

**IN THE EMPLOYMENT COURT OF NEW ZEALAND
CHRISTCHURCH**

**I TE KŌTI TAKE MAHI O AOTEAROA
ŌTAUHAHI**

**[2020] NZEmpC 144
EMPC 305/2019**

IN THE MATTER OF	a challenge to a determination of the Employment Relations Authority
AND IN THE MATTER	of an application for a stay of execution
BETWEEN	PATRICK MARTIN Plaintiff
AND	SOLAR BRIGHT LIMITED (IN LIQUIDATION) Defendant

Hearing: 5 August 2020
(Heard at Christchurch)

Appearances: Plaintiff in person
No appearance for defendant

Judgment: 9 September 2020

JUDGMENT OF JUDGE K G SMITH

[1] In a determination dated 7 August 2019 the Employment Relations Authority imposed a penalty on Patrick Martin for breaching his employment agreement with Solar Bright Ltd (in liquidation).¹ The penalty was reasonably modest, at \$2,000, and was payable within 28 days.

¹ *Martin v Solar Bright Ltd (in liquidation)* [2019] ERA 463 (Member Hickey).

[2] Mr Martin is dissatisfied with the determination and has challenged it because he considers he did not breach the employment agreement and his conduct did not warrant a penalty.²

[3] The liquidator of Solar Bright took limited steps in this proceeding, confined to consenting to the challenge continuing but on the basis that the issue was restricted to the Authority's decision to impose a penalty. Specifically, the liquidator did not consent to the Court considering ownership of intellectual property in two inventions central to the Authority's investigation. That stipulation was satisfactory to Mr Martin whose only interest was in seeking to have the penalty set aside and he conducted the proceeding on that basis.

[4] Mr and Mrs Martin issued proceedings in the Authority for unpaid wages and holiday pay and Solar Bright counterclaimed seeking a penalty. Both sides were successful. The Authority held that Mr and Mrs Martin were owed substantial sums. The combined total of Solar Bright's debt to them exceeded \$100,000. Solar Bright was successful because the Authority held that Mr Martin breached the employment agreement he had with it over the way he dealt with the company's intellectual property and imposed the now disputed penalty.

[5] The Authority's orders were not a surprise. Solar Bright acknowledged its indebtedness but had not paid because it was in financial difficulty. It was placed in liquidation on 4 April 2019, the day following the investigation meeting. A few days later, on 9 April 2019, the liquidator consented to the litigation continuing so that the Authority could determine the unresolved issues.³

[6] The Authority was unimpressed over what Mr Martin did with Solar Bright's intellectual property. It held he was in breach of the duty of fidelity he owed to Solar Bright and breached the employment agreement.

[7] The Authority's adverse findings about Mr Martin's behaviour arose from how he dealt with two inventions owned by Solar Bright, known as PATeye and DATAeye.

² An application to stay the penalty determination pending the challenge being heard was not pursued and Mr Martin has not been required to pay the penalty pending this decision.

³ Required by the Companies Act 1993, s 248.

PATeye was a road stud designed to detect ice and flash blue when it is present. DATAeye was designed to perform traffic counts and was capable of measuring the road surface temperature.

[8] Both PATeye and DATAeye were invented by Mr Martin. Solar Bright was incorporated to attempt to exploit the intellectual property in PATeye which the company acquired from Mr Martin. Investors were sought, and acquired, some of them becoming shareholders and directors in Solar Bright. Subsequently, while employed by Solar Bright, Mr Martin developed DATAeye.

[9] Before Solar Bright was placed into liquidation disagreements emerged between certain directors and shareholders. Those disagreements included one that led to litigation in the High Court, over how Mr Martin purported to transfer the intellectual property in PATeye back to himself.

[10] That transfer was carried out by a deed Mr Martin signed in January 2018. The company set aside the transaction by resolution followed by litigation in the High Court.⁴ The impugned transaction was preceded by an attempted alteration to Mr Martin's employment agreement with Solar Bright by removing a provision dealing with the ownership of intellectual property created during his employment.

[11] In November 2012 Mr Martin signed an employment agreement with Solar Bright that comprehensively dealt with the ownership of intellectual property as follows:

15. Intellectual Property

1. Any trademark, goodwill, patent, design or copyright work, procedure, process, formula, method of production, invention or other discovery created by you during your employment relating to the business of Solar Bright Ltd or capable of being used or adapted for use by Solar Bright Ltd, must immediately be disclosed to Solar Bright Ltd and shall be the absolute property of Solar Bright Ltd ("the Intellectual Property").
2. You will:

⁴ *Solar Bright Ltd v Martin* [2019] NZHC 447.

- a. Automatically transfer all of your rights in the Intellectual Property on creation to Solar Bright Ltd without the need for any further documentation; and
- b. Irrevocably waive all your moral rights in the Intellectual Property.

[12] In 2015, Mr Martin arranged for a replacement employment agreement to be entered into omitting any provision repeating cl 15 or that was to similar effect.⁵ Mr Martin was a director of Solar Bright when that happened. The Authority recorded an allegation by other directors of Solar Bright that the 2015 employment agreement was prepared in secret with the intention of depriving the company of its rights to the intellectual property it owned.⁶ The Authority rejected Mr Martin's response to those criticisms, which was that the change was made to align his agreement with the agreements of other staff.⁷

[13] The Authority also held that in February 2017 Mr Martin misled Solar Bright into believing that a patent for DATAeye was being applied for in its name. He had actually applied for the patent in his own name. At no time before Solar Bright's liquidation did he assign or transfer the intellectual property in DATAeye to Solar Bright. He did, however, offer to transfer it if certain conditions were met which will be discussed later.

