size and nature of the employer's undertaking, is of "outstanding benefit" to the employer. The amount of compensation to be awarded is determined in accordance with the rules set out in section 41. The application of section 40 has been limited in the English Courts and there are only a handful of cases where the employee has been successful.¹ Advisors and employers, however, should be mindful of these provisions and the rights which they grant to employees.

With regard to copyright, the presumption of employer ownership is clear. Under section 11(2) of the Copyright, Designs and Patents Act 1988 states that where a "*literary, dramatic, musical or artistic work or a film, is made by an employee in the course of his employment, this employer is the first owner of any copyright in the work subject to any agreement to the contrary*". As with patents, however, advisors need to be aware of copyright which is generated outside the course of employment. This is a common scenario in certain industries and for certain job roles. For example, it is typical that a graphic designer may generate artistic works outside of their work and furthermore, they may commercialize these for their personal benefit. If there is no overlap between the employee's business and that of their employer then this is unlikely to create an issue. However, where there is an overlap or if the employee has a specific art style which they use for both work and in their personal capacity then this is likely to create tension.

The position for UK unregistered designs is the same as copyright as pursuant to section 215(3) of the Copyright, Designs and Patents Act 1988, where a design is created by an employee in the course of their employment the employer is the first owner. The same rules apply to UK registered designs (*see* section 2(1B) of the Registered Designs Act 1949).

In contrast to the other intellectual property rights, there are no express provisions in the Trade Marks Act 1994 in relation to trade marks. As referred to above, however, where a trade mark is filed by an employee, an employer is able to challenge the validity of the trade mark application on the grounds of bad faith.

The above requirements must be taken into consideration when examining the issue of employee derived intellectual property. Whilst the statutory

position favors the employer, there are exemptions to be aware of and in order to avoid the associated risks, robust employee service contracts together with policies and procedures must be implemented. A related point to consider is whether the individual concerned is in fact an employee. Whether an individual is an employee is a legal question which is subject to well established principles under English law. If an individual is not in fact an employee but rather is a consultant, then the corporate entity will not enjoy the benefit of the statutory position and the ownership of arising intellectual property will be governed by the rules of first ownership. This is a key area which advisors need to be mindful of.

Contractual Arrangements

As referred to above in relation to first ownership, the presumption of first ownership can be altered by agreement. This applies to patents, copyright and UK unregistered designs. This is helpful as it enables a commissioning contract with a third party to expressly deal with the ownership of arising intellectual property before such intellectual property is created. However, when reviewing an agreement which will, or is likely to, generate intellectual property it is key to ensure that the ownership of such intellectual property is dealt with. In the event it is not adequately or clearly dealt with in the contract, it can lead to a disagreement between the contracting parties over who owns the arising intellectual property.

Co-Ownership

A further way in which the statutory position of ownership can be altered is through the co-ownership of intellectual property. The co-ownership of intellectual property is often proposed when intellectual property is jointly developed. There, however, are a number of complications which arise when intellectual property is jointly held and these are best to be avoided if possible.

As with all issues of ownership, it is important to consider the rules for the particular intellectual property right in question. A common theme across the different intellectual property rights, however, is that the joint proprietors of an intellectual property right have an equal undivided share. As a result of this, complications arise when dealing with the practical issues associated with the joint ownership of intellectual property. For example, both co-owners need to consent to the grant of licences or the assignment

of the intellectual property right. Furthermore, when seeking to bring an infringement claim, there are specific requirements which need to be taken into consideration for each of the intellectual property rights. In light of the above, where the interests of the joint owners are aligned then this does not create any issues. However, in the event that the joint owners have a disagreement, this can frustrate the plans of one of the parties.

The Practicalities of Intellectual Property Contracting

As stated above, the first ownership of intellectual property rights can be displaced by contract. Furthermore, when dealing with intellectual property rights as assets, they frequently form the key part of contractual dealings. There are a number of key issues and risks which advisors need to consider when dealing with such contracts and advisors must ensure that they do not overlook the required formalities of such contracts.

In respect of assignments of intellectual property, the formalities for each of the intellectual property rights must be considered. A universal requirement for all of the intellectual property rights, however, is that the assignment must be in writing and it shall be considered void unless it is in writing and signed by the assignor. This requirement is set out in each of the various intellectual property statutes. With regard to patents, the requirement is set out in section 30(6) of the Patents Act 1977. The rules for trade marks are the same and this is governed by section 4(3) of the Trade Marks Act. In relation to copyright, the provision governing this requirement is section 90(3) of the Copyright, Designs and Patents Act 1988. Finally with regard to designs, pursuant to section 15B of the Registered Designs Act 1949, and section 222(3) of the Copyright, Designs and Patents Act for unregistered UK designs, an assignment is not effective unless it is in writing.

The requirements for a valid assignment are important to bear in mind as whilst the parties may intend for an assignment to take place, in the absence of an express contractual wording and a signature of the assignor, no effective assignment will legally take place.

Although this requirement for an assignment is universal, there are specific provisions for each of the intellectual property rights which need to be considered.

An assignment of a patent may confer on the assignee the right of an assignor to bring proceedings for a previous infringement of the patent. However, such a right will only be conferred if the assignment is expressly provided for. This is a key issue to bear in mind when dealing with an assignment as if an assignee becomes aware of a pre-dating infringement of a patent after an assignment has taken place then the assignment will only grant a right of action in relation to acts of infringement which have taken place after the date of the assignment. Whilst this will not prevent an assignee from taking action against an infringing party, this will limit the assignee's ability to claim relief in respect of any infringement which took place before the date of the assignment.

