

0/49/91

PATENTS ACT 1977

IN THE MATTER OF an application
under Section 10 in respect of
Patent Application No 8814150
(Serial No 2225229A) in the name
of Melco Products Limited and
Demeek Limited

INTRIM DECISION

Patent Application No 8814150, was filed on 15 June 1988
naming as joint applicants Melco Products Limited
(hereinafter Melco) and Demeek Limited (hereinafter Demeek).
The Application was published on 30 May 1990 under the Serial
Number 2225229A.

There is no dispute between the parties that the inventor is
a Mr Rudolph Mehlman, a director of Melco, and that Melco
have a right to apply for a patent by virtue of the
provisions of Section 39(1) of the Act in that Mr Mehlman
made the invention in the course of his normal duties as an
employee of Melco.

As I will explain more fully later, at the outset there was a
verbal agreement between Melco and Demeek that the patent
application should be made in joint names but no formal
written agreement was ever signed. The result of this is
that although a Patents Form No 7/77, as required by Rule 15
of the Patent Rules 1982 under Section 13(2)(b) of the Act in
order to identify the rights of the applicant or applicants
to be granted a patent, has been filed in respect of Melco,
this Form is not valid because the Act and Rules make no
provision for the filing of such a derivation of title in
respect of only one of joint applicants without appropriate
amendment of the application (Patent Form No 1/77) to delete
the other applicant.

Since the applicants cannot agree upon how any agreement between them should be phrased, Melco have applied under Section 10 of the Act for a direction by the Comptroller that the application should proceed in the name of Melco alone; this is opposed by Demeek and, although they do not indicate in their counter-statement what outcome they want, it is implicit that they still seek to be co-applicants.

The procedure laid down in Rule 12 paragraphs (1) and (2) has been completed. Evidence on behalf of Melco is given by Mr Rudolph Mehlman and Mrs Rosemary Barker, a patent agent in the firm of Barlow, Gillet & Percival (now Mewburn Ellis), and by Mr Gerald Wear and Mr Patrick York, both directors of Demeek, on behalf of Demeek. Both parties have declined to attend a formal hearing (Melco in their agent's letter of 20 February 1991 and Demeek in their agent's letter also of 20 February 1991) and have requested that the matter be decided by the Comptroller on the basis of the evidence submitted.

Section 10 gives the Comptroller discretion to "... give such directions as he thinks fit for enabling the application to proceed in the name of one or more of the parties alone or for regulating the manner in which it shall be proceeded with, or for both those purposes, according as the case may require."

Before considering the nature of the dispute between the parties in greater detail, it is necessary for me to explain that the invention to which the patent application relates is concerned with a mattress having two layers of which the upper layer is of an air permeable, foamed material, and the lower support layer is of a closed cell, non-porous foamed material having grooves on its upper and lower surfaces connected by apertures which extend through the material; usually both layers will be enclosed within a permeable cover. According to the description on page 7 of the published application, the upper mattress layer is

essentially conventional and the invention resides in the lower support layer to which there is a claim per se. The objective of the invention is to provide a mattress which deals with the problems identified by paediatricians, namely the conflicting requirements of cleanliness and waterproofing on the one hand, and the need for air permeability and drainage of urine on the other.

According to Mr Mehlman, Melco could supply the upper layer but they do not have the manufacturing capability to produce the lower support layer and, in February 1988, prior to filing the patent application, he contacted a firm, Jiffy Packaging, who passed his enquiry on to Demeek. Mr Wear, the managing director of Demeek, was approached with a view to Demeek providing suitable material for the lower layer having the necessary grooves and apertures. In his evidence Mr Mehlman states that Mr Wear agreed to produce a prototype and in paragraph 5 he goes on to say "As I recall, I offered to share patent rights with Demeek if they paid the patenting costs and produced satisfactory prototypes which would be acceptable to Professor Emery (an eminent paediatrician with whom I had a good relationship), the intention being that we would then go on to collaborate in marketing the assembly on a commercial scale, with (and subject to) some appropriate deal for my recompense from commercialisation to be worked out later." Mr Wear, in paragraph 7 of his evidence for Demeek, accepts this and adds "In particular I agreed to pay the patent costs and produce prototypes at our own expense in return for joint application status which subsequently followed."