[14] After reviewing those events the Authority made an order under s 161(qa) of the Employment Relations Act 2000 declaring that the intellectual property in PATeye and DATAeye belonged to Solar Bright. That decision was inevitable and is not disputed by Mr Martin.

[15] Confronted with this information the Authority was satisfied that a breach had occurred and a penalty was warranted. It concluded a penalty of \$4,000 would be appropriate, but reduced that sum to \$2,000 to take account of Mr Martin's financial circumstances.

⁵ *Martin v Solar Bright Ltd (in liq)*, above n 1, at [48].

⁶ At [49].

⁷ At [50].

[16] In this challenge Mr Martin did not attempt to overturn all of the findings of fact made by the Authority. While he was not satisfied with some of the Authority's conclusions the only issue was whether a penalty was justified. He did not attempt as an alternative to reduce the amount of the penalty.

Was a penalty justified?

[17] Mr Martin's argument to overturn the penalty falls into two parts. In the first part his case was that the Authority ought not to have made any decision relating to him about PATeye, because that subject was dealt with by the High Court.

[18] The second part was a contention that the Authority should not have imposed a penalty arising from his handling of DATAeye, because it wrongly assumed he had been attempting to withhold the intellectual property in that invention from Solar Bright. Mr Martin explained that he always intended DATAeye to be Solar Bright's property, but there was a legal requirement that the application had to be in his own name rather than the company's name. He said that his intention to transfer the intellectual property in DATAeye to Solar Bright was evident through emails, and other company documents, where he had unsuccessfully offered to transfer the intellectual property on several occasions.

[19] I do not accept either of Mr Martin's arguments. They overlook the fact that the Authority was considering a claim by Solar Bright that there had been a breach of the employment agreement because of his conduct relating to both inventions. In the context of the claim for a penalty, based on breaches of the employment agreement by Mr Martin, the Authority was entitled to consider how and why he dealt with both PATeye and DATAeye as he did.

[20] The outcome of the High Court proceeding between Solar Bright and Mr Martin does not assist his argument. The subject matter of the Court's judgment was confined to dealing with Solar Bright's resolution and the purported transfer of PATeye back to him. It did not decide any other matter connected with, or arising from, the way Mr Martin attempted to acquire PATeye. The employment relationship problem that self-evidently arose from the same transaction fell within the exclusive jurisdiction of the Authority and could not, in any event, have been included in the

matters decided by the High Court. It follows that the Authority was entitled to consider if a breach had occurred and, if so, whether a penalty was warranted.

[21] There are two problems with Mr Martin's explanation about DATAeye. The first is a wrong assumption by him that it was necessary for a provisional patent to be applied for or granted in his name as inventor, rather than in the company's name. The Patents Act 2013 allows for an inventor to be acknowledged in an application for a patent but does not require that application must be made or granted in his or her name.⁸ Regulation 50 of the Patents Regulations 2014 is to the same effect.

[22] The second problem is what Mr Martin actually did with DATAeye. He made more than one offer to transfer the intellectual property in DATAeye to Solar Bright. He sought to rely on those offers as demonstrating that the Authority was incorrect in attributing to him any intention to withhold DATAeye from the company and, presumably, there would consequently be no basis to conclude a breach had occurred.

[23] That argument ignores the fact that, in making his offers, he was effectively asserting rights to intellectual property he did not have. He was depriving the company of its property and attempting to use DATAeye in bargaining over control of the company. In one proposal he offered to assign the DATAeye intellectual property in exchange for an agreement to purchase shares he and his wife held in Solar Bright and payment of the unpaid or underpaid salary and holiday pay. In attempting to bargain in this way Mr Martin was, in fact, refusing to transfer the intellectual property unless an agreement was reached.

[24] In fairness, it is apparent that there were negotiations where various shareholder interests were attempting to buy out other shareholder interests, but the reality was that Mr Martin offered to return to the company its own property in exchange for a personal benefit. Eventually, Mr Martin offered to transfer DATAeye without any conditions attaching to the transaction but that is really immaterial. The

⁸ See Patents Act 2013, ss 31 and 22(1). Though the Act and Regulations refer to persons, companies may also be applicants for patents: see generally the patent application guidelines established by the Intellectual Property Office at <www.iponz.govt.nz>.

transaction was not given effect to and he had been declining to transfer DATAeye for some time by then.

[25] The intellectual property in DATAeye did not belong to Mr Martin and could not be dealt with by him as he tried to do. Even if he is correct that the patent application needed to be in the name of the inventor, that did not justify his subsequent refusal to transfer the company's property to it.

[26] Mr Martin's behaviour in dealing with PATeye and DATAeye was inconsistent with the employment agreement he had with Solar Bright. It exposed him to the risk of a penalty that the Authority was entitled to consider imposing.

[27] The challenge is dismissed.

K G Smith
Judge

Judgment signed at 10.00 am on 9 September 2020