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HHJ Hacon decides ownership of Virtual Forensic Computing software created during course of employment.

Penhallurick v MD5 Limited [2021] EWHC 93 (IPEC) 15 February 2021

This case demonstrates the importance of understanding how work undertaken for an employer shapes copyright ownership and, ironically, given today's working conditions, that work done at home does not automatically exclude it from being work undertaken in the course of employment. The trial was heard in early July 2020.

The case involved a copyright claim made by Michael Penhallurick against his former employer, MD5 over Virtual Forensic Computing ("VFC") software. Mr Penhallurick spent an extensive amount of time developing VFC software whilst at university and continued to do so up to and throughout his employment with MD5, which started in November 2006. He claimed copyright ownership over eight works related to the VFC technique, five of which MD5 had offered and sold since 2007.

VFC is a software that allows for data to be retrieved from a computer's hardware and operating system without the risk of corrupting any of the contents. It is a key software utilised by the police who do not wish to compromise a prosecution by damaging evidence.

The key component of this trial was how the development of the VFC software and agreements between the parties shaped copyright ownership of the works.

Creation of the Works

Mr Penhallurick claimed that he owned the copyright because he had spent a substantial amount of time developing the VFC methodology and software, often working outside normal hours at home or even using a personal device within the office. This raised the factors listed in *Mei Fields*^[1] with potential to shape copyright ownership for works created during the course of employment.

However, the judge considered that this was not a case where the *Mei Fields* factors were important because it was evident the development of VFC software was a central task of Mr Penhallurick's employment. This meant that more weight was placed on the agreements between the two parties when determining copyright ownership.

The Agreements

There were multiple agreements in dispute. The first, a backdated employment contract, referred to as "the 2006 Agreement" was executed in early 2007 when Mr Penhallurick entered full-time employment, having previously started in November 2006 on a three-month basis. In March 2007, MD5 began to offer and sell the VFC software. This agreement filtered into the subsequent one.

Following successful sales of VFC software "the November 2008 Agreement" was entered into agreeing to give Mr Penhallurick a 7.5% annual bonus from the sales and that MD5 was sole owner of the software. The judge's analysis of this agreement led him to hold that it applied to ownership of the copyright. Mr Penhallurick was performing his role as an employee of MD5 so the agreement consolidated MD5's ownership in writing. The judge held the same view for a further agreement from 2011.

The final agreement, "the 2016 Agreement", was executed following Mr Penhallurick's resignation. In it MD5 agreed to pay £5,000 a month in return for Mr Penhallurick offering support services for any VFC issues, such as answering licence holder queries. These payments stopped in January 2018 resulting in the claim that MD5 had breached the contract. However, MD5 counter-claimed that Mr Penhallurick had failed to uphold his end of the agreement with poor support service.

It was debated whether this was a consultancy agreement or an exclusive licence

agreement but finally held to be the latter, covering the underlying methodologies and not the software, it having been entered into on the understanding of a licence being necessary to allow MD5 to continue to commercialise VFC. Although MD5 owned the copyrighted software, Mr Penhallurick owned the copyright in the VFC methodology. Once the payments ended, the agreement was terminated, as was agreed when it was entered into. This put to rest both the claim of breach of contract and, because the judge also held that Mr Penhallurick had provided the support agreed, there was no breach there.

Result

Of the eight Works, the First and Second were considered irrelevant to Mr Penhallurick's claim: having been produced before his employment they were excluded. The Third to Eighth were found to be owned by MD5. Therefore, both Mr Penhallurick's claim and MD5's counterclaim were dismissed save for MD5's entitlement to a declaration of ownership over the Third to Eighth Works.

Written by Drew Layton.

[1]Mei Fields Designs Ltd v Saffron Cards and Gifts Ltd [2018] EWHC 1332 (IPEC) [42]