Both Mr Mehlman and Mr Wear discussed the filing of a patent application with their patent agent, Mrs Barker, who was instructed to file an application in the joint names of Melco and Demeek, notwithstanding the fact that Mr Mehlman was the sole inventor. On a reading of all of the evidence there seems to have been a clear understanding between the parties that the two companies would collaborate in bringing the

product to market, that some formal arrangement would eventually be made dealing with commercial matters including the payment of "royalties" to Mr Mehlman, and that Demeek would pay the fees for the prosecution of the patent application in the meantime. Even at this stage, according to Mrs Barker, she cautioned the parties about the potential problems arising out of co-ownership of a patent and explained the need for a formal assignment to enable the ownership requirements of Section 13 of the Act to be satisfied and, when sending the draft specification for approval, she also enclosed a brief agreement for formalising the partial assignment of rights to Demeek.

The patent application was duly filed on 15 June 1988 and, despite Mrs Barker's foresight and advice, it was not long after this time that the relationship between the two companies began to deteriorate, caused by Mr Mehlman's impatience at the slow rate of progress in producing acceptable prototypes and the inability of the two sides to agree terms; in particular their inability to agree on the "appropriate deal" referred to by Mr Mehlman. Melco favoured some form of royalty deal while Demeek preferred some sort of partnership.

To begin with, Demeek declined to sign the agreement (or a subsequent version) which had been drawn up by Mrs Barker for reasons which are not clear. According to the counterstatement both parties agreed to the essence of the draft but Mr Wear says that it was felt not to be in the best interests of Mr Mehlman because of other negotiations between the companies which were pending at the time; while that may have been reason enough at that time, it seems implausible when matters became increasingly urgent with the need to file Form 7/77. However, according to Mr Mehlman, Melco's solicitor had by then expressed his view that this agreement would be unworkable. Nevertheless, I find it difficult to understand why no similar alternative suggestion was ever proposed by any party since it seems to me that all that was

needed was a simple agreement setting out the facts, that is the fact of Mr Mehlman conceiving the invention and its ownership by Melco, the commitment by Demeek to assist in development of the product and pay for the UK patent costs up to grant (an item singularly missing from the two draft agreements which have been submitted in the evidence), the agreement to file a joint patent application, and a waiver of the provisions of Section 36 (which sets out the rights of joint owners of a patent) to allow for future negotiations on royalties payable to Melco.

In the summer of 1988, shortly after the filing of the patent application, the two companies appeared to enjoy a cordial relationship. It would seem that there were meetings between the companies to discuss distribution and marketing of the product, Demeek had produced initial prototypes, and in August 1988 "... Mr Wear and Mr Yorke visited Melco with plans for a very grand (and very costly) launch of the mattress assembly scheduled for 1st March 1989", a statement made by Mr Mehlman with which Mr Wear does not disagree.

Mr Mehlman states that he was contemplating retirement and that it was at about this time that the full scale purchase of Melco's business by Demeek was first suggested, although Mr Wear says that the proposed acquisition had been proposed much earlier; according to Mr Mehlman, Demeek later made a verbal offer for the purchase of Melco early in 1989 but the offer was below Melco's expectations and the matter appears to have been shelved.

During the latter part of 1988 it would appear that the contacts between the two companies became less frequent and according to Mr Mehlman, he and his wife, a co-director of Melco, became increasingly concerned at what they perceived to be a lack of progress towards commercial scale production on the part of Demeek, notwithstanding the interest shown in the product by Professor Emery and his colleagues. In his evidence Mr Wear takes the view that the period of some 8

months running up to the end of 1988 'proved to be completely unrealistic for commercial scale production' and goes on to say that, despite many requests, Demeek were not given a copy of the results of tests which had been carried out by Professor Emery.

In any event Mr Mehlman and his wife consulted their solicitor who recommended an arrangement whereby Melco alone would own the patent and Demeek would be granted an exclusive licence and a draft licensing agreement was drawn up. It appears that the draft agreement was the subject of lengthy correspondence between solicitors acting for the two companies and, by September 1989, Demeek had rejected the Melco proposals (rather than suggesting any amendment) and had put forward their own proposal for a formal business partnership which, Mr Mehlman says, was not at all what had been envisaged by Melco and was not acceptable.

In the meantime, however, Mrs Barker had gained the erroneous impression from a meeting with Mr and Mrs Mehlman in February 1989 that Melco's proposal for an exclusive licence had been accepted by Demeek and she accordingly filed both a request with the Patent Office for amendment to delete Demeek as applicant and a Form 7/77 relating only to Melco. On learning from Demeek that they had reached no such agreement, Mrs Barker informed the Office that Demeek had not agreed to their deletion as applicant and she advised both parties of the consequences.