In terms of trade marks, an assignment of a trade mark will not include the goodwill associated with the trade mark unless this is expressly stated to be the case in the assignment. The goodwill associated with a trade mark is vital to consider as this goodwill will form the basis for any action in passing off which may be commenced for the brand. It is important to remember that an action for passing off has a different scope to a trade mark infringement claim so ensuring ownership of the goodwill associated with the brand is important. A number of cases have considered the issue of goodwill and they are outside the scope of this article. However, so as to avoid any complex dispute relating to the ownership of such goodwill, it is advisable to ensure the assignment of the trade mark expressly includes the goodwill. An additional point to consider is the recent amendment to the Trade Marks Act 1994. Section 24(1A) states that where there is a contractual obligation to transfer a business, it shall be deemed to include an obligation to transfer any registered trade mark, except where there is an agreement to the contrary. This is a logical addition to trade mark law and is helpful for the acquisition of trade marks. Notwithstanding this, ensuring a clear contractual position is the preferred option.

In respect of copyright, a key point to consider is that the assignment must expressly state that the copyright which vests in the work throughout the world is covered by the assignment. In the absence of such wording, the scope of the assignment may be unclear and furthermore, ownership of the copyright throughout the world may fracture. Finally, a useful mechanism which applies to copyright and unregistered design rights is that future rights can be assigned. This is governed by Section 91 of the Copyright, Designs and Patents Act 1988 for copyright and Section 223 of the Copyright, Designs and Patents Act 1988 for designs. The advantage of this

mechanism is that it allows contractual parties to validly assign legal title to copyright and unregistered design rights which do not yet exist and this prevents the need for a further contract to be executed. A classic example of this mechanism being used in practice is in the context of a commissioning contract for design services. The purpose of the contract is to generate materials which will likely attract copyright and/or design right protection and the contract for the provision of such services can validly assign the future rights before they exist.

In addition to considering the formalities associated with assignments of intellectual property, advisors need to be mindful of the requirements for the valid licensing of intellectual property. Licences are a very helpful mechanism by which to grant third parties a permission to use intellectual property rights and to commercialize these rights. The utility of licenses arise from their flexibility as a licence can carve up the usage of the intellectual property in various different ways, for example, by granting rights in specific territories, products, fields of usage and for a duration to be determined between the parties.

A key issue for advisors to consider is whether the licence is to be exclusive. The beneficiary of an exclusive licence in most instances enjoys rights which are akin to ownership. For example, under Section 67(1) of the Patents Act 1977, the holder of an exclusive licence of a patent shall have the same right as the proprietor of the patent to bring proceedings in respect of any infringement of the patent committed after the date of the licence. This is echoed across the differing statutes for each of the intellectual property rights.

Recording a transaction with the Intellectual Property Office

A requirement which must not be overlooked is recording the transaction which has taken place with the Intellectual Property Office. This is critical as failure to record a transaction can severely diminish the rights of the beneficiary of the transaction. There are two principle ways in which this can apply.

First, failure to record the transaction can result in it being non-binding. Under section 33(1) of the Patents Act 1977, if a person claims to have acquired a patent, they shall be entitled as against any other person who claims to have acquired the patent by virtue of an earlier transaction to take full ownership of the patent if at the time of the later transaction,

the earlier transaction was not registered. This is mirrored in the Trade Marks Act 1994 and pursuant to section 25(3), if the registerable transaction has not been recorded then the transaction is ineffective as against a person acquiring a conflicting interest in or under the registered trade mark in ignorance of it.

Second, failure to record a transaction can impact the ability of the rights holder to claim damages for an infringement claim. By way of an example, pursuant to section 68 of the Patents Act 1977 and section 25(4) of the Trade Marks Act 1994, if a party which is the beneficiary of a registerable transaction brings an infringement claim then, the court will not award costs unless the application for recording the transaction was made within six months from the date of the transaction.

Furthermore, it is important to ensure that licenses are recorded as failure to do so can impact upon the rights of the licensee. By way of an example, the limitations on recovery of costs applies to the recording of exclusive licenses and action being taken by an exclusive licence. In addition, failure to record a licence can result in it not being binding upon a successor in title for the underlying intellectual property. For example, pursuant to section 90(4) of the Copyright, Designs and Patents Act 1988, a licence granted by a copyright owner is binding upon every successor in title to his interest in the copyright, except a purchaser in good faith for valuable consideration and without notice of the licence.

Third-Party Interests

So that intellectual property rights may be commercialized, it is commonplace for third parties to be granted an interest in or to them. An example of this is a licence as discussed above. It, however, also includes security interests, such as a charge by a lender. Therefore, as an advisor, it is critical to ensure that they review the public register for registered intellectual property which may be the subject of a transaction to ensure that it is free of third party interests. In the event that the subject matter of a transaction is an unregistered intellectual property right then without the benefit of a public record, it is critical to engage with the rights holder to ascertain whether there are any third party interests.

Conclusion

As Thomas Jefferson commented, intellectual property rights are intangible rights. As a result,

the law of their ownership has had to develop to ensure that there are clear rules which govern the ownership of property which is not physical. Whilst many of the principles of ownership apply to each

of the different intellectual property rights, it is key to be mindful of each of the risks and common pitfalls which the different intellectual property rights present.

1. See *Kelly v GE Healthcare [2009] EWHC 181 (Pat)* and for the most recent case considering this issue, see *Shanks v Unilever Plc [2019] UKSC 45*.

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