With negotiations now at an apparent impasse and the pressing need to file Form 7/77 at the Patent Office, Mrs Barker was instructed to file the present application under Section 10 by Melco.

The dispute between the parties appears to have arisen for two main reasons.

First, there was no clear cut agreement before the patent application was filed. Mrs Barker stressed the need for such an agreement at an early stage of the discussions between the parties but, according to her evidence "Mr Mehlman was quite relaxed about such monetary arrangement being finalised once production of a commercial product was underway."

Furthermore, as I have already said, it is not clear why Demeek refused to sign an agreement along the lines proposed by Mrs Barker, particularly in view of paragraph 15 of the counterstatement which says that "Demeek has at all times, been prepared to sign an agreement that gives effect to what was clearly agreed between the respective representatives of the Companies at the onset ...".

Second, there has been a lack of communication between the two firms since the middle of 1988 and, even at this stage, neither side has given any clear indication of the terms which they might be prepared to accept for the result which they have requested.

As I see it, my task is to ensure that the application proceeds in the most equitable manner. There can be no doubt that the basic legal ownership of any putative patent right lies with Melco by virtue of the employment by them of the inventor, Mr Mehlman, as is laid down in Section 39(1), and I am not at liberty to prejudice that right in any way.

Equally I am in no doubt that Melco intended that Demeek should be given joint ownership of any patent for the consideration of paying for the prosecution of the patent application, the development of the lower layer of the mattress, and a royalty payment, although I am not sure whether or not Melco (in the person of Mr Mehlman) were aware of the full implications of what that meant in the light of the provisions of Section 36. Moreover, while it would seem that Mr Mehlman did not intend Demeek to have complete freedom of manufacture, this does not appear to be entirely consistent with his proposal that Demeek, instead of joint

ownership of the patent, should be granted an exclusive licence (as opposed to a sole licence, for example), nor does it appear to be wholly consistent with his wish to retire and his willingness to consider the sale of Melco to Demeek.

In reaching a conclusion in this matter, there seem to be two possible practical alternatives for me to consider.

The first is to allow the application to proceed in joint names for the purposes of which it will be necessary to execute a simple agreement along the lines which I have already indicated which will allow negotiations to continue. This has the attraction of being equitable in that it clearly reflects the original intentions of both parties and also provides Demeek with a reward for their efforts and the resources which they have expanded in developing the lower layer, which efforts and resources I feel Mr Mehlman may have underestimated. In a situation where the parties are not prepared to co-operate however, this approach is not wholly satisfactory and could cause problems during the prosecution of the application and could inhibit the subsequent exploitation of the patent having regard to the provisions of Section 36.

The second is to direct that the application should proceed in the name of Melco alone and to make provision for the grant of a licence to Demeek. Such a licence could be a sole or a non-exclusive licence and, by the appropriate selection of conditions, I could perhaps ensure that both companies would have greater freedom of action to develop the invention. In the circumstances, while this may be the cleaner solution and closer to what Mr Mehlman originally had in mind, it is further from the verbal understanding which the parties reached at the beginning of their discussions, although I note in passing that, according to Mrs Barker's evidence, this understanding has further broken down in that her bill was settled by Melco.

Since I have not had the advantage of hearing the parties and I have no information concerning the commercial aspects of the invention, I am reluctant at this stage to impose a solution on the parties which both may find to be unsatisfactory. On the evidence before me, the best prospects for the successful exploitation of the invention and for both parties to benefit from the work which they have already undertaken lie in a measure of co-operation between them. I am not convinced that they have fully appreciated either the implications of a failure to reach agreement or the provisions of Section 36 should the application proceed in joint names, and I am of the view that they should be given a further opportunity to consider, in conjunction with their professional advisers, what they really want.

I will therefore allow Melco and Demeeck two months from the date of this decision in which to draw up a draft agreement for my approval, following the premises which I have outlined, to enable the application to proceed in their joint names and I will give them the opportunity of being heard on any disputed terms. If it transpires that no such agreement can be reached, I will reconsider the matter and I will give further directions as I consider appropriate in the light of the prevailing circumstances including directions with regard to the execution and the filing of the necessary Form 7/77.

Dated this

25th

day of April 1991



P J HERBERT

Superintending Examiner, acting for the Comptroller

THE PATENT OFFICE

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